COMPANY NOTE

Initiating Coverage

USA | Healthcare | Pharmaceutical Svcs.

June 18, 2013

Jefferies

Quintiles Inc. (Q)

Market Leader in Most Ways, But Lower Growth; Initiating Coverage with Hold

HOLD
Price target $41.00
Price $43.53

EQUITY RESEARCH AMERICAS

Key Takeaway

The late-stage CRO market is poised to grow 7-9% over the next several years, according to March survey data. Quintiles should trend up to that rate, while late-stage peers are above that. Q's margins are closer to "peak" than its peers leading to slower earnings growth. With the growth differential, Q's valuation handsomely rewards its leadership position among CROs. PT $41. Jefferies served as co-lead manager on Q's IPO.

Being Market Leader has its Advantages. Quintiles is the largest CRO with 27k employees and a meaningful presence in 100 countries. This expansive presence allows it to undertake projects even its largest competitors are not equipped to handle, and command better pricing in some cases.

Strong Margins Performance. Q currently earns EBITDA margins in the 14-15% range with slight increases expected through '14. This compares to 12-13% for both ICLR and PRXL. Q has been more selective in competitive strategic deals than peers. Pricing, technology and global efficiency should deliver higher, but more slowly expanding, margin.

Margin Leadership not without Pressure. Bidding on standard projects is becoming increasingly competitive, resulting in pricing pressure. Management expects this to persist for the foreseeable future and targets productivity enhancements to mitigate the impact.

Survey Shows Strengthening Tailwinds in Late-Stage Market. Our recent survey of R&D decision makers indicates late-stage R&D spent with large CROs should grow in the high-single digits for several years. This is driven by: (1) global R&D spending returning to growth after -1% in 2012; (2) outsourcing penetration increasing to >50%; and (3) narrowing vendor networks driving share to the largest CROs.

Balance Sheet Could Drive Earnings Upside. Q generates a lot of cash and can, if it chooses, pay off more debt than we model. Management's first priority is tuck-in M&A. If targets are sparse, it could get more aggressive with share repurchases and/or debt repayment, but currently guides against that.

Valuation/Risks

Our $41 PT is based on the average of three different analyses: comparable trading valuation ($47.50); multiple of LT EPS growth rate ($39); and discounted cash flows ($37.50). Risks include: contract cancellations and/or bookings volatility; client consolidation; short IHS visibility; and increasingly competitive pricing.

USD	Prev.	2012A	Prev.	2013E	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	3,692.3	--	3,793.9	--	4,062.3	--	4,336.2
EV/Rev		2.0x		1.9x		1.8x		1.7x
EBITDA (MM)	--	543.7	--	581.9	--	628.7	--	688.4
EV/EBITDA		13.6x		12.7x		11.7x		10.7x
EPS								
Mar	--	0.44	--	0.42A	--	--	--	--
Jun	--	0.47	--	0.45	--	--	--	--
Sep	--	0.45	--	0.48	--	--	--	--
Dec	--	0.41	--	0.53	--	--	--	--
FY Dec	--	1.77	--	1.88	--	2.16	--	2.40
FY P/E		24.6x		23.2x		20.2x		18.1x

Financial Summary

Book Value (MM):	($1,322.3)
Net Debt (MM):	$1,919.2
Long-Term Debt (MM):	$2,377.3
Cash & ST Invest. (MM):	$458.2

Market Data

52 Week Range:	$46.50 - $40.00
Total Entprs. Value (MM):	NM
Market Cap. (MM):	$5,467.4
Shares Out. (MM):	125.6
Float (MM):	27.2
Avg. Daily Vol.:	NA

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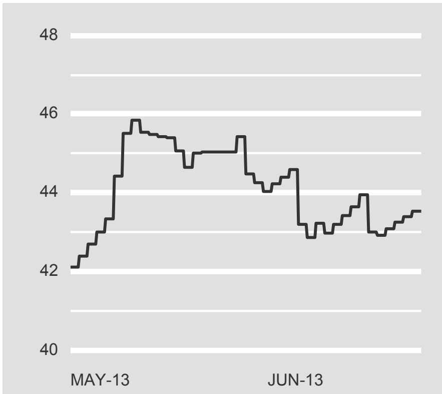
Price Performance



Quintiles (Q): Market Leader Most Ways, But Lower Growth

Hold: $41.00 Price Target

Scenarios

Target Investment Thesis

- PDEV revenue growth approximates 7.5%
- IHS revenue grows ~7%
- EBIT margins improve slightly to 12.8%
- Net interest expense lower YoY due to debt repayment with proceeds from IPO
- Cash remains on balance sheet; both share buybacks and debt repayment are minimal
- 2014 EPS: $2.16; Target Multiple: 19x; Target Price $41.00

Upside Scenario

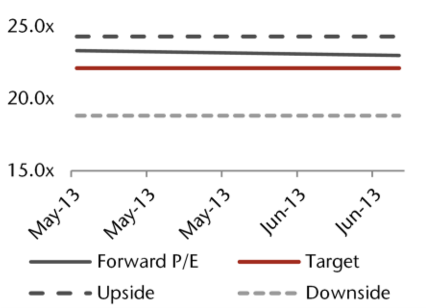
- Additional 'preferred vendor' deals are signed; PDEV revenue growth exceeds 10%
- IHS revenue growth also accelerates driven by additional contract sales engagements
- Margins improve to >13% on fixed cost leverage and cost control
- Free cash flow is used for tuck-in acquisitions
- 2014 EPS: $2.30; Target Multiple: 22x; Target Price $51.00

Downside Scenario

- Pricing pressures intensify; consolidated revenue growth slows to sub-6%
- Few new deals are signed; scope of existing deals fails to grow as expected
- Soft pricing drives margin deterioration; costs tightly controlled to mitigate impact
- Free cash is used to repurchase shares
- 2014 EPS: $1.96; Target Multiple: 16x Target Price: $31.00

Long Term Analysis

1 Year Forward P/E



Source: FactSet and Jefferies LLC

Long Term Financial Model Drivers

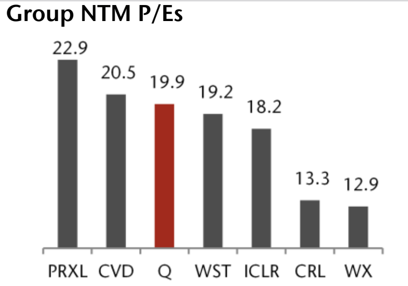
LT EPS CAGR	**11-13%**
Revenue Growth	**7-9%**
Operating Margin	**12-14%**
Effective Tax Rate	**32%**

Other Considerations

Q certainly deserves some valuation premium based on its industry leadership status and the benefits this affords. We believe this should be balanced against Quintiles markedly slower forward EPS growth rate relative to its peers. Q already boasts industry-leading margins, and therefore, is likely to see smaller amounts of margin expansion going forward. Slower revenue growth and lower margin expansion means slower EPS growth

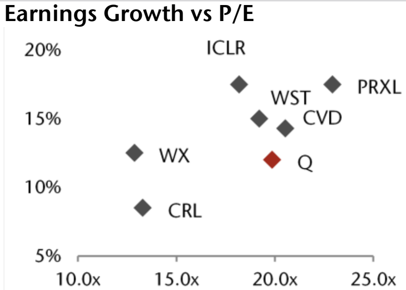
Peer Group

Group NTM P/Es



Source: FactSet and Jefferies estimates

Earnings Growth vs P/E



Source: FactSet and Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
CRL	BUY	$50.00
CVD	HOLD	$74.00
ICLR	BUY	$38.00
PRXL	HOLD	$41.00
Q	**HOLD**	**$41.00**
WST	HOLD	$60.00
WX	BUY	$24.00

Catalysts

- Increased clinical trial starts, especially large global studies
- Signing of additional 'preferred provider' agreements
- Growth in pharma R&D budgets and/or the amount of work being outsourced
- Pick-up in Central Lab kit volumes
- Increase in FDA drug approvals

Company Description

Quintiles provides biopharmaceutical development and commercial outsourcing services in the Americas, Europe and Africa, and the Asia-Pacific. The company operates in two segments—Product Development and Integrated Healthcare Services—and primarily serves biopharmaceutical companies, as well as other healthcare companies. It was founded in 1982 and is based in Durham, North Carolina.

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Executive Summary

Quintiles Transnational, founded and led for its first 30 years by Dr. Dennis Gillings, was a pioneering, early player in outsourced drug development. It was the first to strike significant asset transfer deals, the first to enter into "badge transfer" deals, and an early entrant into commercialization outsourcing. It still leads in therapeutics, technology, size, and capabilities. It has denounced the urban myth that clients dislike leveraged balance sheets by growing at least as fast as peers since its LBO 10 years ago.

Now led by new CEO, Tom Pike, Quintiles is poised to grow its leadership position as a valued, strategic partner to the biopharmaceutical industry. Quintiles is enormous by CRO standards, but still barely mid-sized compared with global consulting firms like Mr. Pike's former employer (Accenture), Cognizant, Cap Gemini, or Computer Sciences Corp. Quintiles has invested in a dedicated, strategic consulting unit to drive both growth and increase Quintiles brand value.

Product Development (PDEV, what investors traditionally think of as CRO) will dominate Quintiles revenue mix and growth. In that business, Q is 20% larger than its closest peer. It employs more people in more countries than any other CRO. With pharma consolidating its vendor relationships to the top of the pyramid, Quintiles is at the top of the pyramid. That said, that vendor partnering effort is accompanied by higher scrutiny on price. While Quintiles has resisted chasing the lowest-priced business, it has seen pricing pressure, which we and they expect to limit margin expansion.

Integrated Health Services (IHS) is not just a CSO, as it includes know-how driven services in post-marketing ("observational") studies, product launch support, and market access consulting. However, its revenue is still dominated by the sales rep deployment element of the business. Unlike smaller competitors, which are limited to the Western world or even just the US, Quintiles is using its global PDEV presence to "import" IHS services into emerging markets. This improves IHS' growth profile some, but it is still a drag. If anything, IHS should average down the valuation multiple for Q.

Outlook: In terms of outlook and expectations, we think stock performance depends very much on management's conservatism. Quite simply, investors circled around the higher end of the estimate range prior to pricing, which is basically in line with management's internal model. If published models remain about the same, we believe consensus mean EBITDA and EPS will fall *below* the numbers on which most buyers built price targets. Moreover, the current trading multiple tends to downplay the business mix issues above. If management adeptly disguised its conservatism, consensus (for '14 most importantly) can move higher. If not, we believe the stock is range bound for a while.

Valuation

We looked at valuation three ways. First, based on price to earnings, we applied a multiple equal to the average fellow CRO leaders (CVD and PRXL), yielding $47.50. Second, we developed a range of growth estimates for Q. Based on the estimate midpoint; we applied a premium PEG ratio to the group average. That yields $39. Finally, we looked at a 3-yr discounted cash flow with a terminal EBIT multiple equal to its current. That yields $37.50. Taking an average of the three, we arrive at a $41 price target.

Risks

Quintiles shares common risks with other pharma contract services companies: 1) contract cancellations or negative scope revisions due to drug failure, FDA requirement changes, or lack of ROI; 2) volatility in bookings trends; 3) consolidation by customers; and 4) margin pressure from competitive pricing. On the last, Quintiles may be experiencing this at some lag to CRO peers because of its hold-out from many large, strategic deals.

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Quintiles; Initiating With Hold Rating

Investment Positives

Late-Stage Market Growing; Share Consolidating Among Largest CROs

Our proprietary industry market model suggests outsourced late-stage spending will grow 7-8% in 2013 and 8-9% in 2014 driven by growing R&D spending and increased outsourcing penetration. Additionally, share should continue to consolidate among the larger CROs, further strengthening the tailwind behind both Quintiles and the other leading CROs. We believe the combination of market growth and share consolidation drives Product Development bookings growth 10-11% annually over the next two years. *Details pertaining to our market model along with the findings from our survey of R&D decision-makers are discussed at length above in the 'Industry Outlook' section of this report.*

Advantages of Being the Biggest

Quintiles Transnational is the leading company in the industry with 27k employees and a meaningful presence in 100 countries. Depth is an important point of differentiation. Some CROs will claim operations in emerging markets with a single office and only a few employees. Quintiles' presence typically means multiple offices, multiple functional areas, and staff in the hundreds. When evaluating turn-key execution of a global trial, this difference is noted by clients.

Established (Significant) Presence in Growing Asian Markets

Results from our survey show sponsors are growing increasingly comfortable with placing more work into Asian (primarily China) markets. The primary motivation currently is cost arbitrage. Per the respondents, 14% of development spending was outsourced to Asia-Pacific in 2012, which they expect will grow to 16% in 2013, and nearly 19% in 2014—most of this reallocation will come at the expense of the U.S. Again, Quintiles is the best positioned of its peers to benefit from this transition, as it has the most meaningful presence currently in the AsiaPac region.

Bias Toward Complex, Global Trials

Due to its size, sponsors still rely on Quintiles to do the most complex work, even when the sponsor might have a "strategic partnership" with another CRO. In the largest, most complex cases, Quintiles may be the only option. This generally allows Quintiles to command a higher margin on those particular projects.

Consistent Grower, Even Through Tough Times

Quintiles industry-leading position and margin discipline have allowed it to steadily grow both revenue and earnings, even through periods that were tumultuous for many of its peers such as the 2008 financial crisis—*see Chart 1.* We expect the same operating philosophy will carry forward, resulting in continued consistent growth.

Preferred Provider Agreements Continue to Proliferate

Many larger sponsors have already transitioned to strategic partner/preferred vendor-type arrangements; however, we have yet to see very many of the mid-sized biopharmas make the move. Channel checks and CRO managements' comments suggest growing interest among this cohort. We expect these to comprise the next wave of conversions over the next couple of years. As recently as mid-May, Quintiles signed a five-year clinical development sole provider agreement with Merck Serono. Quintiles had a pre-existing relationship with Merck Serono, but will now be handling ALL of its clinical development work. The agreement defines this as Phase I to post-marketing approvals.

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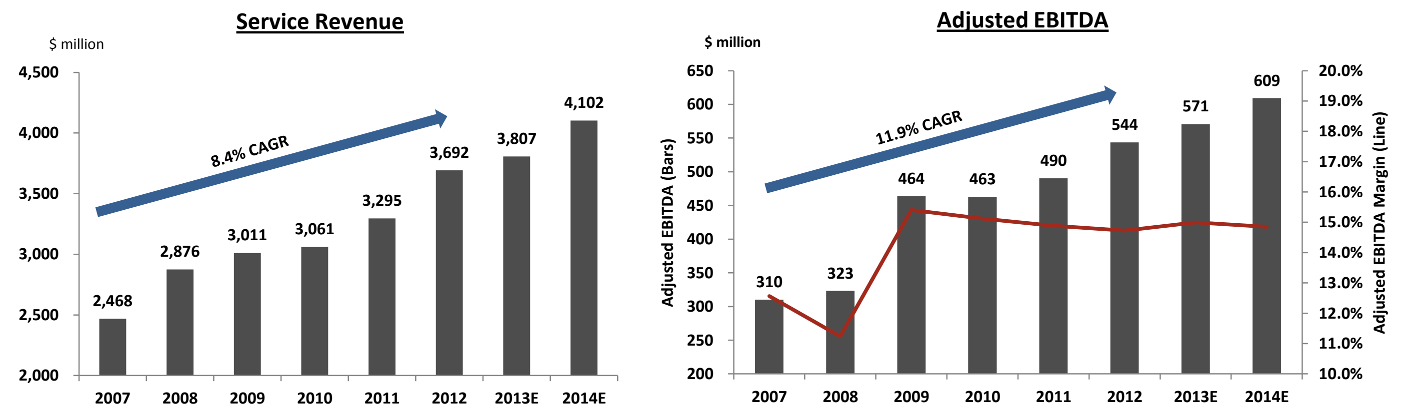
Chart 1: Quintiles Revenue and Adjusted EBITDA Growth



Source: Company Data and Jefferies LLC

Quintiles's Margins among Best in Industry

Second only to PPD (private), Q currently earns EBITDA margins in the 14-15% range. Notably, management expects them to move slightly higher over the next couple of years. This compares to 12-13% for both ICON and PAREXEL currently. Q was not as aggressive in signing price-competitive, late-stage strategic deals as ICLR and PRXL. That pricing discipline, combined with advanced technology and analytics, and global efficiency, should deliver higher (albeit more slowly expanding) operating margin.

Data-Driven Approach Differentiates Quintiles from Peers

Dr. Gillings training and expertise in biostatistics heavily influenced the company's DNA toward strong data management and analytics. The company continues to look for ways to use its data stores to its competitive and financial advantage. For example, its Infosario tools enhance study design optimization on the front end, site selection, and adaptive trial designs. It also has struck a deal with Allscripts to gain access to EMR data for further insights into patient demographics. While its competitors are certainly becoming more sophisticated in their use of data to enhance drug development, we believe Q remains ahead of the pack.

Robust Cash Flow Generator

As a late-stage company, Q has limited CAPEX requirements and should generate strong operating cash flow. Management can, if it chooses, pay down its Term Loan B-1 faster than we model. We are modeling $134M of FCF in 2013 (or $1.05/shr) and $290M in 2014 (or $2.15/shr). However, management indicates that accelerated debt extinguishment is not a top priority. Rather, it will focus on tuck-in acquisitions to add technology or service capabilities or deepen its geographic presence. Notably, we conservatively assume cash accumulates on the balance sheet, as we do not model future acquisitions. This means capital deployment could produce slight upside to our earnings estimates.

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Investment Negatives

Revenue Growth Likely Lags Peers...

Revenue growth is and, we think, will continue to be slower than peers. Q's late-stage revenue is at least 2x larger than the next closest player. In an industry environment with only 1 to maybe 2% R&D growth, growing that large revenue base at a double-digit clip is a herculean task.

...and its Margins Are Closer to "Peak"

Q has avoided the more price-competitive "strategic deals" with major pharma. As a result, its margins have not been negatively affected by the significant hiring required in those deals. Smaller dip = smaller recovery. Again, Quintiles is currently earning EBITDA margins in the 14-15% range and expects modest improvement over the coming years. This compares to its peers which are generating EBITDA margins in the 12-13% range currently, and probably going to 14-15% in the next few years.

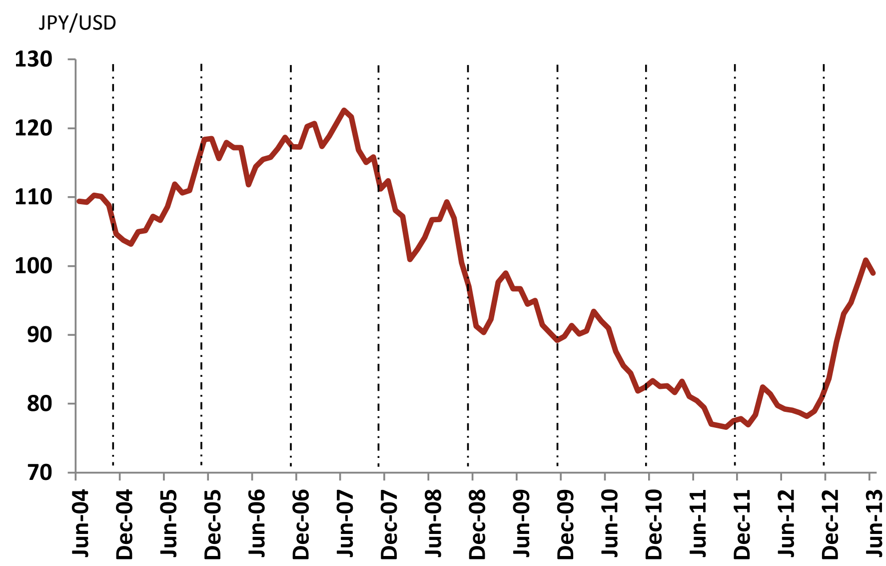
Pricing Pressures Continue to be a Risk

Further on margins, management talked about some pricing pressure beginning to creep in. We view this in two ways: 1) Q has been able to side-step big deals, in part because the sponsors that have executed these deals aren't their most important clients. As the strategic deal trend rotates around the "league", some of Q's key clients may now negotiate price more aggressively. In order to defend incumbency and generate acceptable top-line growth, pricing is getting tighter. 2) Quintiles may have been slightly more aggressive on price (narrowed the spread to competitors) to accelerate bookings growth in recent quarters. Management emphasizes that pricing pressure is being exerted by its competitors, not Quintiles.

Yen Exposure Will Be Near-Term Revenue Headwind

Roughly 13.5% of Q's sales are denominated in Yen. The company does benefit from a natural hedge as Japan is one of the few countries that tend to pay service fees (i.e. CRO revenue) in the local currency. While this does help soften the earnings impact, revenue is still susceptible to FOREX fluctuations.

Chart 2: JPY/USD



Source: OANDA and Jefferies LLC

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Beginning 4Q12, the JPY began to weaken considerably versus the USD—*see Chart 2*. The Yen was 14.0% cheaper YoY (on average) during 1Q13 and continues to fall. During 2Q13 the Yen is down ~19% YoY, and assuming current rates remain flat, 3Q13 will be down ~21% YoY, and 4Q13 will be ~18% lower. For the year, this would amount to a 2-3% headwind to consolidated revenue growth. And that is assuming rates stabilize—the JPY is currently trading around 95 JPY/USD; as recently as 2007 it traded as high as 122.

Cash Flow Caveat

Q warns that longer payment terms are becoming a recurring theme in negotiations. As a result, management expects DSOs to lengthen somewhat over the next year or so. That will dampen cash flow generation in 2013, causing it to trail net income slightly. That is reflected in our lower FCF estimates for 2013 than 2014 above. We note that peers also have expressed concern about lengthening payment terms in strategic partnerships, but have managed to maintain very attractive DSOs, for the most part. Perhaps this is just conservative posturing.

IPO Proceeds Used to Deleverage; Additional Repayments Likely Minimal

Q used proceeds from the IPO toward extinguishing its Term Loan B and paying down $50 on the Term Loan B-1. The debt covenants require an excess cash flow sweep of~$35M, which already occurred in 2013 and will occur again 2014. Beyond that, however, management has dissuaded us from assuming any further deleveraging. Again, this may be conservative posturing. If it is not, too much cash will accumulate on Q's balance sheet. Like others in the space, it has an acquisition appetite, but not for deals large enough to outstrip its current year cash flow. We expect tuck-ins.

Large Private Equity Overhang Remains

Selling shareholders unloaded a combined 14.1M shares through the IPO, but still hold nearly 75% of the shares outstanding—*see Chart 3*. TPG sold 3.9M shares, lowering its stake to 17.5%. Bain and Dennis Gillings (founder) each sold 2.5M shares lowering their respective stakes to 18.6% each. This large concentration of shares among PE owners will overhang the stock until the positions are liquidated. The shareholders below are restricted from selling shares under a 180-day lock-up period.

Chart 3: Selling Shareholders Still Maintain Significant Positions

	Shares		
Holder	**Sold**	**Currently Held**	**% Out**
Bain Capital Investors	(2,531,393)	23,950,266	18.6%
Dennis Gillings	(2,531,393)	23,950,264	18.6%
TPG Group Holdings	(3,944,899)	22,536,759	17.5%
3i Group plc	(1,672,554)	15,824,533	12.3%
Temasek Holdings	(3,005,241)	8,265,828	6.4%
Aisling Capital	(426,361)	1,823,575	1.4%
Total	**(14,111,841)**	**96,351,225**	**74.7%**

Source: Bloomberg and Jefferies LLC

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1Q13: Reasonable, but not Spectacular

The first quarter of 2013 was management's last quarter before public equity investors really start to scrutinize the results. Perhaps management viewed it exactly that way...save the upside for 2Q. The results were slightly ahead on revenue, EBITDA, and EPS. On closer analysis, the 1c EPS upside was actually driven by FX. Further, EBIT margin was flat (actually declined by 10 bps) at 11.7%, if we strip out the FX, acquisition, and 1-time impacts from both years—see Chart 4. The margin improvement YoY was driven by FX, not fundamentals, a point not to be missed by investors.

Bookings were a solid $1.27B and slightly above the early read pre-IPO. The mix was slightly different with PDEV stronger and IHS weaker than we originally thought. Management's forecast for margin improvement depends more heavily on recovery in IHS; thus, weaker bookings could make that margin expansion more challenging.

Chart 4: Analysis of 1Q13 Results

	As rptd	M&A	Adjusts	Adjusted	FX adj	CDO	As rptd	Adjusts	Adjusted
Consolidated	**2013**			**2013**		**2013**	**2012**		**2012**
Revenue	$ 927,435	$ 5,600		$ 921,835	$ (16,500)	$ 938,335	$ 888,035		$ 888,035
Cost of Services	611,109	4,200	(5,400)	612,309	(15,500)	627,809	590,563		590,563
% margin	*34.1%*	*25.0%*		*33.6%*	*6.1%*	*33.1%*	*33.5%*		*33.5%*
SG&A	199,302	2,000		197,302	(3,400)	200,702	205,795	13,400	192,395
% of sales	*21.5%*	*35.7%*		*21.4%*	*20.6%*	*21.4%*	*23.2%*		*21.7%*
EBIT (ex-restructuring)	$ 117,024	$ (600)	$ 5,400	$ 112,224	$ 2,400	$ 109,824	$ 91,677	$ (13,400)	$ 105,077
% margin	*12.6%*	*-10.7%*		*12.2%*	*-14.5%*	*11.7%*	*10.3%*		*11.8%*
Product Development									
Revenue	$ 706,300	$ 5,600		$ 700,700	$ (6,700)	$ 707,400	$ 656,300		$ 656,300
Cost of Services	428,900	4,200	(5,400)	430,100	(7,700)	437,800	404,300		404,300
% margin	*39.3%*	*25.0%*		*38.6%*	*-14.9%*	*38.1%*	*38.4%*		*38.4%*
SG&A	144,700	2,000		142,700	(2,300)	145,000	140,000	-	140,000
% of sales	*20.5%*	*35.7%*		*20.4%*	*34.3%*	*20.5%*	*21.3%*		*21.3%*
EBIT (ex-restructuring)	$ 132,700	$ (600)	$ 5,400	$ 127,900	$ 3,300	$ 124,600	$ 112,000	$ -	$ 112,000
% margin	*18.8%*	*-10.7%*		*18.3%*	*-49.3%*	*17.6%*	*17.1%*		*17.1%*
Integrated Health									
Revenue	$ 221,100	$ -		$ 221,100	$ (9,800)	$ 230,900	$ 231,700		$ 231,700
Cost of Services	182,100	-	-	182,100	(7,800)	189,900	186,300		186,300
% margin	*17.6%*			*17.6%*	*20.4%*	*17.8%*	*19.6%*		*19.6%*
SG&A	32,800	-		32,800	(895)	33,695	31,100	-	31,100
% of sales	*14.8%*			*14.8%*	*9.1%*	*14.6%*	*13.4%*		*13.4%*
EBIT (ex-restructuring)	$ 6,200	$ -	$ -	$ 6,200	$ (1,105)	$ 7,305	$ 14,300	$ -	$ 14,300
% margin	*2.8%*			*2.8%*	*11.3%*	*3.2%*	*6.2%*		*6.2%*

Source: Company Data and Jefferies LLC

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Chart 5: Summary of 1Q13 Results

Quintiles

1Q13 Earnings Summary

Source: Company filings and Jefferies LLC

Reports 5/13/2013 AMC

FY ending December 31	Reported		Estimate	Actual		Percentage Change		Difference		
in thousands except EPS	**1Q12**	**4Q12**	**1Q13**	**1Q13**	**Consensus**	**Seq**	**Y/Y**	**Seq**	**Y/Y**	**Est.**
Total Service Revenue	**888,035**	**945,761**	**923,709**	**927,435**		***(1.9%)***	***4.4%***	**(18,326)**	**39,400**	**3,726**
Direct costs	590,563	628,476	610,023	611,109		*(2.8%)*	*3.5%*	(17,367)	20,546	1,086
SG&A	191,118	202,728	198,632	197,951		*(2.4%)*	*3.6%*	(4,777)	6,833	(681)
Operating income	106,354	114,557	115,055	118,375		*3.3%*	*11.3%*	3,818	12,021	3,320
Adjusted EBITDA	129,625	140,128	140,717	143,015		*2.1%*	*10.3%*	2,887	13,390	2,298
Interest expense (income)	28,920	36,911	34,962	35,590		*(3.6%)*	*23.1%*	(1,321)	6,670	628
Other expense, net	(2,419)	1,156	(2,382)	(2,382)		*(306.1%)*	*(1.5%)*	(3,538)	37	-
Pre-tax income	79,853	76,490	82,476	85,167		*11.3%*	*6.7%*	8,677	5,314	2,692
Income taxes	29,790	28,074	32,188	33,520		*19.4%*	*12.5%*	5,446	3,730	1,332
Income from unconsolidated affiliates	1,573	(236)	(1,683)	(1,683)		*613.1%*	*(207.0%)*	(1,447)	(3,256)	0
Loss from noncontrolling interest	465	138	153	153		*10.9%*	*(67.1%)*	15	(312)	0
Non-GAAP net income	52,101	48,318	48,757	50,117		*3.7%*	*(3.8%)*	1,799	(1,984)	1,360
Non-GAAP EPS	**$ 0.44**	**$ 0.41**	**$ 0.41**	**$ 0.42**		***3.2%***	***(4.8%)***	**$ 0.01**	**$ (0.02)**	**$ 0.01**
Diluted shares	117,551	118,150	118,740	118,740		*0.5%*	*1.0%*	590	1,189	-
GAAP net income	43,273	34,974	46,419	48,309		*38.1%*	*11.6%*	13,335	5,036	1,890
GAAP EPS	0.36	0.27	0.39	0.41		*51.9%*	*13.9%*	0.14	0.05	0.02
COMMON SIZE										
Direct costs	*66.5%*	*66.5%*	*66.0%*	*65.9%*				*(60 bps)*	*(60 bps)*	*(10 bps)*
Gross margin	*33.5%*	*33.5%*	*34.0%*	*34.1%*				*60 bps*	*60 bps*	*10 bps*
SG&A	*21.5%*	*21.4%*	*21.5%*	*21.3%*				*(10 bps)*	*(20 bps)*	*(20 bps)*
Operating income	*12.0%*	*12.1%*	*12.5%*	*12.8%*				*70 bps*	*80 bps*	*30 bps*
Adjusted EBITDA	*14.6%*	*14.8%*	*15.2%*	*15.4%*				*60 bps*	*80 bps*	*20 bps*
Interest expense (income)	*3.3%*	*3.9%*	*3.8%*	*3.8%*				*(10 bps)*	*60 bps*	*10 bps*
Other expense, net	*(0.3%)*	*0.1%*	*(0.3%)*	*(0.3%)*				*(40 bps)*	*0 bps*	*0 bps*
Pre-tax income	*9.0%*	*8.1%*	*8.9%*	*9.2%*				*110 bps*	*20 bps*	*30 bps*
Income taxes	*37.3%*	*36.7%*	*39.0%*	*39.4%*				*270 bps*	*210 bps*	*30 bps*
Income from unconsolidated affiliates	*0.2%*	*(0.0%)*	*(0.2%)*	*(0.2%)*				*(20 bps)*	*(40 bps)*	*0 bps*
Loss from noncontrolling interest	*0.1%*	*0.0%*	*0.0%*	*0.0%*				*0 bps*	*0 bps*	*0 bps*
Non-GAAP net income	*5.9%*	*5.1%*	*5.3%*	*5.4%*				*30 bps*	*(50 bps)*	*10 bps*
SEGMENTS										
Product Development										
Revenue	$ 656,362	$ 702,995	$ 703,620	$ 706,307		*0.5%*	*7.6%*	$ 3,312	$ 49,945	$ 2,687
% of total	*73.9%*	*74.3%*	*76.2%*	*76.2%*				*180 bps*	*220 bps*	*0 bps*
Operating profit	112,025	125,454	126,692	132,700		*5.8%*	*18.5%*	7,246	20,675	6,008
Margin	*17.1%*	*17.8%*	*18.0%*	*18.8%*				*90 bps*	*170 bps*	*80 bps*
Integrated Healthcare Services										
Revenue	231,673	242,766	220,089	221,128		*(8.9%)*	*(4.6%)*	(21,638)	(10,545)	1,039
% of total	*26.1%*	*25.7%*	*23.8%*	*23.8%*				*(180 bps)*	*(220 bps)*	*0 bps*
Operating profit	14,317	13,579	9,365	6,200		*(54.3%)*	*(56.7%)*	(7,379)	(8,117)	(3,165)
Margin	*6.2%*	*5.6%*	*4.3%*	*2.8%*				*(280 bps)*	*(340 bps)*	*(150 bps)*
General Corporate expense	34,636	37,423	22,354	21,900		*(41.5%)*	*(36.8%)*	(15,523)	(12,736)	(454)

Source: Company Data and Jefferies LLC

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Industry Outlook; Tailwinds Ahead

Over the next couple years, Quintiles and its larger CRO peers will benefit from several industry tailwinds. Moderately accelerating R&D spending combined with increasing outsourcing penetration should drive strong (upper single-digit) top-line growth. Also, share should continue to consolidate among the top 7-10 players. Sponsors will make some adjustments to outsourcing strategy and relationships, but probably not the massive overhauls witnessed over the last 2+ years. We also expect technology to play an increasingly important role as "big data" makes its way into drug development for site selection, protocol optimization, and increasing penetration of pharmacogenomics and personalized medicine.

Three Levers of Market Growth

Top CROs derive organic growth from three sources: R&D spending growth, increased outsourcing, and share gains among the industry's top vendors (via strategic deals or otherwise). By our assessment, the third is by far the biggest contributor to recent growth among publicly-traded CROs.

R&D Spending Growth: Still Slow, but 2012 Marks a Trough Year

In the 'salad days' for CROs, R&D expenditures reliably grew 10% or better. That set a solid, comfortable floor of double-digit growth underneath CRO growth projections, even if increased penetration or share gains did not materialize. Those days are over. Growth began to drop into single-digits in 2008, and then plummeted after the financial crisis. R&D spending pierced the zero growth level in 2009 and then again last year, according to our compilations and corroborated by EvaluatePharma (and others).

In the 'salad days', R&D expenditures reliably grew 10%+. That set a solid floor of double-digit growth underneath CRO revenue, even if increased penetration or share gains did not materialize. **Those days are over.**

The good news is that 2012 appears to have been the trough. 2013 should grow modestly, maybe 1% or a little faster and 150-200 bps acceleration from last year. 2014 should accelerate a little more from there. While not the growth rate of old, we think growth in the pie flipping from a headwind to a tailwind is helpful and most significant for companies expecting relatively slow top-line growth (i.e. CRL, QTRN).

Outsourcing: Penetration Accelerated in Recent Years

We think the continued rollout of strategic deals, including in areas beyond Phase II/III development will further accelerate outsourcing penetration in the next few years.

Through the early 2000s, outsourcing penetration tended to average 40 bps a year give or take. From 2004 to 2008, penetration increased from just over 38% to about 40%. In recent years – as R&D spending has slowed – outsourcing penetration has accelerated and, as a result, taken up some of the slack. We estimate that the penetration rate has doubled in 2008 to 2012 period, bringing outsourcing penetration to about 43-44% in 2012. We think the continued rollout of strategic deals, including in areas beyond Phase II/III development, will further accelerate outsourcing penetration in the next few years. We see penetration eclipsing 50% in the 2016/17 time frame and hitting 55% by the end of the decade...driven by another doubling (approximately) of the annual penetration rate.

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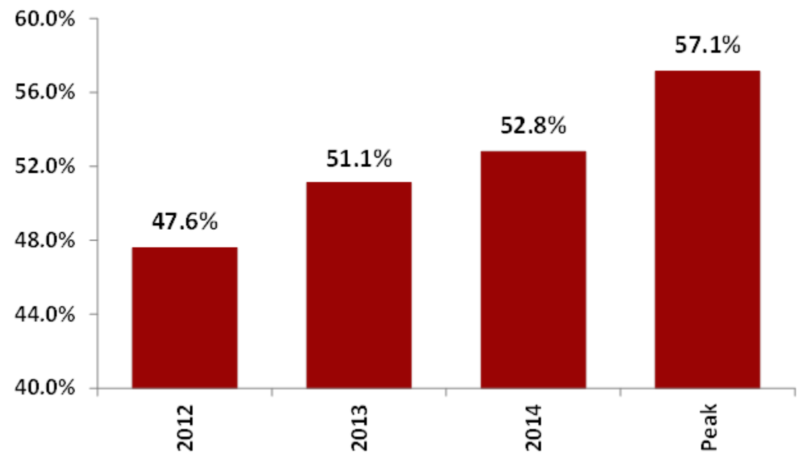
Chart 6: Survey Respondents Expect to Outsource More Work



Source: Jefferies LLC

Consolidation of Work among Larger Players

One of our differentiated views from our peers and from the companies' commentary has been our belief that the most impactful, recent driver of growth (of the three levers) has been the consolidation of share among top players. Again, strategic deals (aka vendor consolidation) have driven this. Determining this from the press releases is next to impossible, but our diligence with sponsors' outsourcing professionals has resulted in key insights.

In many cases, sponsors willing to enter these long-term committed partnerships are those that are already comfortable with outsourcing. Thus, the deals result in those sponsors outsourcing only *slightly* more work, but directing that work to fewer CROs. In the case of Bristol Myers (BMY, $46.82, Buy), two CROs were named strategic clinical providers instead of 3 (one of those dropped was outside the top 10). In the case of Pfizer (PFE, $29.03, Buy), the number dropped to 2 CROs from 17 (most of which were small niche vendors). Thus, the growth impact for the winners is primarily driven by share gains from CRO competitors, and only secondarily driven by increasing share of customer/sponsor wallet.

Another way to look at this, most generally agree (Jefferies, peer banks, Quintiles) that outsourcing industry growth rates are in the 5-8% range. ICLR and PRXL posted 22% and 27% revenue growth, respectively, in the last twelve months. Simple math would suggest that ~15% of that growth is coming from market share gains.

CRO Industry Model, 2013-2017

With economic growth recovering somewhat and a distinct abatement in blockbuster patent losses in 2013, we expect a return to modest growth.

In an effort to quantify the impact of the aforementioned trends (i.e. the three levers), we have maintain a detailed industry model. The primary inputs are actual R&D spending data captured from the top-250 public and private pharmaceutical and biotech companies, consensus estimates for those biopharmas that are publicly-traded, data from our recent survey of pharma R&D decision-makers, as well as data from various other industry resources.

$25.7B Estimated CRO Market in 2013

We estimate the outsourced development market for CROs at just under $26B for 2013, up about 6% from 2012. That represents about 31% of total development spending, but 45% of our estimate of the addressable market. That is a 2% increase from 2012. Our

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2013 CRO market growth includes R&D spending growth of 1.2%, with 1.7% added for outsourcing penetration, and 2.8% for growth in addressable services.

Total biopharmaceutical R&D spending has rarely declined. However, it did shrink in 2009 and again last year due to the heavy patent cliff impact. With economic growth recovering somewhat and a distinct abatement in blockbuster patent losses in 2013, R&D spending should return to modest growth.

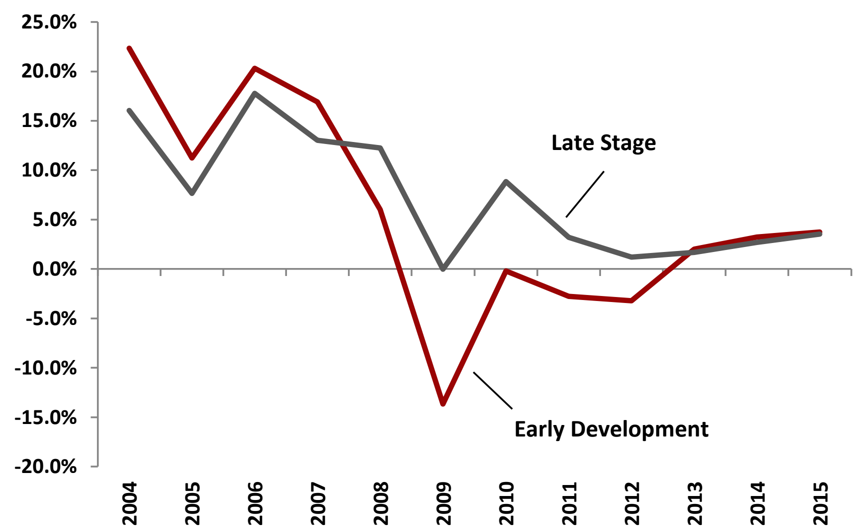
Total biopharmaceutical R&D spending has rarely declined. In 2009, it shrunk by mid-single digits following the financial crisis-triggered retrenchment. R&D spending declined again last year due to the heavy patent cliff impact. With economic growth recovering somewhat and a distinct abatement in blockbuster patent losses in 2013, we expect a return to modest growth. In 2014 with coverage expansion from the Affordable Care Act, that growth should accelerate slightly.

Over the next five years, we expect pharmaceutical R&D spending to grow at ~3% CAGR. This is down from low double-digits as recently as 2007, but solidly above flat-line. As described above, the CRO industry's growth has transitioned from its primary reliance on double-digit growth in overall R&D spending (in the past) to more rapid acceleration in outsourcing penetration.

More important for public investors, the most significant lever for the large CROs (most of which are publicly-traded) is market share gains. Those market share gains are a result of 1) maturation of global CROs both in scientific expertise and global reach and 2) pharmas' desire to simplify supply chains and drive efficiencies. The combination of those levers brings us to low-double-digit growth for the top 7 CROs, which range from about $1B to $3B in development revenue. This isn't the 15%+ sustainable top-line growth of old, but we do see double-digit growth for the next five years.

CROs will not post the 15%+ sustainable top-line growth of old, but we do see double-digit growth for the next five years.

Chart 7: Growth in Early Development (Tox/Ph I) vs. Late-Stage (Phase II/IV)



Source: Jefferies LLC

The following pages contain our current CRO industry model. We have compiled total pharmaceutical/biotech revenues and R&D spending to frame the CRO market opportunity. Based on the biopharmaceutical industry's areas of R&D spend, we estimate the fraction that could potentially be carried out by CROs. Some pharma functions and infrastructure are inherently un-addressable by the CRO industry. That said, we do assume that service line extensions grow the addressable portion over time. Based on the addressable market size, we estimate the extent to which CROs have already penetrated the opportunity. We used the results from our Pharmaceutical R&D Survey and conversations with industry consultants and contacts to guide our estimates.

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The model details the market opportunity segmented by drug development stage. It also illustrates that the top seven CROs (five public + two private) comprise ~46% of the CRO industry and should get to 50% of the CRO market by 2016, if not earlier. The remainder of the market is highly fragmented with no single company commanding over ~3% share. Despite a steady stream of M&A/consolidation in this space and some growing structural pressures on the "small guys," the number of regional and niche providers never meaningfully shrinks. The last estimate we saw was well over 1,000. That said, those pressures remain, intensify, and contribute to the squeezing of market share to the top of the pyramid.

Key Highlights and Assumptions in Top-Down Model

- Pharma sales growth remains in small, positive territory through 2020.
- With slow top-line growth, the biopharma industry looks for ratio stability, at the worst, from R&D, and perhaps slight margin expansion (meaning R&D drops as % of sales). R&D spending grows slower than sales, but it does grow.
- CROs slowly, but steadily, add services to expand the "addressable market"...the percentage of the total R&D pie that they can entice out of sponsors.
- The R&D spending emphasis on development, and late-stage in particular, peaks in 2013, is flat in 2014, and begins to decline slowly in 2015. This trend is actually a blend of pharma shifting back toward Discovery, while biotech maturation continues to push spending toward late-stage development...but biotech is smaller. Recent anecdotes suggest that spending from smaller biotech is quickening, which could shift the growth trend line slightly higher.
- Top seven CROs continue to garner increased share. By our estimate, these players' share increased ~8% from 2010 to 2012, reflecting the impact of strategic deals. This makes the 2% share gains for 2013 based on revenue guidance (and Jefferies estimates) look pretty conservative.
- For 2014 to 2020, we assume those share gains increase by 250 bps annually. This drives 10-12% growth for the public and large private players for the balance of the decade.

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Chart 8: Top-Down CRO Industry Model Data

BioPharmaceutical Industry Revenue				
	Large Pharma	Generics	Biotech	Total
2003	373,604	15,160	35,173	423,937
2004	420,049	18,198	41,149	479,396
2005	445,060	18,147	49,136	512,343
2006	490,660	20,787	54,927	566,374
2007	539,818	26,582	63,928	630,328
2008	564,040	31,220	69,959	665,219
2009	576,881	32,735	59,284	668,899
2010	615,750	36,339	63,769	715,858
2011	627,015	40,075	60,441	727,531
2012	623,256	44,747	67,110	735,113
2013E	615,866	46,080	73,930	735,877
2014E	628,449	48,524	81,840	758,813
2015E	647,409	49,682	90,186	787,277
2016E	664,789	50,328	98,933	814,049
2017E	681,970	50,478	108,429	840,878
CAGR ('13 - '17)	2.6%	2.3%	10.0%	3.4%

BioPharmaceutical Industry YOY Revenue Growth				
	Large Pharma	Generics	Biotech	Total
2004	12.4%	20.0%	17.0%	13.1%
2005	6.0%	-0.3%	19.4%	6.9%
2006	10.2%	14.5%	11.8%	10.5%
2007	10.0%	27.9%	16.4%	11.3%
2008	4.5%	17.4%	9.4%	5.5%
2009	2.3%	4.9%	-15.3%	0.6%
2010	6.7%	11.0%	7.6%	7.0%
2011	1.8%	10.3%	-5.2%	1.6%
2012	-0.6%	11.7%	11.0%	1.0%
2013E	-1.2%	3.0%	10.2%	0.1%
2014E	2.0%	5.3%	10.7%	3.1%
2015E	3.0%	2.4%	10.2%	3.8%
2016E	2.7%	1.3%	9.7%	3.4%
2017E	2.6%	0.3%	9.6%	3.3%

% Revenue Contribution by Industry Segment			
	Large Pharma	Generics	Biotech
2003	88.1%	3.6%	8.3%
2004	87.6%	3.8%	8.6%
2005	86.9%	3.5%	9.6%
2006	86.6%	3.7%	9.7%
2007	85.6%	4.2%	10.1%
2008	84.8%	4.7%	10.5%
2009	86.2%	4.9%	8.9%
2010	86.0%	5.1%	8.9%
2011	86.2%	5.5%	8.3%
2012	84.8%	6.1%	9.1%
2013E	83.7%	6.3%	10.0%
2014E	82.8%	6.4%	10.8%
2015E	82.2%	6.3%	11.5%
2016E	81.7%	6.2%	12.2%
2017E	81.1%	6.0%	12.9%

R&D Spend				
	Large Pharma	Generics	Biotech	Total
2003	55,845	981	11,140	67,967
2004	63,771	1,251	13,636	78,658
2005	67,975	1,355	14,701	84,031
2006	79,956	1,472	16,563	97,990
2007	89,771	1,829	18,741	110,340
2008	98,082	2,117	19,696	119,895
2009	95,879	1,788	15,042	112,709
2010	100,204	1,897	15,903	118,004
2011	100,554	2,085	15,566	118,205
2012	98,690	2,381	16,559	117,630
2013E	99,093	2,508	17,494	119,095
2014E	100,489	2,592	19,038	122,120
2015E	102,874	2,654	20,619	126,147
2016E	105,569	2,688	22,223	130,480
2017E	107,616	2,696	23,922	134,234
CAGR ('13 - '17)	2.1%	1.8%	8.1%	3.0%

BioPharmaceutical Industry YOY R&D Growth				
	Large Pharma	Generics	Biotech	Total
2004	14.2%	27.5%	22.4%	15.7%
2005	6.6%	8.3%	7.8%	6.8%
2006	17.6%	8.6%	12.7%	16.6%
2007	12.3%	24.3%	13.1%	12.6%
2008	9.3%	15.8%	5.1%	8.7%
2009	-2.2%	-15.6%	-23.6%	-6.0%
2010	4.5%	6.1%	5.7%	4.7%
2011	0.3%	9.9%	-2.1%	0.2%
2012	-1.9%	14.2%	6.4%	-0.5%
2013E	0.4%	5.3%	5.6%	1.2%
2014E	1.4%	3.4%	8.8%	2.5%
2015E	2.4%	2.4%	8.3%	3.3%
2016E	2.6%	1.3%	7.8%	3.4%
2017E	1.9%	0.3%	7.6%	2.9%

R&D as % of Sales by Industry Segment			
	Large Pharma	Generics	Biotech
2003	14.9%	6.5%	31.7%
2004	15.2%	6.9%	33.1%
2005	15.3%	7.5%	29.9%
2006	16.3%	7.1%	30.2%
2007	16.6%	6.9%	29.3%
2008	17.4%	6.8%	28.2%
2009	16.6%	5.5%	25.4%
2010	16.3%	5.2%	24.9%
2011	16.0%	5.2%	25.8%
2012	15.8%	5.3%	24.7%
2013E	16.1%	5.4%	23.7%
2014E	16.0%	5.3%	23.3%
2015E	15.9%	5.3%	22.9%
2016E	15.9%	5.3%	22.5%
2017E	15.8%	5.3%	22.1%

Development Spend				
	Large Pharma	Generics	Biotech	Total
2003	38,254	883	4,456	43,593
2004	44,002	1,126	5,727	50,855
2005	47,243	1,219	6,468	54,930
2006	55,969	1,325	7,536	64,829
2007	63,289	1,646	8,808	73,742
2008	69,638	1,906	9,454	80,998
2009	68,170	1,609	7,371	77,150
2010	71,746	1,707	7,951	81,405
2011	72,499	1,876	7,939	82,315
2012	71,155	2,143	8,569	81,868
2013E	71,446	2,257	9,228	82,931
2014E	72,252	2,333	10,185	84,770
2015E	73,761	2,388	11,134	87,283
2016E	75,482	2,419	12,112	90,013
2017E	76,730	2,427	13,157	92,314
CAGR ('13 - '17)	1.8%	1.8%	9.3%	2.7%

Development as % of R&D				
	Large Pharma	Generics	Biotech	Total
2003	68.5%	90.0%	40.0%	64.1%
2004	69.0%	90.0%	42.0%	64.7%
2005	69.5%	90.0%	44.0%	65.4%
2006	70.0%	90.0%	45.5%	66.2%
2007	70.5%	90.0%	47.0%	66.8%
2008	71.0%	90.0%	48.0%	67.6%
2009	71.1%	90.0%	49.0%	68.5%
2010	71.6%	90.0%	50.0%	69.0%
2011	72.1%	90.0%	51.0%	69.6%
2012	72.1%	90.0%	51.8%	69.6%
2013E	72.1%	90.0%	52.8%	69.6%
2014E	71.9%	90.0%	53.5%	69.4%
2015E	71.7%	90.0%	54.0%	69.2%
2016E	71.5%	90.0%	54.5%	69.0%
2017E	71.3%	90.0%	55.0%	68.8%

CRO Addressable Market				
	Large Pharma	Generics	Biotech	Total
2003	24,483	746	3,476	28,704
2004	28,381	957	4,467	33,806
2005	30,708	1,042	5,045	36,796
2006	36,660	1,139	5,840	43,639
2007	41,770	1,415	6,782	49,968
2008	46,135	1,639	7,232	55,006
2009	45,333	1,384	5,602	52,318
2010	47,891	1,468	6,003	55,362
2011	48,575	1,614	5,954	56,142
2012	47,852	1,843	6,427	56,122
2013E	48,226	1,941	6,921	57,088
2014E	48,951	2,006	7,690	58,647
2015E	50,157	2,054	8,462	60,673
2016E	51,516	2,081	9,265	62,862
2017E	52,560	2,087	10,131	64,778
CAGR ('13 - '17)	2.2%	1.8%	10.0%	3.2%

Non-Addressable Percentage of Development Dollars				
	Large Pharma	Generics	Biotech	Total
2003	36.0%	15.5%	22.0%	34.2%
2004	35.5%	15.0%	22.0%	33.5%
2005	35.0%	14.5%	22.0%	33.0%
2006	34.5%	14.0%	22.5%	32.7%
2007	34.0%	14.0%	23.0%	32.2%
2008	33.8%	14.0%	23.5%	32.1%
2009	33.5%	14.0%	24.0%	32.2%
2010	33.3%	14.0%	24.5%	32.0%
2011	33.0%	14.0%	25.0%	31.8%
2012	32.8%	14.0%	25.0%	31.4%
2013E	32.5%	14.0%	25.0%	31.2%
2014E	32.3%	14.0%	24.5%	30.8%
2015E	32.0%	14.0%	24.0%	30.5%
2016E	31.8%	14.0%	23.5%	30.2%
2017E	31.5%	14.0%	23.0%	29.8%

Source: Jefferies LLC, company data

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Chart 9: Top-Down CRO Industry Model Data

	Addressable Market by Phase						
	Preclinical	Ph. I	Ph. II & III	Ph. IIIb & IV	Labs	Other	Total
2003	4,194	2,951	10,336	3,974	3,094	4,155	28,704
2004	5,089	3,653	11,945	4,661	3,668	4,789	33,806
2005	5,645	4,081	12,806	5,070	3,992	5,202	36,796
2006	6,797	4,905	15,024	6,029	4,706	6,178	43,639
2007	7,902	5,779	16,911	6,886	5,421	7,068	49,968
2008	8,403	6,101	19,142	7,573	5,992	7,795	55,006
2009	7,215	5,307	19,405	7,305	5,647	7,440	52,318
2010	7,150	5,347	21,293	7,782	5,977	7,814	55,362
2011	6,958	5,192	22,061	7,942	6,098	7,890	56,142
2012	6,719	5,041	22,427	7,940	6,219	7,776	56,122
2013E	6,842	5,157	22,781	8,099	6,346	7,864	57,088
2014E	7,058	5,327	23,368	8,350	6,552	7,992	58,647
2015E	7,325	5,522	24,163	8,677	6,771	8,214	60,673
2016E	7,611	5,721	25,036	9,036	7,032	8,425	62,862
2017E	7,869	5,894	25,802	9,361	7,229	8,622	64,778
CAGR ('13 - '17)	**3.6%**	**3.4%**	**3.2%**	**3.7%**	**3.3%**	**2.3%**	**3.2%**

	Outsourcing Penetration Assumptions						
	Preclinical	Ph. I	Ph. II & III	Ph. IIIb & IV	Labs	Other	Total
2003	36%	32%	38%	32%	71%	28%	38%
2004	38%	32%	37%	32%	71%	28%	38%
2005	38%	35%	37%	33%	71%	28%	39%
2006	38%	35%	37%	33%	71%	28%	39%
2007	38%	36%	38%	33%	71%	28%	39%
2008	39%	37%	39%	34%	71%	28%	40%
2009	39%	36%	40%	36%	71%	28%	41%
2010	39%	36%	40%	35%	71%	28%	40%
2011	38%	36%	42%	37%	71%	29%	42%
2012	38%	37%	45%	39%	71%	29%	43%
2013E	39%	37%	48%	41%	72%	30%	45%
2014E	40%	38%	51%	43%	72%	30%	47%
2015E	41%	38%	53%	44%	72%	31%	48%
2016E	43%	38%	55%	46%	72%	31%	50%
2017E	43%	39%	57%	48%	72%	31%	51%

	CRO Market Size by Phase						
	Preclinical	Ph. I	Ph. II & III	Ph. IIIb & IV	Labs	Other	Total
2003	1,526	933	3,886	1,275	2,210	1,152	10,982
2004	1,916	1,181	4,375	1,490	2,604	1,338	12,905
2005	2,151	1,426	4,741	1,652	2,830	1,454	14,255
2006	2,599	1,730	5,582	1,969	3,323	1,722	16,924
2007	3,031	2,066	6,355	2,280	3,832	1,971	19,536
2008	3,311	2,231	7,370	2,584	4,253	2,207	21,956
2009	2,811	1,934	7,762	2,594	4,007	2,104	21,212
2010	2,759	1,947	8,461	2,732	4,242	2,215	22,357
2011	2,676	1,891	9,294	2,908	4,341	2,266	23,375
2012	2,586	1,851	10,131	3,064	4,442	2,270	24,344
2013E	2,682	1,912	10,971	3,284	4,545	2,329	25,723
2014E	2,841	2,000	11,956	3,550	4,706	2,405	27,457
2015E	3,036	2,098	12,864	3,858	4,878	2,508	29,243
2016E	3,245	2,200	13,846	4,193	5,081	2,613	31,178
2017E	3,421	2,295	14,804	4,524	5,239	2,714	32,997
CAGR ('13 - '17)	**6.3%**	**4.7%**	**7.8%**	**8.3%**	**3.6%**	**3.9%**	**6.4%**

	CRO Market Size YOY Growth by Phase						
	Preclinical	Ph. I	Ph. II & III	Ph. IIIb & IV	Labs	Other	Total
2004	26%	26%	13%	17%	18%	16%	18%
2005	12%	21%	8%	11%	9%	9%	10%
2006	21%	21%	18%	19%	17%	18%	19%
2007	17%	19%	14%	16%	15%	14%	15%
2008	9%	8%	16%	13%	11%	12%	12%
2009	-15%	-13%	5%	0%	-6%	-5%	-3%
2010	-2%	1%	9%	5%	6%	5%	5%
2011	-3%	-3%	10%	6%	2%	2%	5%
2012	-3%	-2%	9%	5%	2%	0%	4%
2013E	4%	3%	8%	7%	2%	3%	6%
2014E	6%	5%	9%	8%	4%	3%	7%
2015E	7%	5%	8%	9%	4%	4%	7%
2016E	7%	5%	8%	9%	4%	4%	7%
2017E	5%	4%	7%	8%	3%	4%	6%

	Market Share Gains By Top 6 Public CROs and Quintiles (Growth is Constant Currency)															CAGR
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	('13-'17)
Combined Rev.	4,177	4,703	5,599	6,249	7,569	8,864	8,843	9,057	10,208	11,280	12,353	13,872	15,506	17,311	19,146	
Market Share	38%	36%	39%	37%	39%	40%	42%	41%	44%	46%	48%	51%	53%	56%	58%	
Total Growth		13%	19%	12%	21%	17%	0%	2%	13%	11%	10%	12%	12%	12%	11%	11.6%

Source: Jefferies LLC, company data

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Survey Results: CRO Outlook Improving

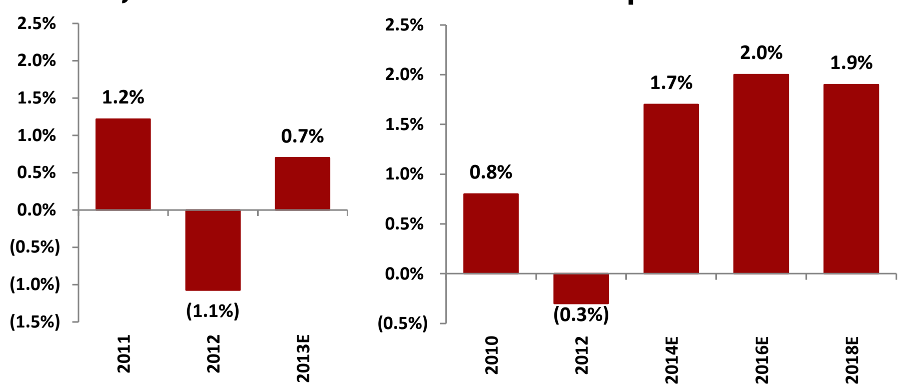
We engaged Life Science Strategy Group to survey 60 R&D decision-makers at various-sized pharma and biotech firms. We structured the survey to bias toward more senior, tenured professionals with large budget responsibility and were pleased with the sample. Nearly half of the respondents are employed by large biopharmas (>$1B annual R&D spend), roughly a third by mid-sized firms ($50M to $1B annual R&D), and the remaining from small companies (<$50M). Over 60% of the individuals surveyed have greater than 10 years of experience interfacing with CROs. Finally, 45% have accumulated most of their experience in the Phase II-III arena, 40% from Preclinical and Clinical Pharmacology (aka Early Development), and the remaining spread somewhat evenly over Lab, Phase IV, Data Management/Biostatistics, and Regulatory Affairs areas.

R&D Spending Will Grow in 2013; Patent Cliff Drove Decline in 2012

As supplementary analysis to this survey and mentioned above, we aggregated R&D spending for the top-250 biopharmas—representing ~85% of the global total. Our analysis indicates global R&D spending grew 1.2% in 2011, contracted 1.1% in 2012, and should expand 0.7% in 2013. This is directionally consistent with both EvaluatePharma's published outlook (*see Chart 10)* and responses from our survey, which show total R&D spend growth of 2.6% in 2013 when weighted by budget size.

Last year's contraction was driven by cost rationalization, as a record amount of branded drug sales lost patent protection (i.e. the patent cliff)—*see Chart 11.* Over the next several years, generic erosion is not expected to be as severe as in 2012. R&D spending will continue to face some headwinds, but 2012 should mark the near-term trough. With expectations for CRO industry growth in the mid-to-high single digits (compared to 15%+ a decade ago), a 2% swing in baseline R&D spending is meaningful.

Chart 10: Jefferies and EvaluatePharma Global R&D Spend Outlook



Source: Company Data, Capital IQ, EvaluatePharma, and Jefferies LLC

We saw a fairly strong correlation between the size of the R&D budget and a particular firm's plan to reduce internal capacity. In short, the bigger firms plan to do the most cutting.

Internal Capacity Will be Reduced in 2013…

Half of the survey respondents intend to reduce internal resources in 2013. Of those, 60% said reductions would focus on late stage, and 30% on post-marketing. On average, these respondents are planning to reduce internal resources 17% over the next three to four years. Notably, we also saw a fairly strong correlation between the size of the R&D budget and a particular firm's plan to reduce internal capacity. Said differently, the bigger firms plan to do the most cutting.

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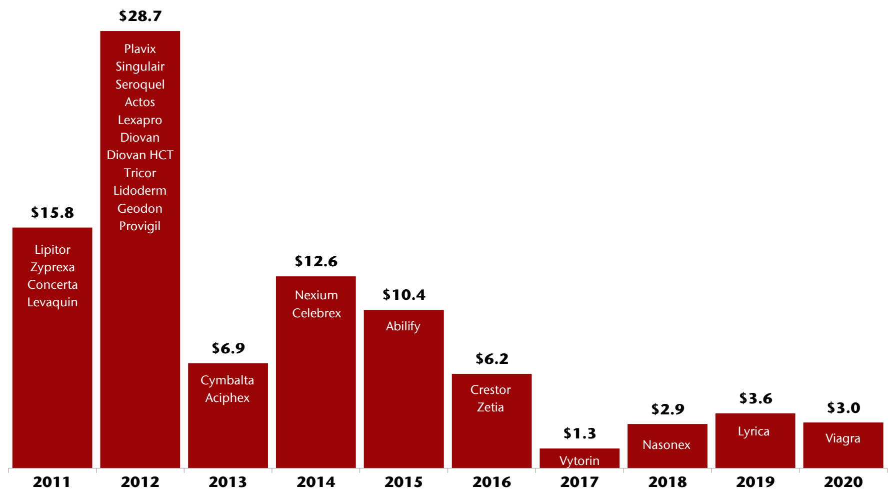
Chart 11: Estimated Impact of Patent Cliff and Future Generic Launches



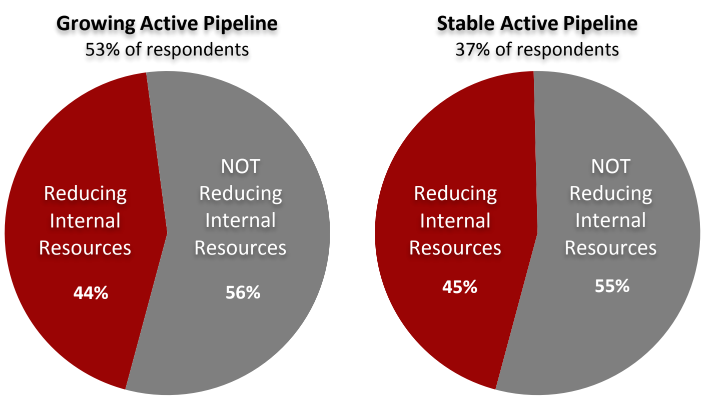
Source: IMS Health, Company Data, and Jeffries LLC

...Increasing the Demand for Outsourcing

We believe flat- to growing pipelines coupled with declining internal resources is driving greater demand for outsourcing. Our survey responses back that up.

These reductions not only rationalize some overcapacity, but also appear to be driving greater demand for outsourcing. Interestingly, 53% of the respondents reported a growing active pipeline and 37% reported a pipeline that is stable. However, of the 90% reporting either stable or growing pipelines, 44% are *reducing* internal headcounts and/or capacity over the next several years—*see Chart 12.* We believe flat to growing pipelines coupled with declining internal resources is driving greater demand for outsourcing.

Chart 12: Pipeline Health and Resourcing Decisions



Source: Life Science Strategy Group LLC, and Jefferies LLC

These findings are consistent with the responses we received when directly asking about future outsourcing intentions. Total outsourcing penetration is expected to increase to 51.1% in 2013, from 47.6% in 2012. This should grow again in 2014 to 52.8%. When asked what an "ideal" level of outsourcing, the budget-weighted consensus was 57.1%. This was our first time to ask the "peak" question, and the answer does strike us as low. It should be noted, while weighting and averaging the responses is helpful in determining

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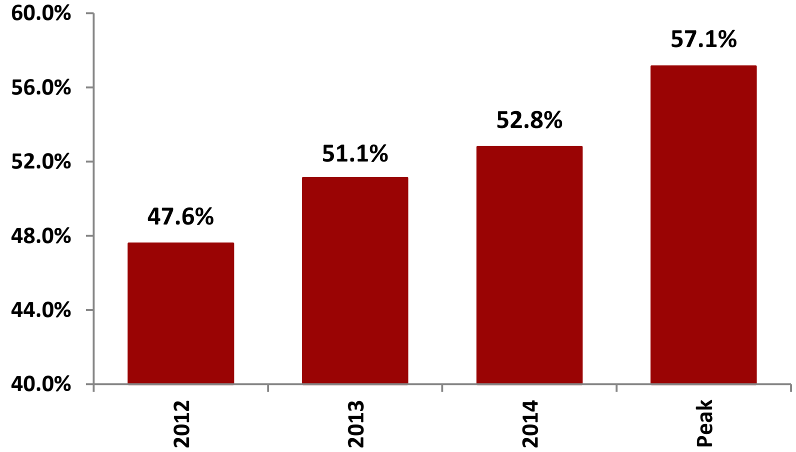
direction, the small sample size makes it less precise in determining the actual level of outsourcing spend.

Chart 13: Percentage of R&D Budget Expected to be Outsourced



Source: Life Science Strategy Group LLC, and Jefferies LLC

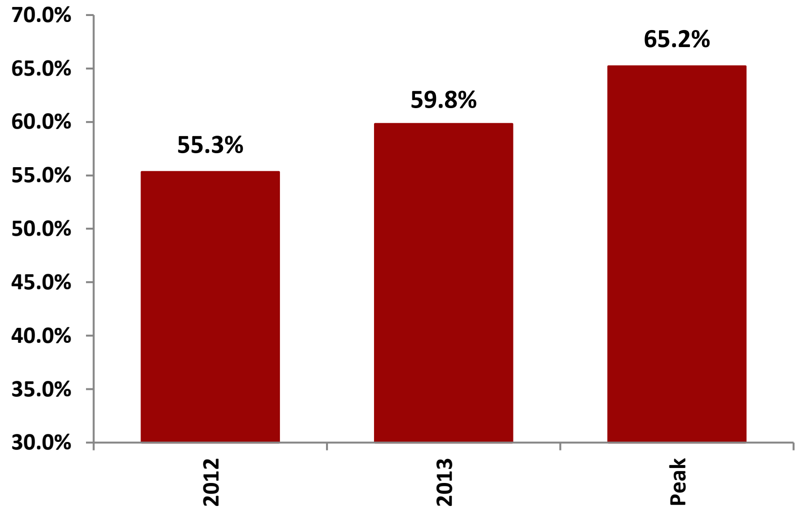
Notably, coupling the growth in R&D spending with the respondents' expected change in outsourcing levels implies outsourced spending growth over 10% in 2013.

Growth Will Remain Robust in Late Stage

In Late Stage, our respondents expect to outsource 59.8% of their work in 2013, up from 55.3% in 2012. When asked to posit the peak level of Late-stage outsourcing, the budget-weighted consensus was 65.2%—*see Chart 14*.

In 2013, the R&D spend by Late Stage-focused individuals is expected to grow 2.1%. When coupled with increasing Late-stage penetration, our respondents see **the market for outsourced Late Stage activities growing over 10% in 2013.**

Chart 14: Late Stage Outsourcing Penetration



Source: Life Science Strategy Group LLC, and Jefferies LLC

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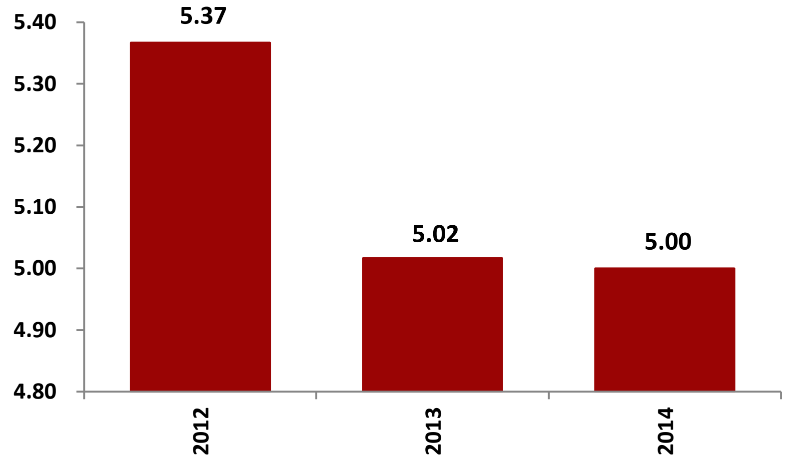
Vendor Consolidation to Continue

The dominant strategic sourcing theme is to narrow vendor lists for higher quality and more efficient management and governance. However, small biopharmas are still of a mind to expand vendors as pipelines mature.

The average number of CROs used by all of the respondents will drop by 6.5% in 2013 to 5.0 per biopharma. Based on current R&D plans, this number will then remain stable in 2014. Notably, the average budget of those biopharmas planning to consolidate CROs is ~50% greater than those expecting to expand their vendor lists. Also, the majority of those expecting to consolidate vendors are focused primarily on Phase II-III.

Chart 15: Average Number of CROs Used



Source: Life Science Strategy Group LLC, and Jefferies LLC

In terms of the mix of CROs used, 55% of the respondents utilize a combination of both Large and Niche (i.e. small) CROs. Not all that surprisingly, the average R&D budget of firms reporting they use a mixture of both Large and Niche (i.e. small) CROs was roughly 5x that of those firms that reported using Niche CROs *only*. What did surprise us was the average R&D budget of the firms reporting they use only Large CROs was ~33% lower than those utilizing only Niche providers. At a minimum, that suggests that the large CROs can still appeal to small sponsors, but the responses to seem to be outliers. As the biggest player in the space, still trying to appeal to small, innovative biotechs, this is a promising data point for Quintiles.

Interestingly, the biggest factors driving the preference for large CROs were the depth and geographic breadth of services provided; volume discounted pricing was a distant third. The largest factor driving the preference for Niche CROs was their attention to detail (i.e. higher quality work) and their specific geographic or therapeutic expertise.

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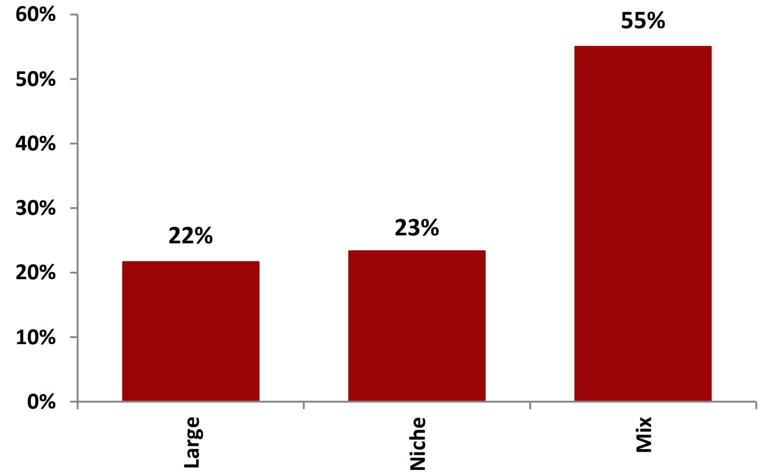
Chart 16: Types of CROs Used

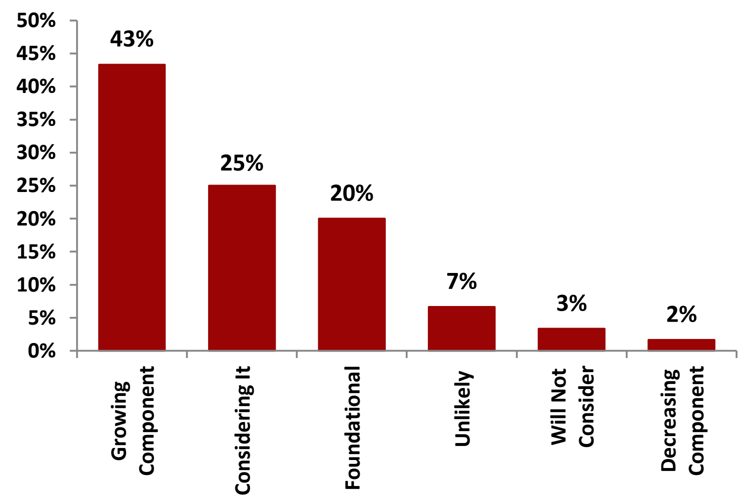


Source: Life Science Strategy Group LLC, and Jefferies LLC

Growing Preference for Strategic Partners

Only ~12% of the respondents do *not* plan to transition toward a more strategic partner-centric outsourcing model over the next five years. Notably, the average budget of those firms that reported strategic partnerships are an increasing component of their outsourcing strategy is roughly 4x larger than those not planning to use strategic partners. The seven individuals that do not plan to use strategic partners identified themselves in multiple R&D stages, and were not exclusive to any one area.

Chart 17: Attitudes Toward the Use of Strategic Partners



Source: Life Science Strategy Group LLC, and Jefferies LLC

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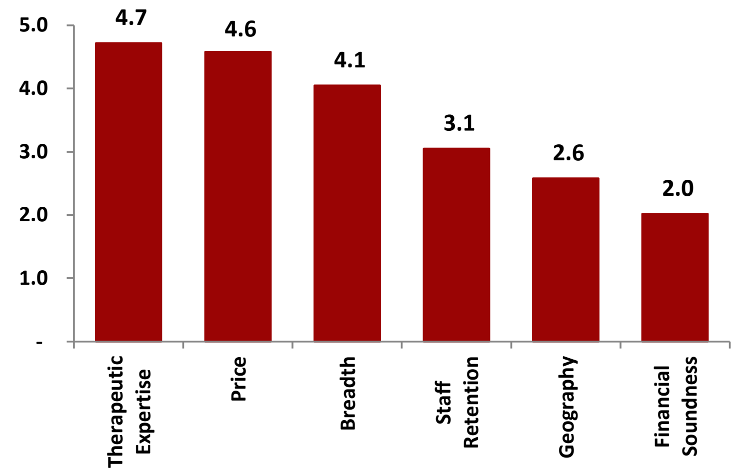
Price Wins Deals, but Long-Term Satisfaction Depends on Quality

When it comes to selecting a CRO through a competitive bidding process, expertise in a particular therapeutic area ranked as most influential. Price was a close second followed by breadth of offerings, staff retention, geographic breadth, and financial soundness.

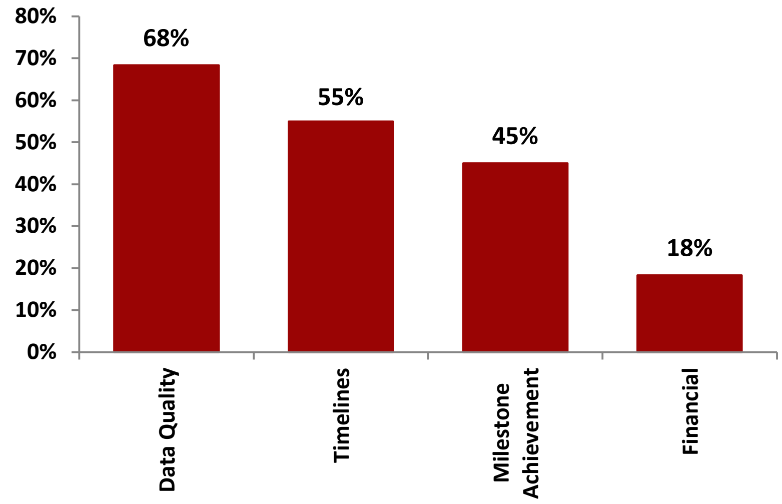
Chart 18: Influential Factors When Selecting a CRO



Source: Life Science Strategy Group LLC, and Jefferies LLC

After a CRO is selected, the financial aspects of the agreement appear to become less important. Data quality and timelines were reported as the most frequently used metrics to determine a CRO's success.

Chart 19: Factors Used to Measure a CROs Success



Source: Life Science Strategy Group LLC, and Jefferies LLC

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Quintiles Valuation

We looked at valuation three ways. First, based on price to earnings and its industry leadership, we applied a multiple equal to the average of CVD and PRXL. This yields $47.50. Second, we looked at PEG ratios. Using the midpoint of a range of Q growth estimates, we applied a PEG ratio slightly above the peer average, again giving a nod to Quintiles sector leadership. That yields $39. Finally, we looked at discounted cash flows forecasted for 3-yrs with a terminal EBIT multiple equal to its current. That yields $37.50. Taking an average of the three, we arrive at our price target of $41.

Trading Comparables

Being the market leader, we believe Q deserves some amount of valuation premium based on the benefits this affords—it can undertake larger trials than its peers, it can command better pricing, and it generates industry-leading margins as a result. That said, Q does have a slower growth outlook relative to its peers—top-line growth likely trails its peer average, and since it already has relatively high margins, future margin expansion-fueled growth will be limited.

Acknowledging its leadership position, we group Quintiles P/E with top players PRXL and CVD, which trade at 23x and 21.3x 2014, respectively. That compares with 18.3x for the overall CRO group—*see Chart 22*. Applying the average to our 2014 estimate for Quintiles gives us a $47.50 valuation.

Long-Term EPS Growth

Again, Q's LT EPS growth outlook falls below many of its peers. Not only will top-line growth likely trail its competitors, but its margin expansion will likely be smaller as well. Our bear/bull sensitivity analysis of five-year EPS growth CAGRs yielded outcomes ranging from 6-18%—*see Chart 20.* Covance and PAREXEL currently trade at 1.45x and 1.3x PEGs, respectively. Again, we give Quintiles a slight premium because of its market leadership. Taking the midpoint of our EPS growth analysis and a 1.5x PEG implies a valuation of 18x our 2014 EPS estimate, or $39.00. We'd suggest that this approach does the best job of balancing the market leadership factors against the slower growth profile.

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Chart 20: Long-Term EPS Growth Estimate Sensitivity Analysis

Quintiles Inc.

					2017E				
					5-Year Adjusted EPS CAGR Sensitivity Model				
	2011	2012	2013E	2014E	Bear ⟵		Base	⟶	Bull
Revenue	$3,294,966	$3,692,298	$3,793,943	$4,071,659	$4,941,128	$5,178,639	$5,425,197	$5,681,058	$5,946,483
YoY growth	10.0%	12.1%	2.8%	7.3%	6.0%	7.0%	8.0%	9.0%	10.0%
Cost of revenue	2,153,005	2,459,367	2,500,433	2,674,206	3,285,850	3,417,902	3,553,504	3,692,688	3,835,481
Gross margin	34.7%	33.4%	34.1%	34.3%	33.5%	34.0%	34.5%	35.0%	35.5%
SG&A	743,541	787,501	814,305	877,069	1,062,342	1,087,514	1,112,165	1,136,212	1,159,564
% revenue	22.6%	21.3%	21.5%	21.5%	21.5%	21.0%	20.5%	20.0%	19.5%
Operating income	398,420	445,430	479,206	520,384	592,935	673,223	759,528	852,159	951,437
% revenue	12.1%	12.1%	12.6%	12.8%	12.0%	13.0%	14.0%	15.0%	16.0%
Interest expense & other	102,569	127,732	116,470	97,979	94,500	94,000	93,500	92,500	91,500
Pre-tax income	295,851	317,698	362,736	422,405	498,435	579,223	666,028	759,659	859,937
Income tax	102,168	112,250	122,284	135,280	159,499	185,351	213,129	243,091	275,180
Tax rate	34.5%	35.3%	33.7%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Non-controlling interests	(2,678)	3,482	(111)	1,892	1,000	1,000	1,000	1,000	1,000
Adjusted net income	191,005	208,930	240,341	289,017	339,936	394,872	453,899	517,568	585,757
% revenue	5.8%	5.7%	6.3%	7.1%	6.9%	7.6%	8.4%	9.1%	9.9%
Shares out	117,993	117,811	127,790	134,642	142,883	142,883	142,883	142,883	142,883
Adjusted EPS	**$ 1.62**	**$ 1.77**	**$ 1.88**	**$ 2.15**	**$ 2.38**	**$ 2.76**	**$ 3.18**	**$ 3.62**	**$ 4.10**
5-yr CAGR					**6%**	**9%**	**12%**	**15%**	**18%**

Source: Company data and Jefferies LLC

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Discounted Cash Flow

Our discount cash flow model forecasts three years of free cash flows then assumes a terminal EBIT multiple of 13.5x, equal to its current—*see Chart 21*. This results in a target of $37.50.

Chart 21: Discounted Cash Flow Analysis

		Actual 2012	2013	2014	2015
Quintiles EBIT		$ 445,430	$ 479,206	$ 523,053	$ 575,638
Less: cash taxes	25.0%	(111,358)	(119,801)	(130,763)	(143,909)
After-tax EBIT		334,073	359,404	392,290	431,728
Plus: D&A		98,288	102,735	105,619	112,742
Plus: Changes in w orking cap		26,555	(98,260)	(25,013)	1,107
Less: Maintenance cap-x	70.0%	(49,935)	(74,994)	(70,770)	(70,630)
Total after-tax cash flow		**$ 408,980**	**$ 288,886**	**$ 402,126**	**$ 474,948**

Cost of Capital Calculation	
Beta	1.10
Market premium	7.0%
Risk-free rate	2.0%
Equity cost of capital	9.7%
Debt cost of capital	4.5%
Target debt to capitalization	35%
Tax rate	32%

Wtd average cost of capital (WACC) = 7.4%

Terminal EBIT multiple = 13.6x

Quintiles Valuation Sensitivity Table

Current net cash/(debt) $ (1,424,268) **

Current total equity value

$4,778,390	11.5x	12.5x	13.5x	14.5x	15.5x
6.4%	4,134,691	4,529,252	4,923,814	5,318,376	5,712,938
6.9%	4,209,542	4,609,721	5,009,899	5,410,077	5,810,255
7.4%	4,209,542	4,609,721	5,009,899	5,410,077	5,810,255
7.9%	4,134,691	4,529,252	4,923,814	5,318,376	5,712,938
8.4%	3,989,056	4,372,696	4,756,337	5,139,977	5,523,617

Total Quintiles shares outstanding 132,965

Per share valuation

$35.94	Terminal multiple 11.5x	12.5x	13.5x	14.5x	15.5x
6.4%	$31.10	$34.06	$37.03	$40.00	**$42.97**
6.9%	$31.66	$34.67	$37.68	$40.69	$43.70
7.4%	$31.66	$34.67	**$37.68**	$40.69	$43.70
7.9%	$31.10	$34.06	$37.03	$40.00	$42.97
8.4%	**$30.00**	$32.89	$35.77	$38.66	$41.54

Source: Company data and Jefferies LLC

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Company Description

Quintiles Transnational is the world's largest contract research organization (CRO) and provider of commercial outsourcing services to the biopharmaceutical industry. The company conducts business in approximately 100 countries and has helped develop or commercialize all of the top 50 best-selling drugs on the market. It was founded in 1982 in the Research Triangle region of North Carolina by Dr. Dennis Gillings, who remains the company's Executive Chairman of the Board. The company expanded into Europe in 1987 and into Asia in 1993. Quintiles also broadened its portfolio of offerings into commercial and consulting services through several acquisitions, beginning in 1996.

For reporting purposes, the business is divided into two segments: Product Development, and Integrated Healthcare Services.

Product Development

The Product Development segment (PDEV), which contributed 74% of Quintiles' total revenue in 2012, encompasses outsourced clinical trial services and other product development activities. The market for these services consists primarily of biopharmaceutical companies, as well as medical device and diagnostics companies. Total biopharmaceutical spending on drug development was approximately $91 billion in 2011, of which it is estimated that Quintiles has an addressable market (clinical development spending excluding preclinical spending) of approximately $48 billion. Approximately one-third to one-half of this addressable market is currently outsourced to third-party services companies, and Quintiles has leading market share in the largest biopharma markets in the world (U.S., Europe, and Japan). The company has also created 13 therapeutic centers of excellence that have developed specific expertise in key areas such as oncology, cardiovascular, and central nervous system.

Product Development services can be further sub-divided into two parts: Early Stage Development (Stages I and IIa), and Late Stage (Stage IIb-IV). Quintiles does not compete in the preclinical portion of the Early Development market. Quintiles' scale and breadth of service offerings allow it to compete effectively in all segments of the clinical CRO market. Its primary service offerings include clinical trial management, lab services, data analysis and reporting, biostatistics, and consulting.

- **Clinical Trial Services** – traditional CRO services, including management of the clinical trial process, trial planning and design, site selection, patient recruitment, laboratory services, clinical safety assessment, reporting and oversight, and regulatory management.

- **Lab Services** – clinical testing services including central and bioanalytical lab services. Quintiles operates the world's largest network of wholly owned, CAP-accredited central laboratories, and its bioanalytical labs specialize in the analysis of small- and macro-molecules. Together these capabilities allow the company to offer a single-source, streamlined lab solution for testing across the development spectrum.

- **Data Analysis, Reporting, and Biostatistics** – monitoring of clinical safety and data quality, tracking the progress of clinical trials, and interpreting results in order to decrease clinical trial costs and accelerate timelines. Quintiles is recognized as a pioneer in the use of statistical algorithms to improve the quality of data used to evaluate drug therapies. Its investments in "big data" analytics, generally under its Infosario brand, also represent leading advances in optimizing and accelerating clinical trials.

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- **Consulting Services** – includes portfolio management advisory services, clinical operations improvement, market intelligence, market access and commercialization strategy development, and regulatory/quality compliance strategies. We view Quintiles investments in a dedicated consulting practice, as a strategic growth area and a vehicle to more specifically highlight Quintiles expertise and know-how in drug development and commercialization. With Tom Pike's career in consulting, we expect Quintiles to grow this area rapidly. That said, Consulting represents a very small (<5%) portion of revenue, so that steep trajectory barely trembles the overall growth needle for the company.

Integrated Healthcare Services

Integrated Health Services (IHS) primarily addresses the use of approved biopharma products, thus linking product development to healthcare delivery. Quintiles estimates that total spending on approved drugs exceeded $88 billion in 2011, and that no more than 15% of this spend is outsourced to third-parties. This includes spending on commercialization by biopharma companies and expenditures by other healthcare players, such as payers and providers, on real-world research on safety and effectiveness. Integrated Healthcare Services generated 26% of Quintiles' total revenue in 2012, and key service offerings include commercial services (sales force management), outcomes research, and payer/provider services. This industry segment carries lower margins than drug development. Spending trends, particularly in the Western world, have also been more sluggish than in R&D. To overcome those unattractive dynamics, Quintiles is using its global PDEV footprint to import and cross-sell IHS capabilities in emerging markets. Appetite for these services in emerging markets is growing, and competition is very limited.

- **Commercial Services** – management of the commercialization process, including sales force management (recruiting, training, deploying, and managing a global contract sales force), channel management, market access consulting, and brand marketing. Quintiles employs more than 5,000 specialty and primary care sales reps in 34 countries and has helped launch more than 100 products in total. The company's contract sales force model is especially attractive to small- and medium-sized biopharma companies launching their products in international markets where they do not have presence currently.

- **Outcomes Research** – Post-approval research is sponsored by biopharma companies involving the collection of observational outcomes in real-world (non-clinical trial) settings in order to prove a drug's value. Physicians and payers are increasingly looking to biopharma companies to provide comparative effectiveness research of long-term safety outcomes when they make formulary and reimbursement recommendations. Quintiles' proven ability to engage patients and track medication adherence positions it well for these types of services.

- **Payer/Provider Services** – These services are similar to Outcomes Research, but in this case a Payer or Provider is sponsoring the analysis. With the on-going shift towards outcomes based reimbursement, bundled payments, ACOs, and risk-sharing, providers and government payers are increasingly incented to conduct comparative effectiveness studies to improve the quality and cost-effectiveness of healthcare. Quintiles has the largest data repository in the industry, including 45 million patient records and more than 220 patient registries across 80 countries.

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Risk Factors

Macro-Economic Factors and International Exposure

Quintiles does have significant international exposure (65% of revenue is generated outside the U.S. and 39% is denominated in currencies other than USD), and therefore, is susceptible to the impact of currency fluctuations, varying tax codes, and the political stability of the foreign markets in which it operates. The company limits its exposure to foreign currency fluctuations through hedging and exchange rate fluctuation provisions in its service contracts, but has not hedged 100% of its foreign currency transaction risk.

Market is Highly Fragmented and Competitive …

In the Product Development market, Quintiles competes with a handful of global full-service CROs, numerous smaller specialized companies, academic medical centers, and in-house development organizations. The market is becoming increasingly competitive, resulting in pricing pressure as well as the introduction of less favorable contract terms. These trends likely continue.

… And Trending Towards Long-term, Strategic Collaborations

Over the last five years, the industry has seen a significant increase in the number of strategic or 'preferred' vendor deals signed between biopharma companies and CROs. These relationships tend to consolidate market share among the larger CROs (such as Quintiles). That said, competition for these deals has been fierce and usually results in significant discounting, with vendors believing they can make margin back through the efficiencies that come along with these deals. We are not convinced these efficiencies are always as lucrative as vendors hope.

Government Regulation Creates Unknowns

The CRO and biopharma industries are subject to intense federal oversight, both in the U.S. and internationally. The drug approval process is challenging and expensive to navigate, and increased regulatory scrutiny could lead biopharma companies to limit the scope of their approval applications, thus reducing the amount of services required from CROs. Additionally, governments are often significant payers for healthcare services, including biopharmaceuticals, so reduced reimbursement could have a negative impact on the profitability of Quintiles' clients.

Significant Legal Risk Associated with Biopharma Development and Sales

Quintiles could be subject to significant legal liability related to the conduct of clinical trials and other drug development activities. Although Quintiles maintains insurance coverage levels that are customary in the industry, the company could suffer damage to its reputation and future prospects if it were found to have failed to perform its services in accordance with regulatory and ethical standards. Additionally, Quintiles commercial services operations could result in liability to the company if a drug is found to cause harm to a large number of patients. Quintiles is generally indemnified by the biopharma company on whose behalf it is working, but in extreme cases of patient harm, Quintiles could suffer financial or reputational damage.

Data Breach Could Mean Large Fines

Quintiles collects significant amounts of patient data which is covered by strict regulation in the U.S. and Europe. If the company were to suffer from a data-security breach or otherwise mishandle patient information, it would likely face significant financial penalties, as well as damage to its reputation.

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Management

Dr. Dennis Gillings, Co-Founder and Executive Chairman

Dr. Gillings founded Quintiles in 1982 and served as CEO until April 2012, when he transitioned to Executive Chairman. He took the company public on NASDAQ in 1994 and led its privatization in 2003. As CEO, Dr. Gillings pioneered the use of sophisticated statistical algorithms to improve the quality of data used to determine the efficacy of drug therapies. Prior to founding Quintiles, Dr. Gillings was a Professor of Biostatistics at the University of North Carolina at Chapel Hill. He was also the founding Chairman of the Association of Clinical Research Organizations, a CRO-trade group formed in 2002.

Tom Pike, CEO and Director

Mr. Pike joined Quintiles as CEO in April 2012. Prior to Quintiles, he spent 22 years at Accenture, where his roles included leading the N.A. Health and Products business areas. Prior to that, he was the global chief operating officer for Accenture's Resources operating group and also served as the company's chief strategy officer. After leaving Accenture in 2010, he was involved with a number of start-ups in the technology and healthcare sectors. Mr. Pike received a B.S. degree in accounting from the University of Delaware.

John Ratliff, President, COO, and Director

Mr. Ratliff joined Quintiles in 2004 as CFO and currently serves as President and COO. In this role, he is responsible for Quintiles Global Services organization. He was appointed to the company's Board of Directors in 2006. Prior to joining Quintiles, Mr. Ratliff worked for Acterna, a provider of communications test solutions for telecommunications and cable network operators. Previously, he worked at IBM for 19 years in a variety of finance roles. Mr. Ratliff received a bachelor's degree in industrial and systems engineering from the Georgia Institute of Technology and an M.B.A. degree from Duke University.

Kevin Gordon, CFO

Mr. Gordon joined Quintiles in 2010 as CFO. Previously, he worked for 13 years in a variety of finance roles at Teleflex Incorporated, a global, publicly traded company with $2 billion in revenues and a large presence in the health care market, including serving as CFO from 2007 to 2010. Gordon has also held senior finance positions with Package Machinery Company and KPMG. Mr. Gordon received a bachelor's degree in accounting from the University of Connecticut.

Mike Mortimer, EVP – Human Resources and Corporate Administration

Mr. Mortimer is responsible for Quintiles' Corporate Administration Office along with leadership of the company's global operations in Human Resources, Corporate Communications, Legal and Risk Management, Marketing, and Real Estate. He joined Quintiles in 2003 as EVP, Global Human Resources and was appointed to his current role in 2007. Previously, Mr. Mortimer was SVP of Human Resources for Charles Schwab, and prior to that he held a variety of human resources roles at Sprint. He has a bachelor's degree in behavioral science from Ohio State University.

Dr. Derek Winstanly, Chief Customer and Governance Officer

Dr. Winstanly works globally with Quintiles' clients to provide long-term strategic solutions, and he is also responsible for the office of the Chief Medical and Scientific Officer, Quality Assurance and Business Ethic functions. He has served in this role since 2010. Dr. Winstanly joined Quintiles in 1999 as President of Quintiles Japan, becoming chairman of Japan and Regional Director for the Asia-Pacific Region in 2002. Prior to joining Quintiles, he worked for Glaxo Wellcome, plc, now GlaxoSmithKline, for 15 years. Dr. Winstanly graduated as a Medical Doctor MBChB from the University of Pretoria, South Africa and is registered as Medical Practitioner in both the U.K. and South Africa.

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Chart 22: CRO Comp Table

Jefferies

Pharmaceutical Services

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Ticker	Company	06/17/13 Price	Rating	Price Target	Upside to PT	PT / '14 EPS	52 Week Range Low	52 Week Range High	Debt/ EBITDA	FCF Yield	MCap ($000)	EV ($000)	Avg Day Volume	LT EPS Growth	PEG	Short % Shs Out	Dividend Yield	FYE	Earnings Date (Est.)
Q	Quintiles Transnational Holdings Inc.	$ 43.53	HOLD	$ 41.00	(5.8%)	19.0x	$ 41.78	$ 46.50	3.6x	0.0%	$ 5,168,752	$ 7,100,083	487,003	12%	1.68x	0.2%	#VALUE!	Dec	07/29/2013
CVD	Covance Inc.	78.43	HOLD	74.00	(5.6%)	20.1x	45.22	78.36	0.0x	3.0%	4,416,161	4,311,314	209,622	14%	1.49x	4.2%	#VALUE!	Dec	07/24/2013
PRXL	PAREXEL International Corp.	46.74	HOLD	41.00	(12.3%)	20.2x	25.95	47.82	0.6x	4.7%	2,761,119	2,869,155	407,222	18%	1.32x	5.8%	#VALUE!	Jun	08/05/2013
WST	West Pharmaceutical Services Inc.	67.66	HOLD	60.00	(11.3%)	17.1x	46.87	69.49	1.0x	0.3%	2,374,866	2,621,766	112,101	15%	1.29x	1.7%	1.1%	Dec	08/01/2013
ICLR	Icon PLC	35.94	BUY	38.00	5.7%	19.5x	20.28	35.86	0.0x	4.9%	2,203,970	2,003,970	300,072	18%	1.05x	0.2%	#VALUE!	Dec	07/24/2013
CRL	Charles River Laboratories International	43.21	BUY	50.00	15.7%	15.6x	31.48	46.90	2.1x	8.1%	2,092,922	2,634,311	326,042	9%	1.58x	1.4%	#VALUE!	Dec	08/06/2013
WX	WuXi PharmaTech (Cayman) Inc.	21.11	BUY	24.00	13.7%	14.5x	13.00	21.84	0.0x	8.3%	1,518,127	1,317,435	444,003	13%	1.02x	0.3%	#VALUE!	Dec	08/14/2013

Ticker	Company	EV / Revenue 2012	EV / Revenue 2013	EV / Revenue 2014	EV / EBITDA 2012	EV / EBITDA 2013	EV / EBITDA 2014	P / E 2012	P / E 2013	P / E 2014	Revenue 2012	Revenue 2013	Revenue 2014	Adjusted EBITDA 2012	Adjusted EBITDA 2013	Adjusted EBITDA 2014	Adjusted EPS (non-GAAP) 2012	Adjusted EPS (non-GAAP) 2013	Adjusted EPS (non-GAAP) 2014
Q	Quintiles Transnational Holdings Inc.	1.9x	1.9x	1.7x	13.1x	12.2x	11.3x	24.5x	23.1x	20.2x	$ 3,692,298	$ 3,793,943	$ 4,062,259	$ 543,718	$ 581,941	$ 628,672	$ 1.77	$ 1.88	$ 2.16
CVD	Covance Inc.	2.0x	1.8x	1.6x	13.9x	12.2x	10.5x	29.1x	25.2x	21.3x	2,171,867	2,394,366	2,667,935	310,099	352,122	410,592	2.70	3.12	3.69
PRXL	PAREXEL International Corp.	1.8x	1.6x	1.4x	15.6x	12.4x	11.0x	34.3x	25.9x	23.0x	1,565,424	1,842,183	2,021,574	184,244	230,722	261,782	1.36	1.81	2.03
WST	West Pharmaceutical Services Inc.	2.1x	1.9x	1.7x	10.2x	11.0x	10.0x	24.5x	21.7x	19.3x	1,266,400	1,382,833	1,511,163	256,000	237,859	260,978	2.76	3.12	3.50
ICLR	Icon PLC	1.8x	1.5x	1.3x	17.2x	11.9x	10.0x	36.0x	22.3x	18.4x	1,115,006	1,320,483	1,485,790	116,476	167,792	200,586	1.00	1.61	1.95
CRL	Charles River Laboratories International	2.3x	2.2x	2.2x	10.1x	10.0x	9.2x	15.8x	15.4x	13.4x	1,129,530	1,174,575	1,221,891	261,125	264,707	284,883	2.74	2.80	3.21
WX	WuXi PharmaTech (Cayman) Inc.	2.6x	2.3x	2.0x	9.3x	8.1x	7.5x	15.0x	13.8x	12.7x	499,912	570,755	650,857	140,943	162,251	176,606	1.40	1.53	1.66
Pharma Services Mean		**2.1x**	**1.9x**	**1.7x**	**12.8x**	**11.1x**	**9.9x**	**25.6x**	**21.1x**	**18.3x**									
Pharma Services Median		**2.0x**	**1.9x**	**1.7x**	**13.1x**	**11.9x**	**10.0x**	**24.5x**	**22.3x**	**19.3x**									

Sources: Company Filings, FactSet for not covered companies, and Jefferies LLC

Source: Company Filings, FactSet for not covered companies, and Jefferies LLC

Quintiles

Jefferies

Income Statement
December Fiscal Year
($ in Millions, except for EPS)

06/14/13

Non-GAAP Income Statement	2011A	1Q12	2Q12	3Q12	4Q12	2012A	1Q13	2Q13	3Q13	4Q13	2013E	2014E	2015E
Total Service Revenue	**3,294,966**	**888,035**	**944,914**	**913,588**	**945,761**	**3,692,298**	**927,435**	**935,343**	**952,176**	**978,989**	**3,793,943**	**4,062,259**	**4,336,237**
YoY Growth	*10.0%*	*13.7%*	*14.9%*	*11.5%*	*8.4%*	*12.1%*	*4.4%*	*(1.0%)*	*4.2%*	*3.5%*	*2.8%*	*7.1%*	*6.7%*
Cost of revenue	2,153,005	590,563	628,222	612,106	628,476	2,459,367	611,109	617,776	629,467	642,190	2,500,433	2,665,041	2,835,396
SG&A	743,541	191,118	202,210	191,445	202,728	787,501	197,951	202,059	205,925	208,276	814,305	874,165	925,204
Operating income	398,420	106,354	114,482	110,037	114,557	445,430	118,375	115,508	116,784	128,523	479,206	523,053	575,638
Adjusted EBITDA	**490,424**	**129,625**	**138,201**	**135,764**	**140,128**	**543,718**	**143,015**	**141,165**	**142,776**	**154,970**	**581,941**	**628,672**	**688,380**
YoY Growth	*6.0%*	*21.4%*	*18.1%*	*12.5%*	*(4.0%)*	*10.9%*	*10.3%*	*2.1%*	*5.2%*	*10.6%*	*7.0%*	*8.0%*	*9.5%*
Net interest expense	105,126	28,920	32,808	32,665	36,911	131,304	35,590	34,330	24,610	24,610	119,141	97,979	97,154
Other expense (income), net	(2,557)	(2,419)	(6,159)	3,850	1,156	(3,572)	(2,382)	(256)	(24)	(9)	(2,671)	-	-
Pre-tax income	295,851	79,853	87,833	73,522	76,490	317,698	85,167	81,434	92,198	103,921	362,736	425,074	478,484
Income taxes	102,168	29,790	32,486	21,900	28,074	112,250	33,520	26,005	29,503	33,255	122,284	136,134	153,115
Income from unconsolidated affiliates	(4,123)	1,573	334	896	(236)	2,567	(1,683)	200	200	200	(1,083)	800	800
Loss from noncontrolling interest/minority interest	1,445	465	189	123	138	915	153	273	273	273	972	1,092	1,092
Non-GAAP net income	191,005	52,101	55,870	52,641	48,318	208,930	50,117	55,902	63,168	71,140	240,341	290,832	327,261
Non-GAAP EPS	**1.62**	**0.44**	**0.47**	**0.45**	**0.41**	**1.77**	**0.42**	**0.45**	**0.48**	**0.53**	**1.88**	**2.16**	**2.40**
YoY Growth	*18.1%*	*51.5%*	*34.7%*	*40.4%*	*(37.7%)*	*9.6%*	*(4.8%)*	*(6.2%)*	*6.3%*	*29.9%*	*6.1%*	*14.9%*	*11.1%*
Diluted shares outstanding	117,993	117,551	117,706	117,835	118,150	117,811	118,740	125,564	132,965	133,892	127,790	134,642	136,342
COMMON SIZE:													
Cost of revenue	65.3%	66.5%	66.5%	67.0%	66.5%	66.6%	65.9%	66.0%	66.1%	65.6%	65.9%	65.6%	65.4%
SG&A	22.6%	21.5%	21.4%	21.0%	21.4%	21.3%	21.3%	21.6%	21.6%	21.3%	21.5%	21.5%	21.3%
Operating income	12.1%	12.0%	12.1%	12.0%	12.1%	12.1%	12.8%	12.3%	12.3%	13.1%	12.6%	12.9%	13.3%
Adjusted EBITDA	14.9%	14.6%	14.6%	14.9%	14.8%	14.7%	15.4%	15.1%	15.0%	15.8%	15.3%	15.5%	15.9%
Net Interest Expense	3.2%	3.3%	3.5%	3.6%	3.9%	3.6%	3.8%	3.7%	2.6%	2.5%	3.1%	2.4%	2.2%
Other Expense (Income), net	(0.1%)	(0.3%)	(0.7%)	0.4%	0.1%	(0.1%)	(0.3%)	(0.0%)	(0.0%)	(0.0%)	(0.1%)	0.0%	0.0%
Pre-tax income	9.0%	9.0%	9.3%	8.0%	8.1%	8.6%	9.2%	8.7%	9.7%	10.6%	9.6%	10.5%	11.0%
Income taxes	34.5%	37.3%	37.0%	29.8%	36.7%	35.3%	39.4%	31.9%	32.0%	32.0%	33.7%	32.0%	32.0%
Non-GAAP net income	5.8%	5.9%	5.9%	5.8%	5.1%	5.7%	5.4%	6.0%	6.6%	7.3%	6.3%	7.2%	7.5%
GROWTH (YoY):													
Total Service Revenue	na	13.7%	14.9%	11.5%	8.4%	12.1%	4.4%	(1.0%)	4.2%	3.5%	2.8%	7.1%	6.7%
Cost of revenue	na	15.1%	16.4%	13.4%	12.1%	14.2%	3.5%	(1.7%)	2.8%	2.2%	1.7%	6.6%	6.4%
SG&A	na	4.8%	7.4%	4.9%	6.5%	5.9%	3.6%	(0.1%)	7.6%	2.7%	3.4%	7.4%	5.8%
Operating income	na	24.4%	21.0%	13.3%	(5.5%)	11.8%	11.3%	0.9%	6.1%	12.2%	7.6%	9.2%	10.1%
Adjusted EBITDA	na	21.4%	18.1%	12.5%	(4.0%)	10.9%	10.3%	2.1%	5.2%	10.6%	7.0%	8.0%	9.5%
Net Interest Expense	na	17.2%	22.7%	21.7%	37.4%	24.9%	23.1%	4.6%	(24.7%)	(33.3%)	(9.3%)	(17.8%)	(0.8%)
Other Expense (Income), net	na	(263.3%)	3321.7%	(279.9%)	(167.3%)	39.7%	(1.5%)	(95.8%)	(100.6%)	(100.7%)	(25.2%)	(100.0%)	nm
Pre-tax income	na	34.6%	29.0%	1.5%	(20.4%)	7.4%	6.7%	(7.3%)	25.4%	35.9%	14.2%	17.2%	12.6%
Income taxes	na	27.4%	32.4%	(33.6%)	32.0%	9.9%	12.5%	(19.9%)	34.7%	18.5%	8.9%	11.3%	12.5%
Non-GAAP net income	na	50.6%	34.1%	40.3%	(37.4%)	9.4%	(3.8%)	0.1%	20.0%	47.2%	15.0%	21.0%	12.5%
Non-GAAP EPS	na	51.5%	34.7%	40.4%	(37.7%)	9.6%	(4.8%)	(6.2%)	6.3%	29.9%	6.1%	14.9%	11.1%

Sources: Company data and Jefferies LLC

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Quintiles

Balance Sheet
December Fiscal Year
($ in Millions, except for EPS)

Jefferies
06/14/13

BALANCE SHEET	2011E	2012A	1Q13	2Q13	3Q13	4Q13	2013E	2014E	2015E
Cash and cash equivalents	516,299	567,728	454,293	604,021	671,843	729,031	729,031	966,145	1,271,646
Restricted Cash	2,998	2,822	3,880	3,886	3,891	3,897	3,897	3,897	3,897
Accounts Receivable & Unbilled Services	691,038	745,373	779,342	810,630	804,060	799,952	799,952	881,245	940,718
Prepaid Expenses & Other Current Assets	155,143	194,071	201,982	193,551	191,796	193,491	193,491	197,426	199,467
Current assets	1,365,478	1,509,994	1,439,497	1,612,087	1,671,591	1,726,370	1,726,370	2,048,712	2,415,728
PP&E	185,772	193,999	190,166	197,431	204,462	211,174	211,174	238,341	260,322
Deferred Income Taxes	78,177	37,313	32,399	46,044	50,880	55,869	55,869	55,568	55,928
Investments	33,888	55,099	57,582	63,832	70,082	76,332	76,332	96,332	116,332
Goodwill and Other Intangible Assets	547,454	575,242	571,572	563,875	556,077	548,143	548,143	516,458	482,635
Deposits and Other Assets	112,148	127,506	135,489	131,616	127,743	123,869	123,869	116,413	110,413
Total Assets	2,322,917	2,499,153	2,426,705	2,614,885	2,680,834	2,741,757	2,741,757	3,071,824	3,441,358
	-	-	-	-	-	-	-	-	-
Accounts payable and accrued expenses	686,918	751,798	671,448	741,331	741,372	727,815	727,815	734,012	775,295
Other Expenses	86,597	53,869	61,691	53,127	53,322	55,074	55,074	54,697	57,928
Unearned Income	398,471	456,587	454,108	436,277	431,475	427,661	427,661	459,195	470,359
Revolver	-	-	34,741	34,741	34,741	34,741	34,741	34,741	34,741
Current Liabilities	1,171,986	1,262,254	1,221,988	1,265,476	1,260,910	1,245,292	1,245,292	1,282,644	1,338,323
HoldCo Term Loan	-	300,000	300,000	-	-	-	-	-	-
Term Loan B	1,971,855	1,970,000	1,935,696	1,901,896	1,901,896	1,901,896	1,901,896	1,868,896	1,835,896
Incremental Term B-1 Loan	-	174,563	141,652	91,652	91,652	91,652	91,652	91,652	91,652
Other Notes Payable	-	43	43	-	-	-	-	-	-
Unamortized Discount	-	(22,908)	(22,908)	(20,714)	(18,521)	(16,327)	(16,327)	(12,991)	(12,991)
Capital Leases	-	280	280	280	280	280	280	280	280
Deferred Tax Liabilities	9,866	11,616	16,000	18,130	21,545	25,034	25,034	46,485	46,786
Other Liabilities	138,806	162,349	156,249	157,891	157,574	157,627	157,627	154,589	155,591
Total Liabilities	3,292,513	3,858,197	3,749,000	3,414,611	3,415,336	3,405,455	3,405,455	3,431,555	3,455,537
Minority Interest	788	479	328	328	328	328	328	328	328
Shareholder's Equity	(970,384)	(1,359,523)	(1,322,623)	(800,054)	(734,830)	(664,026)	(664,026)	(360,059)	(14,507)
Total Liabilities and Equity	2,322,917	2,499,153	2,426,705	2,614,885	2,680,834	2,741,757	2,741,757	3,071,824	3,441,358

CASH FLOW	2011E	2012A	1Q13	2Q13	3Q13	4Q13	2013E	2014E	2015E
GAAP Net Income	240,327	176,631	48,156	27,394	60,674	66,254	202,493	285,766	326,169
Depreciation & Amortization	92,004	98,288	24,640	25,657	25,992	26,447	102,735	105,619	112,742
Amortization of Debt Issuance	30,016	4,637	2,875	2,299	2,299	2,299	9,773	3,306	-
Amortization of OID	-	4,600	-	2,194	2,194	2,194	6,581	3,336	-
Stock Based Compensation	14,130	25,926	4,473	4,550	4,550	4,550	18,123	18,200	19,383
Restructuring (payments) accrual and write-of	11,157	(936)	(492)	-	-	-	(492)	-	-
(Increase) Decrease in Deferred Income Taxes	(73,216)	16,595	11,164	(13,645)	(4,836)	(4,989)	(12,306)	301	(360)
(Increase) Decrease in OWC	45,303	31,332	(74,303)	69,751	1,989	(13,499)	(16,062)	1,885	42,473
(Increase) Decrease in Deposits and Other As	-	-	-	1,500	1,500	1,500	4,500	6,000	6,000
(Increase) Decrease in Unconsolidated Affiliat	(70,757)	(2,499)	1,683	74	74	74	1,905	(1,850)	-
Increase (Decrease) in DTLs	40,162	(13,120)	-	2,130	3,415	3,489	9,034	21,450	301
Increase (Decrease) in Other Liabilities	-	-	-	1,642	(317)	54	1,378	(3,039)	1,002
Change in accounts receivable, unbilled servic	(168,173)	(5,753)	(39,654)	(49,119)	1,769	295	(86,710)	(49,759)	(48,309)
Operating Cash Flow	160,953	335,701	(21,458)	74,426	99,303	88,668	240,954	391,214	459,402
(Capital Expenditures)	(75,679)	(71,336)	(31,459)	(25,225)	(25,225)	(25,225)	(107,134)	(101,100)	(100,900)
Restricted Cash Change	19,152	231	(1,077)	(6)	(6)	(6)	(1,094)	-	-
Proceeds from sale / (Purchases) of equity se	63,804	(17,770)	(4,317)	(6,250)	(6,250)	(6,250)	(23,067)	(20,000)	(20,000)
(Acquisitions)	(232,115)	(43,358)	659	-	-	-	659	-	-
Investing Cash Flow	(224,838)	(132,233)	(36,194)	(31,481)	(31,481)	(31,481)	(130,636)	(121,100)	(120,900)
IPO Proceeds	-	-	-	490,625	-	-	490,625	-	-
Share Repurchases	(13,210)	(9,897)	149	-	-	-	149	-	-
Dividends Paid	(288,322)	(567,851)	-	-	-	-	-	-	-
Term Loan B-2 Issuance (Repayment)	-	2,431,289	(34,304)	(33,800)	-	-	(68,104)	(33,000)	(33,000)
HoldCo Issuance (Repayment)	(1,712,673)	(1,995,472)	-	(300,000)	-	-	(300,000)	-	-
Incremental Term B-1 Loan	1,962,061	-	-	(50,000)	-	-	(50,000)	-	-
Other Notes Payable	41	465	-	(43)	-	-	(43)	-	-
Capital Lease Payments	(7,206)	(5,407)	-	-	-	-	-	-	-
Revolver Issuance (Repayment)	-	-	-	-	-	-	-	-	-
Other	-	-	196	-	-	-	196	-	-
Financing Cash Flow	(59,309)	(146,873)	(33,959)	106,782	-	-	72,823	(33,000)	(33,000)
FX Impact	(7,122)	(5,166)	(21,824)	-	-	-	(21,824)	-	-
Beginning Cash	646,615	516,299	567,728	454,293	604,020	671,843	567,728	729,045	966,159
Net Cash Flow	(130,316)	51,429	(113,435)	149,728	67,823	57,187	161,317	237,114	305,502
Ending Cash	516,299	567,728	454,293	604,020	671,843	729,030	729,045	966,159	1,271,661

Sources: Company data and Jefferies LLC

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Company Description

Quintiles Transnational provides biopharmaceutical development and commercial outsourcing services in the Americas, Europe and Africa, and the Asia-Pacific. The company operates in two segments—Product Development and Integrated Healthcare Services—and primarily serves biopharmaceutical companies, as well as other healthcare companies. It was founded in 1982 and is based in Durham, North Carolina.

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- ICON plc (ICLR: $35.94, BUY)
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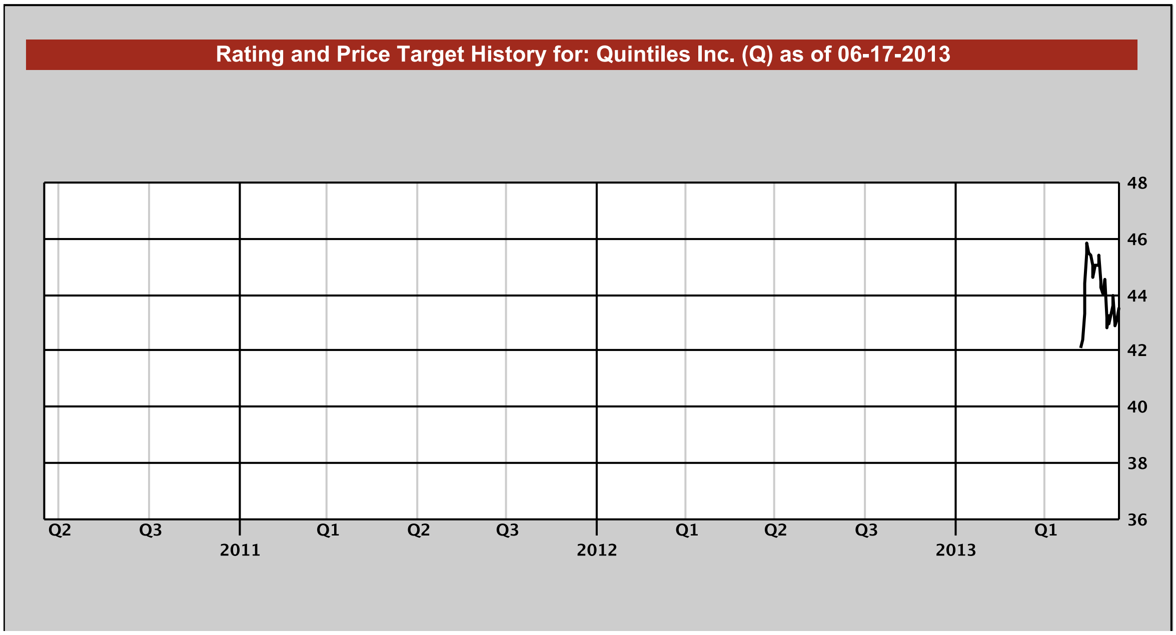

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
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HOLD	737	44.48%	98	13.30%
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