Morgan Stanley

Morgan Stanley alphawise evidence-based research

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Stock Rating
Overweight

Industry View
In-Line

Initiation

Quintiles Transnational

Top of the CRO Class; Initiate at Overweight with $51 PT

As the contract research organization (CRO) market leader with 11% share of clinical outsourcing, a diversified customer base and backlog visibility, we believe Quintiles is best positioned to benefit from the growth in biopharmaceutical R&D outsourcing.

Increasing biopharma outsourcing opportunity and modest R&D spending growth will support double-digit EPS growth over the next two years. We forecast EPS growth of 16.1% in 2014 and 12.2% in 2015, built on higher R&D spending growth of 1.8% annually (vs. 0.2% in 2012) and an incremental $5bn annual clinical outsourcing opportunity over the next 7 years. For more, see pages 6-10.

Growing prevalence of strategic partnerships should benefit Q's market share though margin impact is the key debate. As biopharma customers consolidate CROs, it plays to Q's strengths in scale, expertise, and geographic reach, as evident in Q's announcement of a 5-year partnership with Merck Serono post-IPO. Our March 2013 Alphawise survey points to a more positive CRO pricing environment, which should help offset potential associated margin pressure. For more, see pages 11-12.

Our $51 price target implies ~17% upside to current share price. We base our price target on a ~24x CY14 P/E, representative of the current multiple of CVD, which we view as Q's closest publicly traded analog. Our price target is in-line with our DCF valuation of $49, which assumes 1.8% terminal growth rate (reflecting R&D growth). Utilizing Morgan Stanley's 'What's in the Price' analyzer, we believe the market is underestimating Q's growth vs. peers, reaffirming our Overweight thesis.

Key risks to our PT include project cancellations, exclusion from strategic partnerships of existing customers, a delay in the clinical outsourcing trend, a slowdown in R&D spend, and greater than expected negative margin impact from strategic partnerships.

Key Ratios and Statistics

Reuters: Q.N Bloomberg: Q US
Healthcare Services & Distribution / United States of America

Price target	$51.00
Shr price, close (Jun 17, 2013)	$43.53
Mkt cap, curr (mm)	$5,170
52-Week Range	$46.40-41.78

Fiscal Year ending	12/12	12/13e	12/14e	12/15e
ModelWare EPS ($)	**1.77**	**1.84**	**2.14**	**2.40**
P/E	**-**	**23.6**	**20.4**	**18.1**

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
e = Morgan Stanley Research estimates

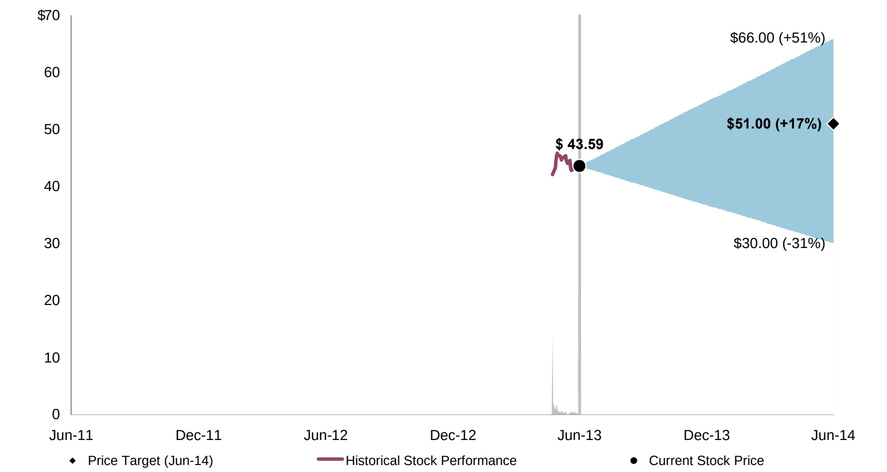
Quarterly ModelWare EPS

Quarter	2012	2013e Prior	2013e Current	2014e Prior	2014e Current
Q1	0.44	-	0.43a	-	0.53
Q2	0.47	-	0.44	-	0.54
Q3	0.45	-	0.48	-	0.53
Q4	0.41	-	0.49	-	0.54

e = Morgan Stanley Research estimates, **a** = Actual company reported data

Risk-Reward Snapshot: Quintiles (Q, $43.59, Overweight, PT $51)

Risk-Reward View: Strength in Late Stage Trials is Driver of Upside



Source: Thomson Reuters, Company Data, Morgan Stanley Research estimates

Price Target $51		We arrive at our PT of $51 using ~24x our 2014 EPS of $2.14. We base our P/E multiple on the current multiple of Covance (CVD), which is the most comparable publicly traded peer to Q. Our DCF analysis, using a 1.8% terminal growth rate in-line with long-term R&D growth, and Morgan Stanley's "What's in the Price" support our PT and rating.
Bull Case $66	26x Bull Case 14e EPS of $2.52	Product Development revenue growth accelerates to 5.9% y/y in 2013 and 11.0% y/y in 2014 as Quintiles gains share at a faster pace due to its geographic presence and ability to service more complex trials. Product Development margins expand to 18.8% in 2013 and 19.3% in 2014. IHS growth outlook is more optimistic, down 0.8% in 2013 and up 8.0% in 2014. IHS margins remain flat in 2013 at 6.3% and expand to 6.8% in 2014. The 26x multiple represents a 10% premium to our base case and is in-line with the multiple for Icon (ICLR), a smaller clinical CRO competitor with high-teens consensus earnings growth.
Base Case $51	24x Base Case 14e EPS of $2.14	Product Development revenues grow 4.4% y/y in 2013 and growth accelerates to 8% in 2014 as Quintiles continues to gain share in the clinical outsourcing market. Product Development margins expand 50 bps to 18% in 2013 and 33 bps to 18.3% in 2014. IHS revenues decline 2.3% in 2013 largely due to the FX impact of the weakening yen and reaccelerates to 6% in 2014.
Bear Case $30	16x Bear Case 14e EPS of $1.88	Product Development revenue growth slows to 3.5% y/y in 2013 and 5.0% y/y in 2014 as Quintiles growth is more in-line with market growth. Product Development margins remain roughly flat at 17.6% in 2013 and 17.7% in 2014. IHS revenues decline 3.6% y/y in 2013 and grow 3% in 2014. IHS margins decline to 4.9% in 2013 and expand to 5.3% in 2014. The 16x multiple is the average 3-year trough for CVD.

Why Overweight?

- A bellwether in the CRO space
- Positioned to benefit as biopharmaceutical companies increasingly outsource drug development work
- Strong backlog and diversified customer base provides relative visibility
- We forecast double digit earnings growth over the next 2 years

Key Levers in the Model

- ***Product Development***
  Sales Growth – ~2.0% increase in 2013 growth rates results in ~$0.04 increase in EPS
  Margins – ~50 bps of gross/ operating margin expansion in 2013 would result in an additional ~$0.07 increase in EPS
- ***Integrated Healthcare Services***
  Sales Growth – ~2.0% increase in 2013 growth rates results in a ~$0.01 increase in EPS
  Margins – ~50 bps of gross / operating margin expansion in 2013 would result in a ~$0.03 increase in EPS

Key Potential Catalysts

- Strategic partnerships with large pharma (+)
- Quarterly results with focus on backlog growth (+)
- Pharma consolidation (-)
- Tuck-in acquisitions (+)

Risks to our Price Target

- R&D market growth remains flat
- Project cancellations
- Quintiles loses share to competitors
- Strategic deals lead to pricing pressure and margin deterioration
- More than 50% private equity ownership of shares
- Lock-up expires Nov 2013

Investment Debate Summary

DEBATE	MARKET'S VIEW	OUR VIEW
How fast is R&D spending growing?	R&D spending has bottomed and should improve going forward.	**We estimate the R&D market will grow on average ~1.5% from 2013-2016**. We use MS global pharma and biotech team forecasts as a proxy to estimate R&D growth for the top 25 biopharmaceutical companies and extrapolate to the broader market. *Where we could be wrong:* R&D market could remain flat. Mega pharma consolidation could drive further rationalization of projects resulting in lower R&D spend.
What is the incremental outsourcing opportunity?	Pharmaceutical companies are increasing outsourcing as need to lower fixed cost structure and greater complexity of trials drives decision-making. Pace and magnitude of outsourcing remains the key question.	**We estimate the incremental outsourcing opportunity is ~$8bn and expect it to materialize over the next 7 years**. We use our Alphawise proprietary survey work to gauge biopharmaceutical companies interest in outsourcing opportunities and optimal target levels. Survey results point to 62% as target level of clinical development outsourcing versus current outsourcing at 51%. *Where we could be wrong:* Outsourcing opportunity takes longer to materialize (10 years vs. 7 years) as highlighted in our bear case.
What will be the impact of strategic partnerships on the competitive landscape and on pricing/margin structure?	Strategic partnerships are a double-edged sword. As partnerships become more prevalent, market is concerned with potential negative impact on margins as CROs tradeoff volume for price	**Quintiles' scale, expertise, and international expansion position it to grow share.** Over the last 7 years, pharmaceutical companies have consolidated provider relationships by entering into preferred and strategic partnerships with a select group of CROs. Over the next 5 years, we see potential for pharmaceutical companies to further consolidate from two to three CRO vendors to sole partnerships. Volume benefit is in most cases offset by pricing and margins. Degree of freedom to improve efficiency and levers on existing infrastructure should benefit the larger players. In addition, our channel checks point to potential stabilization in pricing. *Where we could be wrong:* Strategic partnerships have a greater than expected impact on contract pricing and negatively impact industry profitability.
What is the right valuation?	Q shares are currently trading at ~20.4x our estimated 2014 EPS, a 0.5% premium to publicly traded CRO peers.	**Q multiple is in line with the historical average group multiple.** As we expect underlying demand drivers to improve and given Quintiles market leadership position, we think Q shares will likely trade at a premium to its peers. We assign a ~24x multiple to our base case 2014e EPS, the current multiple for CVD. We assign a 26x multiple in our bull case. *Where we could be wrong:* Cancellations, share losses and margin deterioration could drive multiple contraction as assumed in our bear case multiple of 16x.

Investment Thesis

Company Snapshot

Quintiles is the largest global contract research organization (CRO) in the world. The company works with biopharmaceutical companies ranging from large pharma to biotech to manage their clinical trial work.*

** Contract research organizations (CROs) provide a range of outsourced research services on a contract basis to the biopharmaceutical industry.*

Business operating segments:

Product Development (75% revenues, 91% of profits): Provides outsourcing services in late stage clinical development work for major pharmaceutical and specialty / biotech companies.

Integrated Healthcare Services (25% revenues, 9% of profits): Broad range of services including commercial services, outcomes-based research, payer and provider services.

Exhibit 1

MS Financial Projections ($m)

	2011	2012	2013E	2014E	2015E
Revenues	$3,295.0	$3,692.3	$3,789.9	$4,074.2	$4,334.1
y/y growth		*12.1%*	*2.6%*	*7.5%*	*6.4%*
EBIT	$379.7	$415.2	$442.9	$517.0	$570.8
y/y growth		*9.4%*	*6.7%*	*16.7%*	*10.4%*
EBIT Margin	11.5%	11.2%	11.7%	12.7%	12.7%
Net Income	$191.0	$208.9	$235.6	$287.0	$324.9
y/y growth		*9.4%*	*12.8%*	*21.8%*	*13.2%*
EPS	$1.62	$1.77	$1.84	$2.14	$2.40
y/y growth		*9.5%*	*3.8%*	*16.1%*	*12.2%*

Source: Company Data, Morgan Stanley Research estimates

We are initiating coverage on Quintiles with an Overweight rating and price target of $51. As a bellwether in the CRO space and largest player in the clinical outsourcing market, we believe that Q can continue to gain share as R&D spending grows and biopharmaceutical companies increase outsourcing of drug development over the next 5-10 years. Strong backlog (up 11% y/y in 1Q13), a diversified global customer base (60% of revenues are ex US), strong presence in the Asia-Pacific region (22% of revenues), and an industry leading margin profile (300 bps better than peer median) provide greater earnings visibility compared to peers, and drives our forecast of double-digit EPS growth over the next two years. Our views are supported by results from the Alphawise CRO surveys we have been conducting over the last 3-years and forecasts from the global MS biotech and pharma teams.

R&D spending and increased outsourcing are the two key underlying CRO demand drivers growing at an estimated rate of 4-6% per year. On the heels of the 2012 patent cliff and with signs of improving productivity (measured by recent product approvals), we think biopharmaceutical R&D spend has reached an inflection point. Incorporating MS global pharma and biotech teams' estimates, we forecast R&D growth to pick up to ~1.8% in 2014-2016. We view investing in CROs and in Quintiles specifically as a lower-risk exposure to drug development and product approval.

Augmenting underlying R&D spend is the trend towards increased outsourcing as drug development companies are looking for ways to address increased complexity of trials and optimize time to market. We estimate the current outsourcing market amounts to ~$33.5bn growing at ~3.3% per year. More relevant for Quintiles is clinical outsourcing, the area seeing the most increase in spending. Based on our survey work, we identify an opportunity to grow clinical outsourcing spend from ~$25.6 billion to ~$30.6 billion over the next 7-years (Exhibit 2).

Exhibit 2

Incremental Outsourcing Opportunity – MS est.

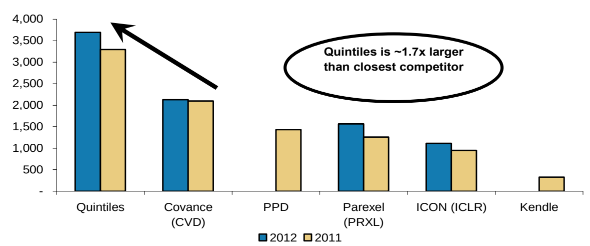
	Preclinical	Clinical	Total
Estimated Development Market*	16,306	49,431	65,737
Target outsourcing levels	*66.0%*	*62.0%*	*63.0%*
Addressable outsourcing market opportunity	10,766	30,639	41,405
Current outsourcing levels	*48.4%*	*51.8%*	*50.9%*
= $ Outsourced	7,894	25,595	33,490
Incremental Opportunity	**2,872**	**5,044**	**7,916**

Source: Company Data, Morgan Stanley Research estimates

Quintiles, the industry's bellwether, is well positioned to gain outsized share in a fragmented marketplace. While the CRO market is highly fragmented (5 largest players combined account for only ~30% market share) leaving room for many players to compete for the opportunity, with the emergence of preferred provider and strategic partnership agreements we believe larger CROs have an advantage in jockeying for share.

With ~$3.7-$3.8 billion in annual sales (as of 3/13) Quintiles top-line is ~1.7 times higher than its closest competitor (Covance, CVD, rated Equal-weight) (Exhibit 5). Moreover, the company has worked between 2004 to 2011, at some capacity, with 72% of all new NME/BLA approvals, has been involved with all of the top 20 drugs from 2011, and has worked with all of the top 20 biopharma companies in the past 10-years. With quality, credibility, and therapeutic know-how being critical factors in pharma's CRO selection process we think Quintiles' scale and scope of services will translate to share gains.

Exhibit 3
Q vs. Peers – Top line ($m)



Source: Company Data, Morgan Stanley Research

Exhibit 4
Q vs. Peers on Operating Margins

Company Operating Margins	2014E	2013E	2012	2011
Quintiles	12.7%	12.4%	12.1%	12.1%
Covance (CVD)	10.3%	9.4%	9.1%	10.3%
Parexel (PRXL)	NA	NA	7.5%	5.7%
ICON (ICLR)	NA	NA	6.1%	3.1%
Median	11.5%	10.9%	8.3%	8.0%

Source: Company Data, Morgan Stanley Research estimates

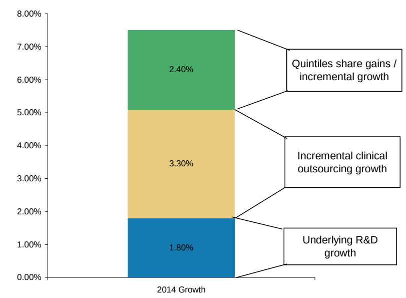
Strong backlog and diversified customer exposure provide visibility. Q's 1Q13 backlog of $8.95bn, up 10.7% y/y and 2.9% sequentially and increase of net new business of 18.4% and 27% y/y ($1.08bn) in core Product Development segment, point to continued momentum with customers.

Using Product Development segment historical revenues conversion rate of ~30% of previous year's backlog implies new business wins can translate to high single digits segment revenue growth over next 12-18 months providing us with greater conviction in our forecasts. We project 2013 revenues of $3,790m, up 2.6% y/y (or 5.6% on a normalized basis) and 2014 revenues of $4,074m, up 7.5% y/y.

Cancellations, share losses, and pricing represent risks to our investment thesis. While outsized cancellations and trial delays could drive stock volatility in any given quarter, historically the correlation ($R^2 \sim 0.4$) between cancellations in a quarter and adjusted EBIT growth in the following quarter has been low. As such, we would view cancellations/delays as potential buying opportunities.

…Translating to double-digit earnings growth over the next two years, based on our estimates. Our 2014 EPS estimate of $2.14 represents 16.1% y/y growth. In 2015, we model an EPS of $2.40, up 12.2% y/y.

Exhibit 5
Quintiles Top line Growth Drivers



Source: Company Data, Morgan Stanley Research estimates

Our price target of $51, ~17% above current share price, is based on a ~24x multiple applied to our 2014 EPS estimate of $2.14. A ~24x multiple represents the current multiple of Covance (CVD), Quintiles closest peer. While a 20 "plus" multiple is at a premium to both the market and to the rest of our coverage universe (except for HCIT stocks), historically, for the last 1-year, 3-year, 5-year, and 10-year period, the CRO group had consistently traded at an average multiple of 20x or higher. As we expect industry fundamentals to improve, we see reason to believe valuations will be consistent with historical levels. DCF based valuation implies $49 per share supporting our price target. Finally, utilizing MS' 'What's in the Price' analyzer, we believe the market is underestimating Q's growth vs. peers, reaffirming our OW view.

Our **bull case** valuation of $66 is based on a 26x multiple, a 10% premium to our base case, applied to our bull scenario 2014 EPS of $2.52. Our **bear case** valuation of $30 is based on a 16x multiple, CVD's average trough multiple over the past 3-years, applied to our 2014 bear case EPS of $1.88.

Exhibit 6
CRO Industry Comparables

TKR	Name	Current Price	MS Rating	Mkt Cap ($bn)	Ent. Value	CY EPS '13E	CY EPS '14E	CY P/E '13E	CY P/E '14E	CY EPS Y-Y % Δ '13E	CY EPS Y-Y % Δ '14E
CVD	Covance	$78.43	EW	$4.4	$4.3	$3.12	$3.64	25.0x	21.3x	15.6%	16.7%
ICLR	ICON Public Limited	$35.94	NR	$2.2	$2.0	$1.54	$1.85	23.0x	19.2x	60.3%	20.3%
PRXL	Parexel International	$46.74	NR	$2.7	$2.8	$1.70	N/A	28.6x	N/A	39.0%	n/a
CRL	Charles River	$42.70	EW	$2.1	$2.7	$2.81	$3.03	15.4x	14.3x	2.5%	8.0%
Q	**Quintiles**	**$43.59**	**OW**	**$5.7**	**$7.6**	**$1.84**	**$2.14**	**23.7x**	**20.4x**	**3.8%**	**16.1%**

Source: Thomson Reuters, Company Data, Morgan Stanley Research estimates; EW=Equal-weight; NR=Not Covered

Debate 1: How Fast is R&D Spending Growing?

Market's view: R&D spending has bottomed and should improve going forward.

Our view: We estimate the R&D market will grow on average ~1.5% from 2013-2016. We use MS global pharma and biotech team forecasts as a proxy to estimate R&D growth for the top 25 biopharmaceutical companies and extrapolate to the broader market.

Where we could be wrong: R&D spending could remain flat. Mega pharma consolidation could drive further rationalization of projects resulting in lower R&D spend.

R&D spending is at an inflection point. Post the 2012 patent cliff and with recent signs of improved productivity (measured by FDA approvals), biopharmaceutical companies have now greater visibility and are more likely to execute and push forward clinical project work.

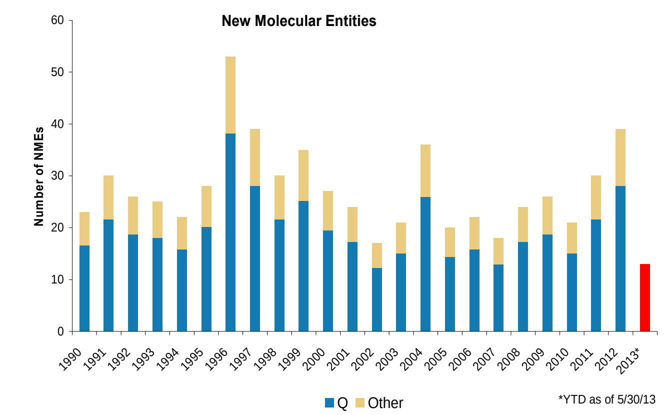
We forecast R&D spending to grow at ~1.8% y/y in 2014 to 2016, up from only ~0.2% growth in spending in 2012. Our forecasts are based on our MS global biotech and pharma team projections for the top 25 biopharma companies (by sales) representing ~80% of total R&D spend. Applying this growth rate to the overall market, we estimate global R&D dollars will amount to $116.2 billion by 2016, up from an estimated $109.5 billion in 2012. We base our R&D market size baseline estimate on publicly available historical data from ~786 global biopharmaceutical companies. *Of note, our growth rate estimate may be at the low end of the range. As the top 25 companies we reference may grow at a slower rate than some of the smaller / emerging players, causing us to underestimate the overall R&D market growth.*

Within R&D budgets, we estimate that ~37% or $41 billion, is allocated towards clinical development. Of total R&D budgets, 60% of dollars spent are allocated to development work, which can be outsourced to CRO. Based on our analysis of compounds in the pipeline we estimate 62% of these development dollars would be allocated towards Phase I to IV clinical work, which is the relevant market opportunity for Quintiles and its direct peers. The remainder of spend is allocated towards Preclinical work. For detailed breakdown, see Exhibit 9.

Pipeline data supports improved trends… (Exhibit 7). As of end of 2012, 4,028 drugs in Phase I-III were registered with the FDA, up 18% from 2008. Quintiles, which historically (2004-2011) participated in 72% of all new NMEs/BLA (biologic license application) is likely to benefit from the trend.

Exhibit 7

Historically, Q Participates in Majority of NMEs

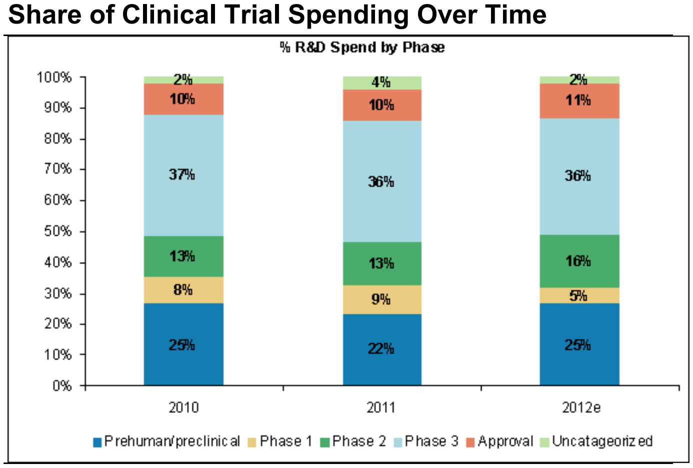


Source: FDA, Company Data, Morgan Stanley Research

…as does an increase in Phase II spending. As highlighted in Exhibit 8, spending on Phase II trials has increased to 16% of spend in 2012, up from 13% in 2010 and 2011**.** We view this relative growth as a leading indicator for Phase III spend levels in the next 2-3 years. As Phase III trials are typically larger and therefore more costly than Phase II, we view this as a potential driver of upside to the outsourcing opportunity.

Exhibit 8

Share of Clinical Trial Spending Over Time



Source: PhRMA, Company Data, Morgan Stanley Research

The recent pick up in drug approvals further supports our thesis. In the last 18 months (thru 5/30/13), 48 new molecular entities (NME) received FDA approval, up 60% from 2011 levels (30 NME approvals). This step up in approvals serves as validation of improved productivity and as such, is likely to support biopharmaceutical companies spending decisions.

Exhibit 9

Global R&D Market Growth

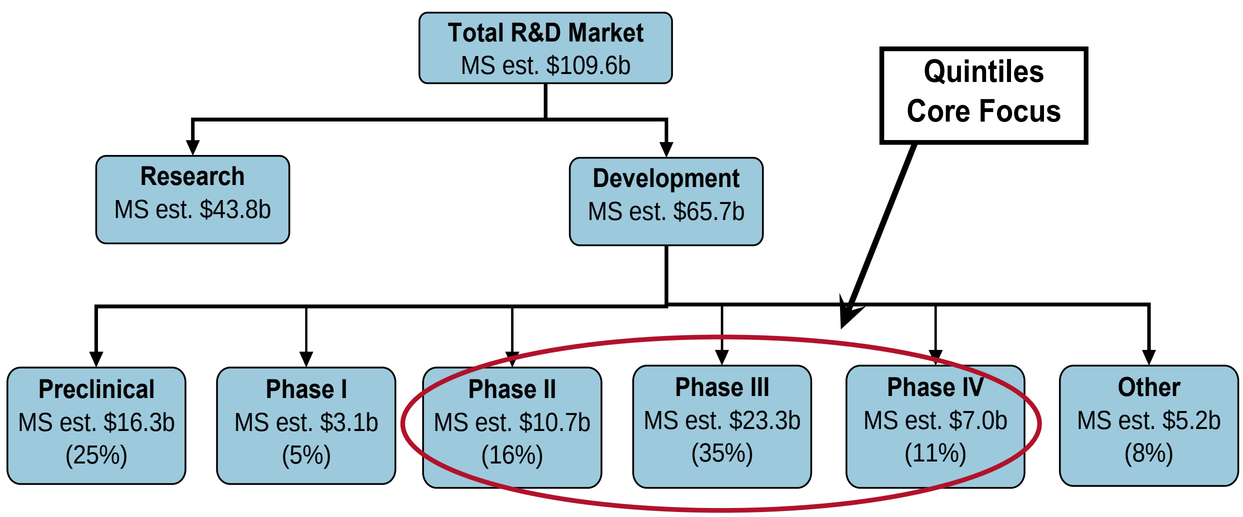
Constant FX ($ millions)	2012e	2013e	2014e	2015e	2016e
Top 25 Pharma Companies*					
Sales	571,277	586,232	602,379	622,550	645,882
y/y growth	*-1.4%*	*2.6%*	*2.8%*	*3.3%*	*3.7%*
R&D Spend	87,448	87,902	89,504	91,113	92,751
y/y growth	***0.2%***	***0.5%***	***1.8%***	***1.8%***	***1.8%***
R&D as % of Sales	15.3%	15.0%	14.9%	14.6%	14.4%

*Top 25 based on revenues: NOVN, ROG, PFE, MRK, JNJ, LLY, ABT, SAN, BMY, Takeda Pharma, AMGN, Astellas Pharma, Daiichi Sankyo, GSK, BAYG, Otsuka Holdings, Eisai, AZN, NOVO, GILD, BIIB, CELG, MRCG, TEVA, AGN

Source: Company Data, Morgan Stanley Research estimates

Exhibit 10

R&D Market Breakdown



Source: Company Data, Morgan Stanley Research estimates, PhRMA, clinicaltrials.gov

Debate 2: What Is the Incremental Outsourcing Opportunity?

Market's view: Pharmaceutical companies are increasing outsourcing as a means to manage their fixed cost structure and the greater complexity of clinical trials, and accelerate time to market.

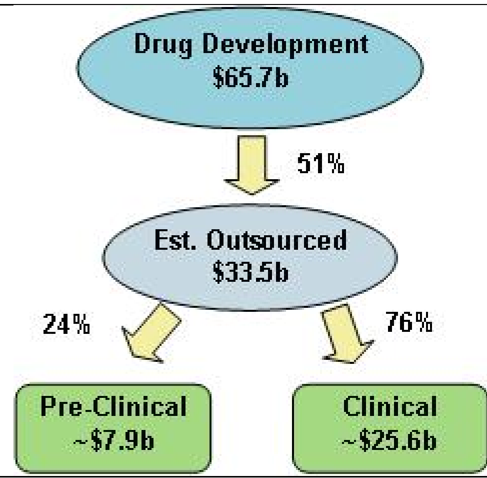
Our view: We estimate the incremental outsourcing opportunity to be ~$8bn and to materialize over the next 7 years. We use our Alphawise proprietary surveys of biopharmaceutical executives to assess optimal levels of outsourcing goals.

Where we could be wrong: Timing of outsourcing decisions may take longer to materialize.

Based on our Alphawise surveys, we estimate the current outsourcing market is ~$33.5 billion, or 51% of the total ~$65.7 billion pharmaceutical development market. According to biopharmaceutical executives we have surveyed over the past 3-years, we estimate that ~76% ($25.6 billion) of outsourcing dollars are spent on the clinical side (Phase I – Phase IV), benefitting players such as Quintiles, Covance, Parexel, and Icon. The remainder of outsourcing dollars, ~$7.9 billion, are allocated to the preclinical side benefiting companies such as Covance and Charles River.

Looking ahead, we estimate the outsourcing opportunity will grow by an incremental ~$8 billion split between Clinical ($5bn or 65%) and Preclinical ($3bn or 35%). Based on our Alphawise surveys, biopharmaceutical executive respondents estimate target-outsourcing levels at ~62% of clinical spending (vs. 52% currently) and ~66% of preclinical spending (vs. 48%) (See Exhibit 12). Using these figures, we estimate the incremental outsourcing opportunity for the clinical side, relevant for Quintiles is ~$5 billion (see Exhibit 13).

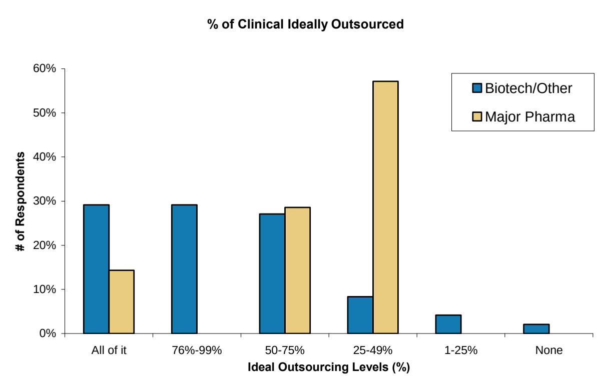
Exhibit 11
Current Clinical and Preclinical Outsourcing Market



Source: Company Data, Morgan Stanley Research estimates

Timing of incremental opportunity is more difficult to predict. In our base case scenario, we estimate that it will take approximately 7 years for the incremental $8bn outsourcing opportunity to materialize, translating to a 3.3% annual outsourcing growth rate. Combined with our expectations for the R&D market, we expect the CRO industry to grow at an aggregate average rate of 4.8%.

Exhibit 12
"Ideally, what % of your Clinical Development can be outsourced?"



Source: Alphawise, Morgan Stanley Research

Exhibit 13

Incremental Outsourcing Opportunity – MS est.

	Preclinical	Clinical	Total
Estimated Development Market*	16,306	49,431	65,737
Target outsourcing levels	*66.0%*	*62.0%*	*63.0%*
Addressable outsourcing market opportunity	10,766	30,639	41,405
Current outsourcing levels	*48.4%*	*51.8%*	*50.9%*
= $ Outsourced	7,894	25,595	33,490
Incremental Opportunity	**2,872**	**5,044**	**7,916**

Source: Alphawise, Morgan Stanley Research estimates

In our bull case scenario, we estimate that it will only take 5 years for the incremental outsourcing opportunity to materialize, representing a 4.7% annual growth rate. Combined with our R&D market expectations, under this scenario the CRO industry is poised to grow at an aggregate rate of 6.2%.

In our bear case scenario, we estimate that it takes 10 years before the incremental outsourcing opportunity materializes, representing a 2.2% growth rate. Combined with our R&D market expectations, under this scenario the CRO industry is poised to grow at an aggregate rate of 3.7%.

Survey respondents expect clinical outsourcing to grow at a faster rate than our market forecast. Our March 2013 Alphawise survey indicates that 77% of respondents expect clinical outsourcing spend to increase in 2013, 16% expect it to stay the same, and only 7% expect a decline. Respondents on average expect clinical outsourcing to increase ~5.8% in 2013 ahead of our market forecasts. 85% of respondents representing large pharmaceutical companies expect to see an increase in outsourcing spend vs. 73% of biotech/specialty. No major pharma respondents expect to see clinical spend decline vs. 10% of biotech/specialty.

Exhibit 14

Major Pharma Clinical Outsourcing Spend Expected to Increase

Clinical Outsourcing Spend 2013 vs. 2012:			
	Total	**Major Pharma**	**Biotech/ Specialty**
Increase	77%	85%	73%
Increase between 6 to 10%	8%	0%	0%
Stay the same	16%	15%	17%
Decrease	7%	0%	10%
Count	43	13	30

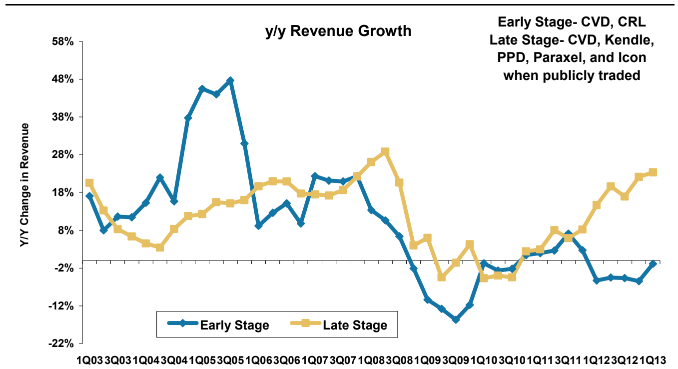
Source: Alphawise, Morgan Stanley Research

Clinical outsourcing has become a more attractive opportunity than the preclinical market, potentially explaining the difference between our market forecast and responses to our Alphawise survey**.** While biopharmaceutical companies responding to our survey said they could hypothetically outsource an additional ~18% of their preclinical development dollars, we believe that some of the opportunity referred to by respondents is related to discovery work, an area which has not been previously outsourced. Thus, it may take longer for the preclinical opportunity to materialize. Additionally, in recent years, pharmaceutical companies have put more emphasis on clinical spend and as such, the preclinical opportunity may be more challenged than our analysis implies. Quintiles is well-positioned to benefit from the near-term momentum in late stage demand from biopharmaceutical clients due to its market leadership in the space.

Trends picked up by our survey are mirrored by public CROs financial performance. As shown in Exhibit 15, early stage and late stage revenue growth, reported by the publicly traded CROs, diverged in 3Q11. Since then, early stage revenue growth has on average declined while late stage continues to grow.

Exhibit 15

Positive Momentum in Late Stage Growth

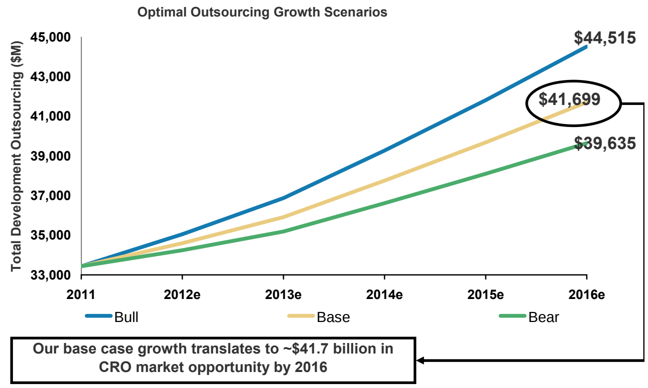


Source: Company Data, Morgan Stanley Research

Quintiles is in a good position to tap into this market opportunity. We estimate Q currently represents ~11% of the $25.6 billion clinical CRO market**.** Overall, the CRO market is relatively fragmented, with the top 7 clinical CROs representing ~35% market share. We think that over time, as demand for more complex trials in global markets increases, biopharma clients will favor CROs with a larger global footprint and broader array of services. Quintiles is well-positioned to benefit from this trend.

Net-net, Q has potential revenue upside of ~$550m if it were to maintain its market share of the ~$5bn incremental clinical outsourcing opportunity, or ~$80m in growth annually with further upside if management is successful in capturing greater share.

Exhibit 16
Outsourcing Growth Opportunity



Source: Company Data, Morgan Stanley Research estimates

Exhibit 17
Market Share of Clinical CRO

Company	Ticker	Revenues*($M)	% Mkt Share
Quintiles	Q	$2,729	10.7%
Covance	CVD	$1,311	5.1%
Parexel	PRXL	$1,565	6.1%
PPD	Private	$1,429	5.6%
ICON	ICLR	$1,115	4.4%
Other		$17,451	68.2%
Clinical CRO Market		$25,600	100.0%

* Based on 2012 revenues or annualized data from 2011 for companies that were not public in 2012. Source: Company Data, Morgan Stanley Research

Clinical Trials Primer

Quintiles services are focused on clinical trials in Phase II-IV.

In Phase II, a new drug is tested on sick patients. Size and duration of Phase II trials vary by disease category. Tests for safety and efficacy in this phase increase in complexity and can run numerous treatment arms for an average duration of two years at an estimated average cost per patient of ~$36,000. Based on number of Phase II trials currently registered with the FDA, we estimate Phase II trials amount to $10.7 billion in spend accounting for 16% of total development dollars and for ~24% of clinical development dollars.

Phase III trials represent the final phase prior to application for FDA approval. Average duration of Phase III trial is 3 years with enrollment depending on the specific trial, ranging from 300-3,000 patients. According to our channel checks, the average cost per patient enrolled in a Phase III trial is ~$47,000, with cost varying by disease and geography. Thus, based on the number of Phase III trials currently registered with the FDA, we estimate Phase III trials amount to $23.3 billion in spend accounting for 36% of total development dollars and ~53% of clinical development.

Phase IV is the post approval process. The FDA may require auxiliary trials to test different capacities of a drug or long-term side effects. This is the most variable phase with an industry average cost/patient of $17,000, enrollment anywhere from 50 to +500 patients, and variable duration. Thus, based on the number of Phase IV trials currently registered with the FDA, we estimate Phase IV trials amount to $7 billion in spend accounting for ~10% of total development spend and ~16% of total clinical development

Debate 3: What Is the Impact of Strategic Partnerships?

Market's view: Strategic partnerships are a double-edged sword with some CROs at risk to lose share while winners' margins will compress.

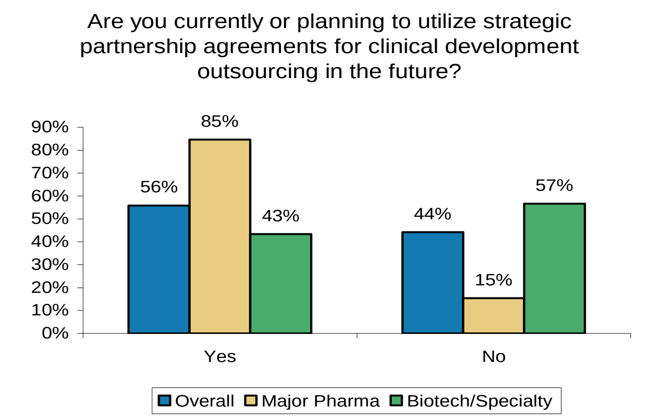
Our view: Over the last 7 years, pharmaceutical companies have consolidated provider lists by entering into preferred and strategic partnerships with a select group of CROs. Over the next 5 years, we see potential for pharmaceutical companies to further consolidate from two to three CRO vendors to sole partnerships**.** Volume benefit is in most cases offset by pricing and margins. Degree of freedom to improve efficiency and levers on existing infrastructure should benefit the larger players. In addition, our channel checks point to potential stabilization in pricing.

Where we could be wrong: Partnerships may lead to industry margin deterioration or Quintiles may lose share if excluded from large agreements.

The term strategic partnership encompasses a broad range of alliances between pharmaceutical clients and CROs. Relationships range from ten-year sole strategic commitments aligning sponsor and CRO interests/incentives. Examples include the recent partnerships between Quintiles/ Merck Serono and the Covance/Sanofi deal announced last year. Preferred provider agreements typically include more participants (2 to 3 CROs) and cover a shorter period of time of 3 to 4 years. On the other end of the range is the functional outsourcing agreement between Pfizer, Icon, and Parexel representing a strict price for volume type of arrangement**.**

Our March 2013 Alphawise survey of 43 clinical outsourcing decision makers highlights the growing prevalence of these types of agreements especially among the larger pharmaceutical companies. ~56% of survey respondents focused on clinical outsourcing said they either currently utilize or are planning to utilize strategic partnerships for clinical outsourcing in the future. Breakdown of respondents by type of organization highlights difference between sponsor groups. The majority (85%) of large pharma respondents said they currently utilize or plan to utilize strategic partnerships. This compares to only 43% of respondents representing specialty and biotech sponsors.

Exhibit 18
Strategic Partnerships Utilization by Sponsor Type



Source: Alphawise, Morgan Stanley Research

Exhibit 19
Recent Q Strategic Partnerships

Quintiles Partnership	Announce Date	Details
Takeda	2/17/2011	Global program; Access to clinical and central lab services of both Covance and Quintiles
Bristol-Myers Squibb	4/11/2013	Preferred provider for central lab work, biomarker testing, and assay development
Merck Serono	5/15/2013	5-yr clinical development agreement

Source: Company Data, Morgan Stanley Research

Exhibit 20
Industry Strategic Partnerships

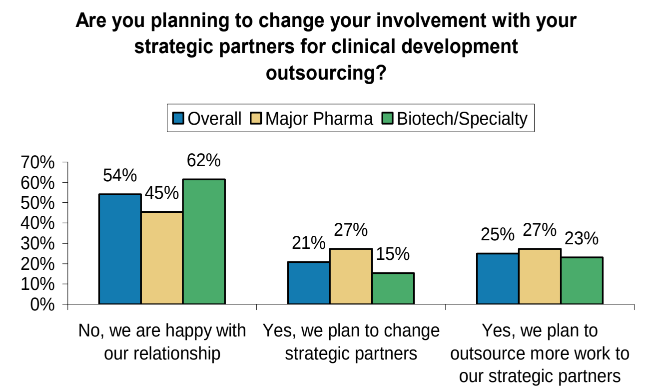
CVD	PRXL	ICLR	PPD	PRA
Lilly	Lilly	Pfizer	Merck	UCB
BMY	Pfizer	Lilly	GSK	
Sanofi	GSK	BMY	Elan	
Takeda	BMY	Shire		
Otsuka	UCB			
Merck	Merck			
Bayer				

Source: Company Data, Morgan Stanley Research

Share shifts likely to emerge over time as not all sponsors are happy with existing relationship. Over a quarter (27%) of respondents from major pharma said they are planning to change strategic partners. 15% of respondents representing specialty and biotech sponsor had a similar view. This response rate highlights one of the potential risk factors associated with investing in Q, a scenario where Quintiles may lose an existing relationship.

Separately, 25% of survey respondents are planning to outsource more work to their partners. As strategic partnerships in the space become more entrenched in the industry, biopharma companies are looking to outsource more work to their partners.

Exhibit 21
Respondent Satisfaction with Strategic Partnership Arrangements



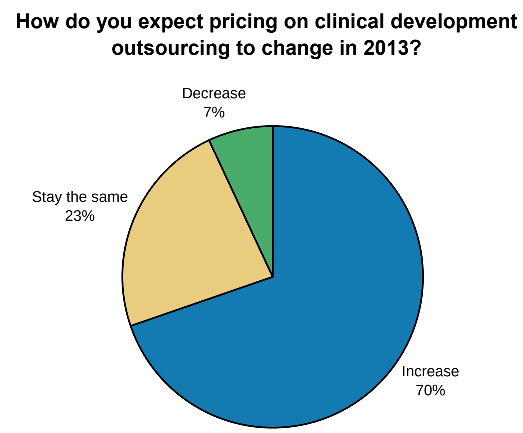
Source: Alphawise, Morgan Stanley Research

Volume versus Price: Are agreements a double-edged sword? As preferred provider deals become more prevalent, industry operating margins have come under scrutiny. Most notable was Pfizer's agreement with Icon and Parexel, which we estimate had a negative impact of ~300-400 bps on each of the two CRO's margins in its first year.

Degree of freedom to improve efficiency and levers on existing infrastructure become an important differentiator, benefiting the larger players such as Quintiles that is more likely to leverage its size to reduce spending on corporate overhead. In addition, Quintiles presence in Asia provides it with some advantage and opportunities to shift costs.

And the good news… Pricing environment is expected to improve. Our 2013 Alphawise survey highlights sponsors are anticipating price increases. 70% of respondents said they expect pricing to increase by an average ~4.5% this year. Respondents views on pricing point to, at a minimum, a more stabilized pricing environment which, if materialized, should help drive operating margins expansion for the group.

Exhibit 22
Clinical Development Pricing Expected to Increase



Source: Alphawise, Morgan Stanley Research

Debate 4: What is the Right Multiple to Value Quintiles Shares?

Market's view: Quintiles is currently trading at ~20.4x our estimated 2014 EPS, a ~0.5% premium to publicly traded CRO peers.

Our view: Q multiple is in-line with the historical average group multiple. As we expect underlying demand drivers to improve and given Quintiles market leadership position, we think Q shares will likely trade at a premium to its peers. We assign a ~24x multiple to our Base case 2014e EPS, the current multiple for CVD. We assign a 26x multiple in our Bull case.

Where we could be wrong: *Cancellations, share losses and margin deterioration, if they materialize, will drive multiple contraction as assumed in our Bear case multiple of 16x.*

Quintiles is currently trading at ~20.4x our CY14 estimates, a ~0.5% premium to what we view as the most relevant publicly traded clinical CRO peers. Our comp group of Covance (CVD), Parexel (PRXL), and Icon (ICLR) currently trade at an average of 21.5x CY14 consensus estimates, ranging from ICLR at 19.2x to PRXL at 24.0x (Exhibit 26).

…**In line with historical averages**. While a 20 "plus" multiple is at a premium to both the market and to the rest of our coverage universe (except for HCIT stocks), historically, for the last 1-year, 3-year, 5-year, and 10-year period, the CRO group had consistently traded at an average multiple of 20x or higher as highlighted in Exhibit 25. Over the last 3-years the group on average has traded at a 21.4x 1-year forward earnings multiple. Over the last 10 years the group has traded at an average ~22.6x multiple. As we expect industry fundamentals to improve, we see reason to believe peer group valuations will be consistent with historical levels. More specifically to Quintiles, given the company's market positioning, we believe Q shares should trade at a premium to the group.

Base case valuation. We assign a base case valuation / price target of $51, a ~17% premium to current share price, by applying a ~24x multiple to our base 2014 EPS estimate of $2.14. The ~24x multiple represents the current multiple for Covance, the peer we believe is most closely aligned with Quintiles.

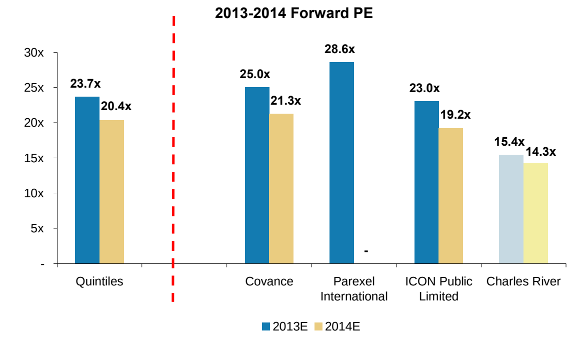
Bull case. Our bull case valuation of $66 is based on applying a 26x multiple to our bull case 2014 EPS of $2.52. The 26x multiple represents a 10% premium to our base case and CVD's multiple and in-line with PRXL's multiple. Our bull case valuation of $66 represents ~51% upside to current share price

Bear case. We arrive at a bear case valuation of $30 by applying a 16x multiple to our bear case 2014 EPS of $1.88. The 16x multiple is CVD's average trough multiple over the last 3-years. Our bear case represents ~31% downside from current share price.

Risks to Our Price Target. We highlight 3 company specific risks to our Quintiles price target of $51, including (1) *Cancellations, (2) share losses as a result in changes to preferred agreements, and (3) margin deterioration*. Other risks that are industry related include another step down in R&D spending potentially through large industry consolidation and more dampened uptick in outsourcing.

Exhibit 23

Q vs. Peers on P/E Multiple



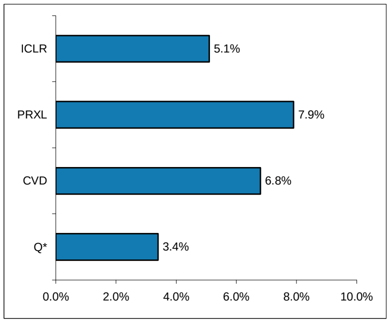
Source: Company Data, Thomson Reuters, Morgan Stanley Research estimates

What's in the Price? We use Morgan Stanley's What's in the Price analyzer to compare the implied terminal earnings growth rates between Quintiles and other CROs. The implied terminal growth rate is calculated using a residual income formula based on the last reported book value and consensus mean EPS and dividend forecasts of comparables and MS estimates of Quintiles.

Current share prices imply long-term growth of 3.4% for Q, below the ~6.6% average implied growth of its publicly traded clinical CRO peers. We therefore think that the market is undervaluing Q's growth potential, supporting our Overweight rating. Our DCF analysis arrived at a valuation of $49 versus our $51 price target using P/E multiples.

Exhibit 24

Current Valuations Implies Below-Peer Growth for Q



*Q long-term growth rate based on MS estimates instead of consensus

Source: Thomson Reuters, Company Data, Morgan Stanley Research estimates

Exhibit 25

CRO Historical P/E Multiples 1-Year Forward

P/E		Average			Peak			Trough		
FY1	Current	Last 3 yrs	Last 5 yrs	Last 10 yrs	Last 3 yrs	Last 5 yrs	Last 10 yrs	Last 3 yrs	Last 5 yrs	Last 10 yrs
CVD	25.0x	20.1x	20.0x	22.5x	26.1x	30.6x	36.2x	15.9x	11.1x	11.1x
PRXL	28.6x	21.4x	19.6x	22.6x	28.8x	33.6x	34.3x	14.5x	7.2x	7.2x
ICLR	23.0x	22.8x	21.1x	22.7x	38.6x	38.6x	38.6x	13.2x	10.5x	10.5x
Industry Avg	25.5x	21.4x	20.2x	22.6x	31.2x	34.3x	36.4x	14.5x	9.6x	9.6x

Source: Thomson Reuters, Company Data, Morgan Stanley Research

Exhibit 26

CRO Historical P/E Multiples 2-Years Forward

		Average			Peak			Trough		
FY2	Current	Last 3 yrs	Last 5 yrs	Last 10 yrs	Last 3 yrs	Last 5 yrs	Last 10 yrs	Last 3 yrs	Last 5 yrs	Last 10 yrs
CVD	21.3x	17.1x	17.0x	19.0x	21.8x	25.5x	30.0x	13.7x	9.7x	9.7x
PRXL	24.0x	16.9x	15.7x	18.1x	24.2x	26.5x	26.7x	11.6x	5.8x	5.8x
ICLR	19.2x	15.7x	15.7x	17.5x	20.8x	27.6x	28.2x	12.0x	9.1x	9.1x
Industry Avg	21.5x	16.6x	16.1x	18.2x	22.3x	26.5x	28.3x	12.4x	8.2x	8.2x

Source: Thomson Reuters, Company Data, Morgan Stanley Research

Exhibit 27

DCF Valuation

Current Price	$43.59
DCF Valuation	$49

Multiples	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
EPS (MS estimate)	$1.37	$1.62	$1.77	$1.84	$2.14	$2.40
Y/Y growth rate		18%	10%	4%	16%	12%
P/E	32	27	24.6	24	20	18
FCF yield	0%	0%	0%	5%	5%	6%
EV/EBITDA	16.7	15.8	14.2	13.5	12.5	11.4

DCF Valuation	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
EBITDA	462.76	490.42	543.72	574.23	621.52	680.18
Less: Capex	-80.24	-75.68	-71.34	-105.88	-99.32	-104.02
Less: Increase in NWC	103.30	-82.71	12.46	-11.01	-9.90	10.10
Operating FCF - Pretax	485.82	332.04	484.84	457.33	512.30	586.27
Taxes on EBIT	-147.27	-132.88	-145.31	-155.00	-180.94	-199.76
Operating FCF - After Tax	338.55	199.16	339.53	302.33	331.36	386.50
PV of FCF	393.37	216.47	345.24	287.58	294.86	321.73

Discounted Cash Flow (DCF)	
WACC Applied (%)	6.9%
Terminal Growth Rate (%)	**1.8%**
Discounted Net Cash Flow	**904**
Terminal Value	7,741
Discounted Value of Terminal Value	**6,890**
Terminal Value as % of total	88.4%
Firm Value	**7,795**
Gross Debt	2,390
Cash/Marketable Securities	454
Equity Value	**5,859**
Shares Outstanding (millions)	118.7
Equity Value per Share ($)	**$49**

WACC Calculation	
Beta	1.13
10-year Bond yield (risk-free rate)	2.0%
Equity Risk Premium	5.5%
Cost of Equity	**8.2%**
Cost of Debt (before tax)	5.9%
Cost of Debt (after tax 32.7%)	**4.0%**
Total Equity Market Value	68%
Total Debt	32%
WACC	**6.9%**

Source: Company Data, Morgan Stanley Research estimates

What's Changed Since the IPO

March quarter earnings. On 5/14 Quintiles filed a 10-Q detailing March quarter financial results. Reported service revenue of $927.4 million were up 4.4% y/y (-2.0% sequentially). Tailwinds in the quarter included +5.6% organic growth and +0.7% from 2012 acquisition of Expression Analysis, which enhanced genetic sequencing and advanced bioinformatics expertise, offset by a –1.9% currency headwind.

Adjusted EBIT of $118 million was up 11.3% y/y (3.3% sequentially). Adjusted EBIT Margin of 12.8% was up 80 bps y/y (70 bps sequentially) driven by Product Development gross margins, which were up 90 bps y/y (60 bps sequentially).

EPS of $0.43 was down $0.01 y/y (up $0.02 sequentially).

A strategic partnership with Merck Serono, the biopharmaceutical arm of Merck. The five-year clinical development agreement creates a strategic alliance where Quintiles directs the clinical trial design and execution strategies while Merck Serono shapes and leads the strategy of its clinical development programs.

Ownership. Post-IPO top 4 shareholders own ~64.8% of outstanding shares. Key owners include Bain Capital (18.6%), TPG (17.5%), followed by founder Dennis Gillings (16.5%), and 3I Group (12.3%). Exhibit 28 gives a detailed breakout of the top 10 shareholders of Quintiles by size of ownership.

Exhibit 28

Quintiles Public Float Remains Low

Quintiles Shareholders	% ownership
Bain Capital	18.6
TPG Group	17.5
Dennis Gillings	16.5
3i Group	12.3
Temasek Holdings	6.4
GF Investment Associates	2.1
Aisling Capital	1.4
Interfund Advisory Co	0.3
Derek Winstanly	0.3
John Ratliff	0.2
Top 10	75.8

Source: Bloomberg, Company Data, Morgan Stanley Research

Financial Projections

June Quarter Estimates. We forecast 2Q13 service revenues of $938.1 million, down 0.7% y/y due to challenging y/y comp. We forecast adjusted EBIT of $113.6 million, down 0.8% y/y. Adjusted EBIT margin of 12.1% remains flat y/y. We forecast EPS of $0.44.

For FY13, we model service revenue growth of 2.6% comprised of 4.4% growth in Product Development and -2.3% growth in IHS, with currency a ~1% headwind for Product Development and a 5.8% headwind for IHS, mostly from a weakening Yen. In 2014 we model revenue growth of 7.5% y/y, consisting of 8% growth in Product Development and 6% in Integrated Healthcare Services, followed by 6.4% growth in 2015 comprised of 6.5% and 6.0% growth in Product Development and Integrated Healthcare, respectively.

We model operating margin expansion of ~44 bps to 11.7% in 2013, 100 bps to 12.7% in 2014 and 50 bps to 13.2% in 2015. The result is an estimated EPS of $1.84 in 2013 (3.8% growth y/y), $2.14 in 2014 (16.1% growth) and $2.40 in 2015 (12.2% growth).

Exhibit 29

MS Estimated Financial Projections

	2011	2012	2013E	2014E	2015E
Revenues	$3,295.0	$3,692.3	$3,789.9	$4,074.2	$4,334.1
y/y growth		*12.1%*	*2.6%*	*7.5%*	*6.4%*
EBIT	$379.7	$415.2	$442.9	$517.0	$570.8
y/y growth		*9.4%*	*6.7%*	*16.7%*	*10.4%*
EBIT Margin	11.5%	11.2%	11.7%	12.7%	13.2%
Net Income	$191.0	$208.9	$235.6	$287.0	$324.9
y/y growth		*9.4%*	*12.8%*	*21.8%*	*13.2%*
EPS	$1.62	$1.77	$1.84	$2.14	$2.40
y/y growth		*9.5%*	*3.8%*	*16.1%*	*12.2%*

Source: Company Data, Morgan Stanley Research estimates

Exhibit 30

Quintiles Income Statement CY2011-2015E

INCOME STATEMENT			Fiscal Year End, Dec 31 2013					Fiscal Year End, Dec 31 2014					
(In millions, except per share)	2011A	2012A	1QA	2QE	3QE	4QE	2013E	1QE	2QE	3QE	4QE	2014E	2015E
Product Development Revenue	2,437.8	2,728.7	706.3	713.8	711.8	716.5	2,848.5	762.8	770.9	768.8	773.9	3,076.3	3,276.3
Integrated Healthcare Services Revenue	857.1	963.6	221.1	224.3	241.5	254.5	941.4	234.4	237.8	256.0	269.7	997.9	1,057.8
Service Revenues	3,295.0	3,692.3	927.4	938.1	953.4	971.0	3,789.9	997.2	1,008.6	1,024.8	1,043.6	4,074.2	4,334.1
COGS	2,153.0	2,459.4	611.1	619.2	627.4	644.5	2,502.2	654.3	661.9	675.3	689.5	2,681.1	2,841.5
Gross profit	1,142.0	1,232.9	316.3	318.9	325.9	326.5	1,287.7	342.9	346.7	349.5	354.1	1,393.2	1,492.5
Selling, general and administrative expenses	762.3	817.8	199.3	231.6	207.4	206.5	844.8	214.4	216.8	220.5	224.6	876.2	921.8
Income from operations before restructuring and impairment charges	**379.7**	**415.2**	**117.0**	**87.3**	**118.6**	**120.0**	**442.9**	**128.5**	**129.9**	**129.0**	**129.6**	**517.0**	**570.8**
Restructuring costs	22.1	18.7	1.9	3.0	3.3	6.8	14.9	1.5	1.5	1.5	1.5	6.0	-
Impairment charges and other	12.3	-	-	-	-	-	-	-	-	-	-	-	-
Income from operations	345.3	396.4	115.2	84.3	115.3	113.2	428.0	127.0	128.4	127.5	128.1	511.0	570.8
Interest expense, net	105.1	131.3	35.6	35.9	25.0	25.0	121.5	25.1	24.7	24.7	24.7	99.2	97.3
Loss on extinguishment of debt	46.4	1.3	-	15.8	-	-	15.8	0.1	0.1	0.1	0.1	0.3	-
Other (income) expense, net	9.1	(3.6)	(2.4)	(0.3)	(0.0)	(0.0)	(2.7)	-	-	-	-	-	-
Income before income taxes and equity in earnings of unconsolidated affiliates	184.7	267.4	82.0	32.8	90.3	88.3	293.4	101.9	103.5	102.7	103.3	411.4	473.4
Income tax expense	15.1	93.4	32.1	6.6	28.9	28.2	95.8	32.6	33.1	32.9	33.1	131.7	151.5
Income before equity in earnings of unconsolidated affiliates	169.6	174.1	49.8	26.3	61.4	60.0	197.5	69.3	70.4	69.8	70.2	279.8	321.9
Equity in earnings of unconsolidated affiliates	70.8	2.6	(1.7)	0.5	0.5	0.5	(0.3)	0.5	0.5	0.5	0.5	1.9	1.9
GAAP Net Income	240.3	176.6	48.2	26.7	61.9	60.5	197.2	69.8	70.9	70.3	70.7	281.6	323.8
Net loss (income) attributable to NCI	1.4	0.9	0.2	0.3	0.3	0.3	1.0	0.3	0.3	0.3	0.3	1.1	1.1
Net Income attributable to Quintiles	241.8	177.5	48.3	27.0	62.1	60.8	198.2	70.0	71.1	70.6	71.0	282.7	324.9
Non-GAAP Net Income	**191.0**	**208.9**	**50.6**	**55.2**	**64.4**	**65.4**	**235.6**	**71.1**	**72.2**	**71.7**	**72.1**	**287.0**	**324.9**
EPS (Non-GAAP)	$1.62	$1.77	$0.43	$0.44	$0.48	$0.49	$1.84	$0.53	$0.54	$0.53	$0.54	$2.14	$2.40
EPS (GAAP)	$2.05	$1.51	$0.41	$0.21	$0.47	$0.46	$1.55	$0.52	$0.53	$0.53	$0.53	$2.11	$2.40
EPS Basic (Non-GAAP)	$1.64	$1.81	$0.44	$0.45	$0.50	$0.50	$1.89	$0.54	$0.55	$0.55	$0.55	$2.19	$2.45
Diluted shares outstanding	117.9	117.8	118.7	126.4	133.4	133.4	128.0	133.9	134.1	134.4	134.6	134.3	135.4
Basic shares outstanding	116.2	115.7	115.8	122.4	129.7	130.4	124.6	130.9	131.2	131.4	131.7	131.3	132.4
Adjusted EBIT and EBITDA													
Adj. EBIT	398.4	445.4	118.4	113.6	118.6	120.0	470.6	128.5	129.9	129.0	129.6	517.0	570.8
Depreciation and amortization	92.0	98.3	24.6	26.1	26.3	26.6	103.7	25.2	26.0	26.4	27.0	104.6	109.4
Adj. EBITDA	490.4	543.7	143.0	139.7	144.9	146.7	574.2	153.8	155.8	155.4	156.6	621.5	680.2

Source: Company Data, Morgan Stanley Research estimates

Exhibit 31

Quintiles Balance Sheet CY2011-2015E

BALANCE SHEET			Fiscal Year End, Dec 31 2013					Fiscal Year End, Dec 31 2014					
(In millions, except per share)	2011A	2012A	1QA	2QE	3QE	4QE	2013E	1QE	2QE	3QE	4QE	2014E	2015E
Current Assets:													
Cash and cash equivalents	516.3	567.7	454.3	661.6	755.4	853.1	853.1	796.4	886.3	999.5	1,108.4	1,108.4	1,440.1
Restricted cash	3.0	2.8	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Trade accounts receivable and unbilled services, net	691.0	745.4	779.3	746.7	812.4	792.9	792.9	859.8	825.0	895.7	875.1	875.1	930.8
Deferred income taxes	46.7	69.0	67.2	56.6	56.6	56.6	56.6	56.6	56.6	56.6	56.6	56.6	56.6
Prepaid expenses	31.3	33.4	41.3	39.8	42.9	41.7	41.7	35.7	37.9	40.9	39.7	39.7	51.8
Income taxes receivable	25.5	17.6	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Other current assets and receivables	51.7	74.1	72.8	72.8	72.8	72.8	72.8	72.8	72.8	72.8	72.8	72.8	72.8
Total current assets	1,365.5	1,510.0	1,439.5	1,602.0	1,764.6	1,841.6	1,841.6	1,846.0	1,903.2	2,090.1	2,177.2	2,177.2	2,576.7
Property and equipment, net	185.8	194.0	190.2	195.8	201.6	207.6	207.6	213.8	219.3	224.9	231.5	231.5	256.6
Intangibles and other assets:													
Investments in debt, equity, and other securities	22.1	36.0	35.9	42.2	48.4	54.7	54.7	59.7	64.7	69.7	74.7	74.7	74.7
Investments in and advances to unconsolidated affiliates	11.8	19.1	21.6	22.1	22.6	23.0	23.0	23.5	24.0	24.4	24.9	24.9	26.7
Goodwill	278.0	302.4	297.6	297.6	297.6	297.6	297.6	297.6	297.6	297.6	297.6	297.6	297.6
Other identifiable intangibles, net	269.4	272.8	274.0	266.7	259.4	252.0	252.0	244.9	237.7	230.4	222.8	222.8	192.3
Deferred income taxes	78.2	37.3	32.4	37.2	42.0	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9
Deposits and other assets	112.1	127.5	135.5	127.2	124.9	122.6	122.6	115.8	114.9	114.1	113.3	113.3	110.0
Total Assets	2,322.9	2,499.2	2,426.7	2,590.8	2,761.1	2,846.0	2,846.0	2,848.1	2,908.2	3,098.0	3,188.8	3,188.8	3,581.5
Current Liabilities:													
Accounts payable and accrued expenses	686.9	751.8	671.4	652.1	746.7	756.8	756.8	670.9	648.5	754.1	759.0	759.0	804.4
Unearned income	398.5	456.6	454.1	459.3	466.8	475.4	475.4	488.3	493.9	501.8	511.0	511.0	543.5
Income taxes payable	47.0	9.6	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
CPLTD and obligations held under capital leases	20.1	55.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7
Other current liabilities	39.6	44.2	44.6	44.2	44.6	44.2	44.2	44.2	44.2	44.2	44.2	44.2	44.2
Total current liabilities	1,192.1	1,318.0	1,222.0	1,207.5	1,309.9	1,328.3	1,328.3	1,255.2	1,238.4	1,351.9	1,366.0	1,366.0	1,444.0
Long-term liabilities:													
Long-term debt and obligations held under capital leases, less current portion	1,951.7	2,366.3	2,354.8	2,011.5	2,012.9	2,014.4	2,014.4	1,982.8	1,984.2	1,985.7	1,987.1	1,987.1	1,959.8
Deferred income taxes	9.9	11.6	16.0	16.0	16.0	16.0	16.0	47.3	47.3	47.3	47.3	47.3	47.3
Other liabilities	138.8	162.3	156.2	156.2	156.2	156.2	156.2	157.5	157.5	157.5	157.5	157.5	157.5
Total liabilities	3,292.5	3,858.2	3,749.0	3,391.2	3,495.1	3,514.9	3,514.9	3,442.8	3,427.5	3,542.4	3,558.0	3,558.0	3,608.7
Shareholders' deficit:													
Common stock	1.2	4.6	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
Accumulated deficit	(994.4)	(1,371.8)	(1,323.5)	(801.6)	(735.2)	(670.1)	(670.1)	(595.8)	(520.4)	(445.6)	(370.3)	(370.3)	(28.3)
Accumulated other comprehensive income	22.9	7.7	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)	(8.4)
Deficit attributable to Quintiles' shareholders	(970.4)	(1,359.5)	(1,322.6)	(800.7)	(734.3)	(669.3)	(669.3)	(595.0)	(519.6)	(444.7)	(369.5)	(369.5)	(27.5)
Equity attributable to NCI	0.8	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total shareholders' deficit	(969.6)	(1,359.0)	(1,322.3)	(800.4)	(734.0)	(669.0)	(669.0)	(594.7)	(519.2)	(444.4)	(369.1)	(369.1)	(27.2)
Total Liabilities + Equity	2,322.9	2,499.2	2,426.7	2,590.8	2,761.1	2,846.0	2,846.0	2,848.1	2,908.2	3,098.0	3,188.8	3,188.8	3,581.5

Source: Company Data, Morgan Stanley Research estimates

Exhibit 32

Quintiles Cash Flow Statement CY2011-2015E

CASH FLOW STATEMENT (In millions, except per share)	2011A	2012A	Fiscal Year End, Dec 31 2013 1QA	2QE	3QE	4QE	2013E	Fiscal Year End, Dec 31 2014 1QE	2QE	3QE	4QE	2014E	2015E
Net Income	240.3	176.6	48.2	26.7	61.9	60.5	197.2	69.8	70.9	70.3	70.7	281.6	323.8
Depreciation and Amortization	92.0	98.3	24.6	26.1	26.3	26.6	103.7	25.2	26.0	26.4	27.0	104.6	109.4
Change in operating assets and liabilities:	(82.7)	12.5	(114.0)	30.2	33.7	39.1	(11.0)	(101.5)	15.9	39.8	35.9	(9.9)	10.1
Change in accounts receivable, unbilled services and unearned income	(168.2)	(5.8)	(39.7)	37.8	(58.2)	28.1	(31.9)	(54.1)	40.4	(62.8)	29.8	(46.6)	(23.2)
Change in other operating assets and liabilities	85.5	18.2	(74.3)	(7.6)	91.9	11.0	20.9	(47.5)	(24.5)	102.6	6.1	36.7	33.3
Net cash provided by operating activities	**161.0**	**335.7**	**(21.5)**	**97.3**	**124.9**	**129.2**	**329.9**	**5.8**	**119.1**	**142.8**	**140.0**	**407.7**	**468.7**
Acquisition of property, equipment and software	(75.7)	(71.3)	(31.5)	(24.4)	(24.8)	(25.2)	(105.9)	(24.4)	(24.2)	(24.6)	(26.1)	(99.3)	(104.0)
Acquisition of businesses, net of cash acquired	(227.1)	(43.2)	-	-	-	-	-	-	-	-	-	-	-
Proceeds/Loss from disposition of property and equipment	3.0	2.7	0.7	(6.3)	(6.3)	(6.3)	(18.1)	(5.0)	(5.0)	(5.0)	(5.0)	(20.0)	-
Proceeds (Purchase) of equity securities	(15.8)	(13.1)	0.1	-	-	-	0.1	-	-	-	-	-	-
Investments in and advances to unconsolidated affiliates, net of payments received	(17.8)	(3.6)	(4.4)	-	-	-	(4.4)	-	-	-	-	-	-
(Payments made for) proceeds from sale of investment in unconsolidated affiliates	109.1	(0.6)	-	-	-	-	-	-	-	-	-	-	-
Proceeds (Purchase) of other investments	(5.0)	(0.2)	-	-	-	-	-	-	-	-	-	-	-
Other	4.4	(2.9)	(1.1)	-	-	-	(1.1)	-	-	-	-	-	-
Net cash used in investing activities	**(224.8)**	**(132.2)**	**(36.2)**	**(30.6)**	**(31.0)**	**(31.5)**	**(129.4)**	**(29.4)**	**(29.2)**	**(29.6)**	**(31.1)**	**(119.3)**	**(104.0)**
Proceeds from issuance of debt	1,980.0	2,441.0	-	-	-	-	-	-	-	-	-	-	-
Payment of debt issuance costs	(18.4)	(9.7)	-	-	-	-	-	-	-	-	-	-	-
Repayment of debt	(1,712.7)	(1,995.5)	(34.3)	(350.0)	-	-	(384.3)	(33.0)	-	-	-	(33.0)	(33.0)
Principal payments on capital lease obligations	(7.2)	(5.4)	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock	1.1	3.5	0.1	490.6	-	-	490.7	-	-	-	-	-	-
Repurchase of common stock	(14.3)	(13.4)	-	-	-	-	-	-	-	-	-	-	-
Excess income tax benefits on stock option exercises	0.0	0.5	0.2	-	-	-	0.2	-	-	-	-	-	-
Dividends	(288.3)	(567.9)	-	-	-	-	-						
Other	0.5	-	-	-	-	-	-	-	-	-	-	-	-
Net cash used in financing activities	**(59.3)**	**(146.9)**	**(34.0)**	**140.6**	**-**	**-**	**106.6**	**(33.0)**	**-**	**-**	**-**	**(33.0)**	**(33.0)**
Effect of foreign currency exchange	(7.1)	(5.2)	(21.8)	-	-	-	(21.8)	-	-	-	-	-	-
Restatement Adjustment		-	-	-	-	-	-	-	-	-	-	-	-
Cash, beginning of period	646.6	516.3	567.7	454.3	661.6	755.4	567.7	853.1	796.4	886.3	999.5	853.1	1,108.4
Increase (decrease) in cash and cash equivalents	(130.3)	51.4	(113.4)	207.3	93.8	97.7	285.3	(56.6)	89.9	113.2	108.9	255.4	331.7
Cash, end of period	516.3	567.7	454.3	661.6	755.4	853.1	853.1	796.4	886.3	999.5	1,108.4	1,108.4	1,440.1

Source: Company Data, Morgan Stanley Research estimates

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Other Recent Morgan Stanley Research Based on AlphaWise

NA Healthcare	5/31/2013	David Lewis	**Hospital Capex Survey: Euro Capex:** Will Price Trump Better Volumes?	Our AlphaWise survey of 100 EU hospital capex buyers implies modest 2013 demand growth in Surgical, Radiotherapy and Dialysis. While this is moderately better than we anticipated, pricing looks likely to get tougher and purchasing cycles longer.
EU Healthcare	5/30/2013	Michael Jungling	**Hospital Capex Survey:** Calling the Bottom?	Our survey of 100 EU hospital capital equipment buyers suggests that 2013 capex demand in Operating Room, Radiotherapy and Dialysis, and perhaps broader capital equipment, is stabilizing, while price pressure is likely to continue.
EU Metals & Mining	5/22/2013	Alexander Haissl et al	**Steeling for Oversupply**	This Blue Paper explores how the supply-demand imbalance has led to a level of overcapacity that will be extremely challenging to remedy. Our AlphaWise survey of Chinese steel producers suggests any demand growth is offset by capacity addition.
EU Telecommunications	5/22/2013	Cesar Tiron	**Russian Mobile:** Sector Still Attractive; MegaFon Top Pick	Our survey of Russian mobile phone users suggests that MFON still has network advantage on data speed and MFON and MTS are set to continue to attract Beeline subscribers post the introduction of MNP.
NA Technology	5/21/2013	Katy Huberty	**AlphaWise Smartphone Tracker:** Samsung Momentum Remains Strong; Apple Upside on Low Expectations	AlphaWise Smartphone Tracker show that Apple iPhone sell-through is tracking above expectations at around 31M for the June quarter and Samsung Galaxy shipments are tracking roughly in line with higher expectations at 45M.
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Industry Coverage:Healthcare Services & Distribution

Company (Ticker)	Rating (as of)	Price* (06/17/2013)
Ricky R Goldwasser		
Quintiles Transnational Holdings Inc (Q.N)	O (06/18/2013)	$43.53
Allscripts Healthcare Solutions Inc. (MDRX.O)	O (04/26/2013)	$13.33
AmerisourceBergen Corp. (ABC.N)	E (04/13/2012)	$55.66
CVS/Caremark Corp. (CVS.N)	O (11/04/2011)	$59.27
Cardinal Health Inc (CAH.N)	O (01/07/2010)	$48.25
Catamaran Corp (CTRX.O)	O (11/12/2012)	$53.53
Cerner Corporation (CERN.O)	E (08/17/2012)	$98.22
Charles River Laboratories International (CRL.N)	E (03/03/2010)	$43.21
Covance Inc. (CVD.N)	E (09/15/2010)	$78.43
Express Scripts, Inc. (ESRX.O)	O (01/07/2010)	$62.98
Greenway Medical Technologies Inc (GWAY.N)	E (03/13/2012)	$11.77
Laboratory Corp. of America Holdings (LH.N)	U (03/19/2010)	$100.44
McKesson Corporation (MCK.N)	E (08/17/2012)	$114.38
Quality Systems Inc (QSII.O)	U (10/01/2012)	$18.43
Quest Diagnostics Inc. (DGX.N)	E (07/13/2011)	$62.59
athenahealth Inc (ATHN.O)	E (05/03/2012)	$90.29

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* Historical prices are not split adjusted.