Initiation
**Overweight**

**Q, Q US**
Price: $43.53

**Price Target: $50.00**

# Quintiles Transnational

## Best in Show: Initiating with Overweight Rating

We are initiating coverage on Quintiles (Q) with an Overweight rating and December 2014 DCF-derived price target of $50. As the global leader in the clinical CRO market, Quintiles sits at the nexus of several important trends, including a continued push toward outsourcing, and the drive by biopharma customers to send more work through fewer, higher-quality CROs. Underlying the dynamic are improving industry trends, including stable biopharma R&D budgets and an increased reliance on outsourcing. We expect Quintiles to outgrow industry peers aided by a diversified global footprint and unique service offerings, and strong cash flow should fund deleveraging, resulting in ~15% EPS CAGR for the next several years.

- **Industry dynamics continue to favor larger CROs with late-stage exposure and, in the clinical space, none are larger than Quintiles.** Within the ~$50B market for clinical development services, the trend continues to be for biopharma companies to outsource more work to fewer, more capable partners. In this light, Quintiles remains uniquely positioned to benefit not only from a large footprint but also unparalleled breadth and depth of expertise. Moreover, its dominance in the faster-growth, late-stage clinical trial segment coupled with a focus on value-added service offerings (DNA sequencing/expression, outcome analytics) should help Quintiles outpace underlying market growth in the 5-8% range.

- **Financial deleveraging should provide a path to years of double-digit earnings growth.** While opportunities for operating margin leverage are limited, we believe Quintiles will use the proceeds from the IPO coupled with continued strong FCF generation to begin to pay down the $2.4B in debt starting this quarter. We expect interest expense of $122M in 2013 to decline to $99M in 2014, driving a third of the 20% EPS growth we forecast next year. The company's debt/EBITDA ratio should moderate from 3.7x to 1.5-2.0x by 2014, opening up other capital allocation possibilities including a potential share repurchase program and/or a modest dividend over time.

- **We continue to see upside from current levels, despite strong relative performance since the IPO.** We see room for further upside as Quintiles continues to grow revenues, pay down debt and grow free cash flow. Our 2014 price target of $50 is derived using a 10-year DCF methodology and represents ~15% upside from yesterday's close.

**Life Science Tools & Diagnostics**

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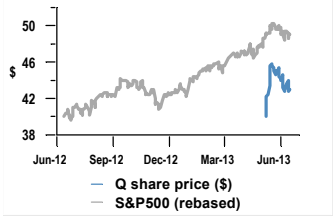
**Price Performance**




**Quintiles Transnational Holdings, Inc. (Q;Q US)**

| FYE Dec | 2011A | 2012A | 2013E | 2014E | 2015E |
|---|---|---|---|---|---|
| EPS ($) | | | | | |
| Q1 (Mar) | 0.29 | 0.44 | 0.43A | 0.53 | 0.59 |
| Q2 (Jun) | 0.35 | 0.47 | 0.42 | 0.53 | 0.59 |
| Q3 (Sep) | 0.32 | 0.45 | 0.49 | 0.56 | 0.64 |
| Q4 (Dec) | 0.65 | 0.41 | 0.49 | 0.57 | 0.65 |
| FY | 1.62 | 1.77 | 1.84 | 2.20 | 2.47 |

Source: Company data, Bloomberg, J.P. Morgan estimates.

| Company Data | |
|---|---|
| Price ($) | 43.53 |
| Date Of Price | 17 Jun 13 |
| 52-week Range ($) | 46.50-40.00 |
| Market Cap ($ mn) | 5,558.57 |
| Fiscal Year End | Dec |
| Shares O/S (mn) | 128 |
| Price Target ($) | 50.00 |
| Price Target End Date | 31-Dec-14 |

**See page 33 for analyst certification and important disclosures.**

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## Quintiles Transnational

**Overweight**

# Investment Thesis

**Stable biopharmaceutical R&D budgets, coupled with increasing CRO penetration rates, should bode well for Quintiles**

In line with industry estimates, we expect global R&D spend to grow 1-2% annually to ~$150 billion over the next five years. Our bottom-up modeling of the drug-development budgets of major biopharmaceutical companies in the U.S., Europe and Japan leads us to forecast clinical development budget growth tracking in the same low-single-digit range. While underlying R&D budgets remain tight, R&D pipelines remain robust and should provide a floor to CRO sales.

Moreover, as drug companies face further top-line pressures driven by the patent cliff, reimbursement cuts and increasing generic penetration rates, they have been keen to cut capacity and R&D costs while transitioning to an external/flexible research model. The declining return on investment on in-house R&D, coupled with rising trial complexity and surveillance burdens, has only served to accelerate this dynamic. We believe a combination of these trends will continue to drive CRO penetration rates in the foreseeable future, and forecast penetration rates to increase from 34% in 2013 to approximately 39% by 2015.

**Industry dynamics continue to favor larger CROs with broad therapeutic expertise and late-stage exposure – giving Quintiles an edge over competition**

Over the last five years, biopharmaceutical sponsors have increasingly looked to consolidate vendors by signing multi-year agreements with a smaller number of CROs, particularly those with global reach and broad therapeutic expertise. The idea is to move away from a one-off, project-based model to that of a long-term partnership – creating a comprehensive process that integrates both organizations into a single, well-aligned clinical development engine. Our checks suggest that this trend is likely to continue, and we believe that Quintiles remains uniquely positioned to benefit, given its unmatched footprint and best-in-class breadth and depth of expertise, although the company has successfully avoided the trap of lower-margin strategic deals. Moreover, the company's dominance in the faster-growth, late-stage clinical trial segment (versus pre-clinical or toxicology services) should help it outpace underlying market growth in the 5-8% range.

**New value-added service offerings (DNA sequencing/expression, outcome analytics) present future opportunities for growth**

Through a combination of internal efforts and focused M&A, Quintiles has added differentiated service offerings, which set it apart from competition. Notable M&A has included Outcome Sciences (late phase), Advion BioServices (biomarker services and advanced testing) and Expression Analysis (genetic sequencing and bioinformatics), which position Quintiles to be at the forefront of several emerging high-growth markets, including outcome-based observational research, comparative effectiveness and personalized medicine. Furthermore, although there remains a significant difference in the margin profiles between Integrated Healthcare Services (IHS) and Product Development, IHS remains an important enabler of growth that allows the company to participate in emerging areas, such as payer/provider solutions, comparative effectiveness, and product and disease registry services.

**Financial deleveraging should provide path to years of double-digit EPS growth**

While operating margin leverage is not a key part of our investment thesis, we believe that the company will use the proceeds from the IPO, coupled with continued strong FCF generation, to begin to pay down its $2.4B in debt starting this quarter. We expect interest expense of $122M in 2013 to decline to $99M in 2014 which accounts for 7% of the 20% EPS growth we forecast for next year. In line with the pay-down of debt, the company's debt/EBITDA ratio should moderate from 3.7x to 1.5-2.0x by 2014, opening up other capital allocation possibilities including a potential share repurchase program and/or a modest dividend over time.

**We continue to see upside from current levels, despite strong relative performance since the IPO**

Quintiles has outperformed the S&P 500 by ~125 bps since its IPO on May 10th; despite the outperformance, we continue to see upside from current levels. As outlined above, aided by a diversified global footprint and unique service offerings, Quintiles should handily outgrow industry peers, while strong cash flow should fund deleveraging, resulting in ~15% EPS CAGR for the next several years. Our December 2014 price target of $50 is derived using a 10-year DCF and represents ~15% upside from current levels. On a relative basis, our $50 price target implies an 11.6x EV/EBITDA multiple on 2014 estimates, a ~10% premium to its closest competitor, Covance, which we believe is justified, given Quintiles' best-in-class scale and superior EPS growth profile.

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# Risks to Rating and Price Target

**Biopharmaceutical research budgets might come under further pressure**

Unexpected product failures, generic entry or government austerity and reduced reimbursement rates might lead biopharmaceutical companies to cut R&D expenditure, which would mean slower-than-anticipated growth in CRO revenues and outsourcing penetration rates.

**Additional biopharmaceutical consolidation could prove to be highly disruptive to the CRO industry**

The prior wave of biopharma consolidation in the early 2000s proved to be highly disruptive to CRO vendors. While we are not anticipating additional mega-mergers among biopharmaceutical companies, such a move could prove once again to reduce CRO visibility, leading to cancelled projects and excess capacity.

**The continued emphasis on larger, strategic contracts could drive additional pricing pressure**

Over the last five years, biopharmaceutical sponsors have increasingly looked to consolidate among their CRO vendors by signing multi-year agreements with a smaller number of CROs. In this increasingly "winner-take-all" scenario, industry players (particularly smaller, sub-scale CROs) may be tempted to under-price projects and offer significant discounts in order to secure business wins, leading to potential pricing pressure for Quintiles.

**Capital deployment and debt levels present opportunities and risks**

Although the company is committed to paying down debt, we anticipate that it will also seek additional bolt-on M&A opportunities going forward. While recent deals, such as Expression Analysis and Outcomes, have proven more successful than prior acquisitions, additional M&A has the potential to bring additional risks, particularly with regard to value-destructive deals and disruption to the core business model.

**Post-IPO ownership structure presents risk should insiders choose to sell**

Following the IPO, private equity owners (Bain Capital, TPG and 3i Group) along with Quintiles founder Dr. Dennis Gillings cumulatively own ~65% of shares. While they are subject to a 180-day lockup period on their holdings, should they choose to exit or trim their positions after this time frame, shares could come under pressure with additional offerings. We have included a list of the current top-10 holders of the stock in the appendix.

## Company Description

Since being founded more than 30 years ago, Quintiles has grown to become the world's largest provider of biopharmaceutical development and commercial outsourcing services, with a focus on Phase II-IV clinical trial activities and pharmaceutical sales, over $3.7B in annual revenues, and >27,000 employees worldwide. The company operates in two key divisions, Product Development and Integrated Healthcare Services, which accounted for 74% and 26% of service revenues, respectively, in 2012. Quintiles is traded on the NYSE under the ticker Q.

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# Corporate Overview

Quintiles was founded in 1982 by Dr. Dennis Gillings, a biostatistics professor at the University of North Carolina at Chapel Hill. The company expanded into Europe in 1987 and Asia in 1993. In 1994, Quintiles completed an initial public offering and was publicly traded until going private in 2003, at which point it became owned by a group of investors that included Dr. Gillings and several private equity firms. On May 9th, 2013 the company re-listed itself a second time on the NYSE in an IPO of 23.7M shares (for which J.P. Morgan was a lead book-runner).

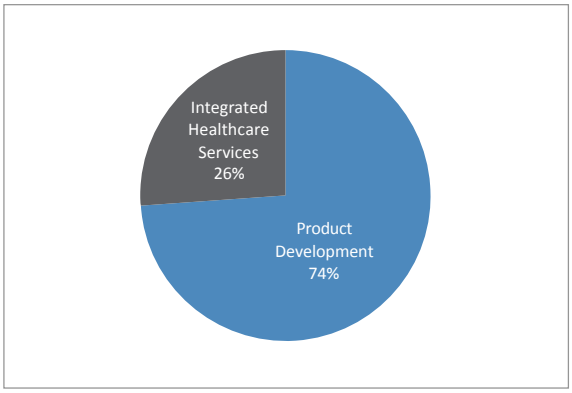
Over the last 30 years, Quintiles has grown to become the world's largest provider of biopharmaceutical development and commercial outsourcing services, with a focus on Phase II-IV clinical trial activities and pharmaceutical sales, over $3.7B in annual revenues, and >27,000 employees worldwide.

**Approximately 75% of Quintiles' revenues and 90% of operating profit are generated by the Product Development segment**

Quintiles offers its services through two reportable segments: Product Development and Integrated Healthcare Services. Product Development provides services that enable biopharmaceutical companies to outsource the clinical development process from first-in-man trials to post-launch monitoring. Integrated Healthcare Services provides customers with a broad geographic presence and commercial capabilities (sales force and channel management, patient engagement services, consulting, brand communication and medical education), beyond the development phase of a product.

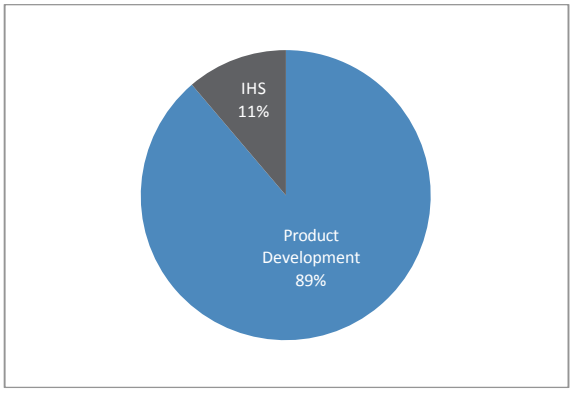
In 2012, Product Development contributed 74% of sales while Integrated Health Services contributed the remaining 26%. In terms of operating profit, Product Development contributed the lion's share at 89% (given its higher margin profile), while Integrated Healthcare Services chipped in with 11%.

Figure 1: Share of 2012 Revenues by Segment




Source: Company data and J.P. Morgan estimates.

Figure 2: Share of 2012 Operating Profit by Segment




Source: Company data and J.P. Morgan estimates.

The addressable market for Product Development is ~$50B in annual clinical development spending (excluding the discovery and pre-clinical phases). Of this $50 billion budget, about a third is currently outsourced to CROs. Underlying growth in this portion of the R&D budget and increasing penetration of the market by CROs are the two key drivers of Product Development revenues.

Integrated Healthcare Services links product development to healthcare delivery and addresses markets related to the use of approved pharmaceutical products. Total

spending related to approved drugs, including spending on commercialization, expenditures by healthcare participants on outcomes/evidence-based medicine, and other payer and provider services exceeded $88 billion in 2011, of which approximately 15% is currently outsourced to CROs.

Below, we briefly describe each of the sub-segments within the Product Development and Integrated Healthcare Services business units.

**Figure 3: Quintiles – Business Unit Descriptions**

| Business Unit | Description |
|---|---|
| **Product Development** | |
| **Project Management and Clinical Monitoring** | |
| Study Design and Operational Planning | Preparing study protocol, designing clinical report forms and identifying apporpriate patients/sites/country mix |
| Investigator / Site Recruitment | Recruit physicans from a global network to serve as investigators in clinical trials |
| Site and Regulatory Start Up | Identify, train and contract with sites while securing regulatory and ethics approvals |
| Patient Recruitment | Recruit/retain patients for/during clinical trials using investigator relationships, media/web technologies |
| Clinical Monitoring | Deploy and manage Clinical Research Associates to monitor sites and ensure quality of data |
| Project Management | Help customers navigate all activities, data streams and timelines associated with the clinical trial process |
| Digital Patient Services | Provide participants information to better manage personal health and opportunities for study participation |
| **Clinical Trial Support Services** | |
| Clinical Data Management | Collection, organization, validation and analysis of clinical data |
| Biostatistical Services | Statistical analysis of scientific databases for all phases of drug development |
| Central Laboratories | Assay development/validation, protocol-specific trial materials, customized lab reports & specimen management |
| Bioanalytical Laboratories | Bioanalytical testing to support PK/PD and ADME studies during early phases of clinical testing |
| Genomic Laboratory | Experiment design, sample analysis, nucleic acid isolation, gene expression profiling, genotyping, NGS |
| Cardiac Safety and ECG Lab Services | Global collection and near-real time analysis of ECGs |
| Safety and Pharmacovigilance | Monitor drug safety, manage case reports, safety risk profiling, quality and regulatory compliance |
| Phase I Clinical Pharmacology | Dedicated clinical pharmacology units for Phase I trials |
| **Strategic Planning and Design** | |
| Biomarkers, Genomics and Personalized Med. | Biomarker discovery/development, assay development/validation, digital pathology, targeted patient selection |
| Model Based Drug Development | Population PK/PD modeling and simulation, clinical trial simulations |
| Planning and Design | Strategic clinical research planning and risk assessment via modeling/simulation |
| Regulatory Affairs Services | Medical oversight/writing + regulatory strategy design, document prep/publication, regulatory authority liasoning |
| **Consulting Services** | |
| Product Development Strategy Consulting | Market research, secondary data provisioning and clinical analytics to optimize development decisions |
| Regulatory and Compliance Consulting | GMP, GCP and GLP consulting, global regulatory affairs and quality systems engineering and validation |
| Process and IT Implementation Consulting | Implementation services including change management and IT strategy |
| **Integrated Healthcare Services** | |
| **Commercial Services** | |
| Contract Sales | Flexible primary care, specialty and multi-channel integrated sales teams |
| Market Entry/Exit | Help clients launch in new markets and plan exits from unfavorable markets |
| Integrated Channel Management | Use market analytics to optimize channel mix (including sales force and marketing) |
| Patient Enagagement Services | Customized clinical and educational solutions to bridge clinical and commercial phases of product development |
| Market Access and Commercialization Consul | Product positioning, go-to-market plans, pricing/formulary access, payer usage and reimbursement strategies |
| Brand and Scientific Communications | Communication strategy, positioning/branding, KOL development, physician and patient education, etc. |
| Medical Education | Continuing medical education customized for specific therapeutic areas |
| **Outcome/Observational Services** | Real-time and late phase research to monitor safety, risk/benefit, effectiveness, market access and label expansion |
| **Payor/Provider Solutions** | Comparative and cost-effectiveness research, clinical management analytics, decision support services, etc. |

Source: Company data.

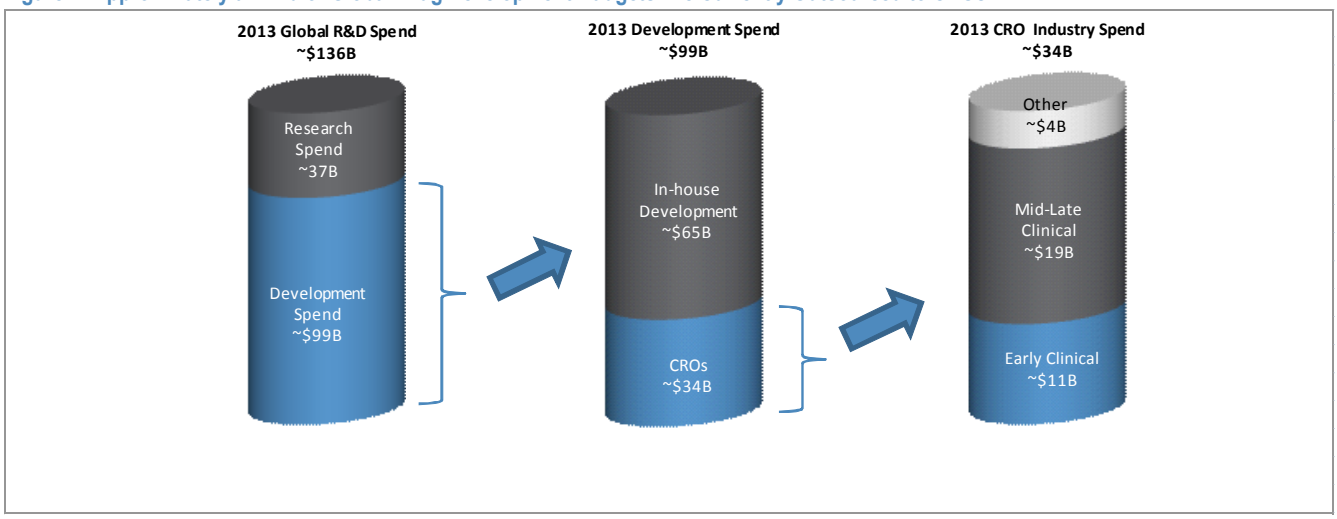
# Five Key Issues for Investors

## I. How Do Biopharmaceutical R&D Budgets Bode for the CRO Industry and Quintiles?

**We expect drug development spending to be stable over the next few years with tight sponsor budgets offset by robust pipelines**

Today, it is estimated that pharmaceutical and biotechnology companies spend over $135 billion on research and development (~$37 billion on research, ~$100 billion on development) on an annual basis. Of the $100 billion spent on drug development by biopharmaceutical sponsors, approximately a third is currently outsourced to CROs, while the rest is spent on in-house development.

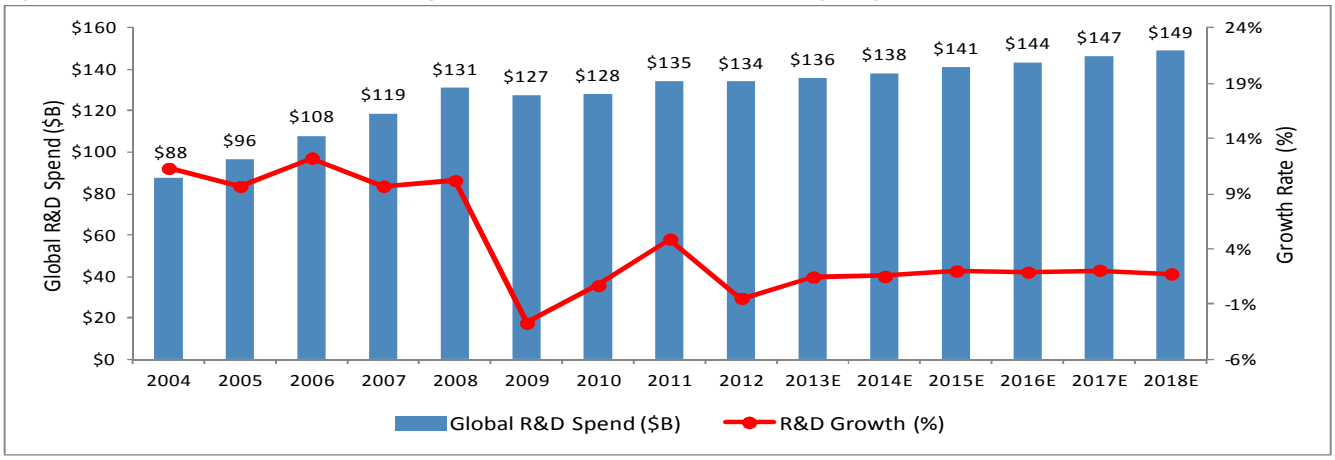
Figure 4: Approximately a Third of Global Drug Development Budgets Are Currently Outsourced to CROs




Source: EvaluatePharma, Parexel Consulting, J.P. Morgan estimates.

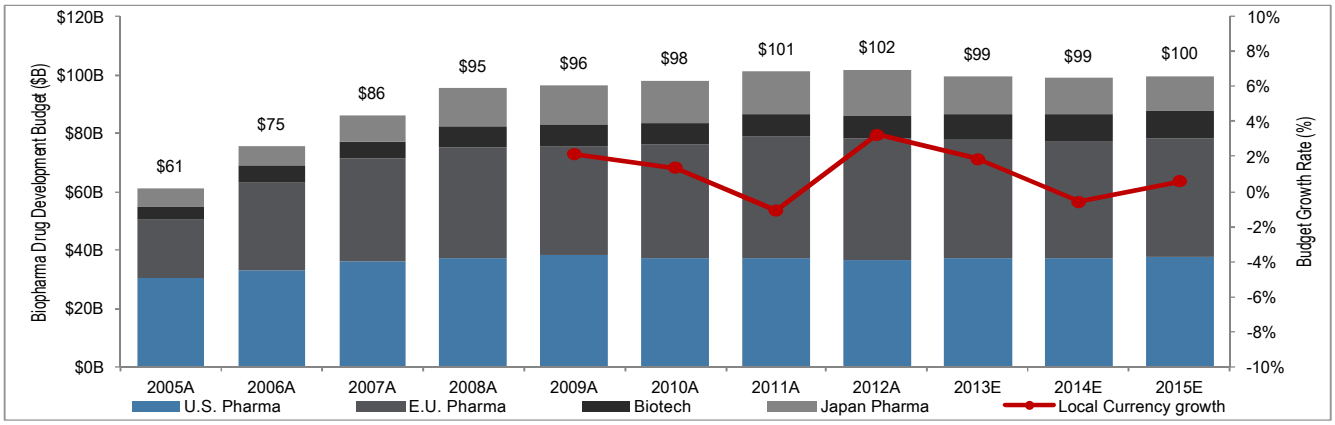
In line with industry estimates, we expect global R&D spend to grow 1-2% annually to ~$150 billion over the next five years. Our bottom-up modeling of the drug development budgets of major biopharmaceutical companies in the U.S., Europe and Japan leads us to forecast clinical development budget growth tracking in the same low-single-digit range.

Figure 5: Global Biopharmaceutical R&D Budgets Are Expected to Grow in the Low-Single Digits over the Next Five Years




Source: EvaluatePharma, Parexel Consulting.

**Figure 6: In Line with R&D Budgets, We Estimate Drug Development Spending Will Grow 0-2% Through 2015**

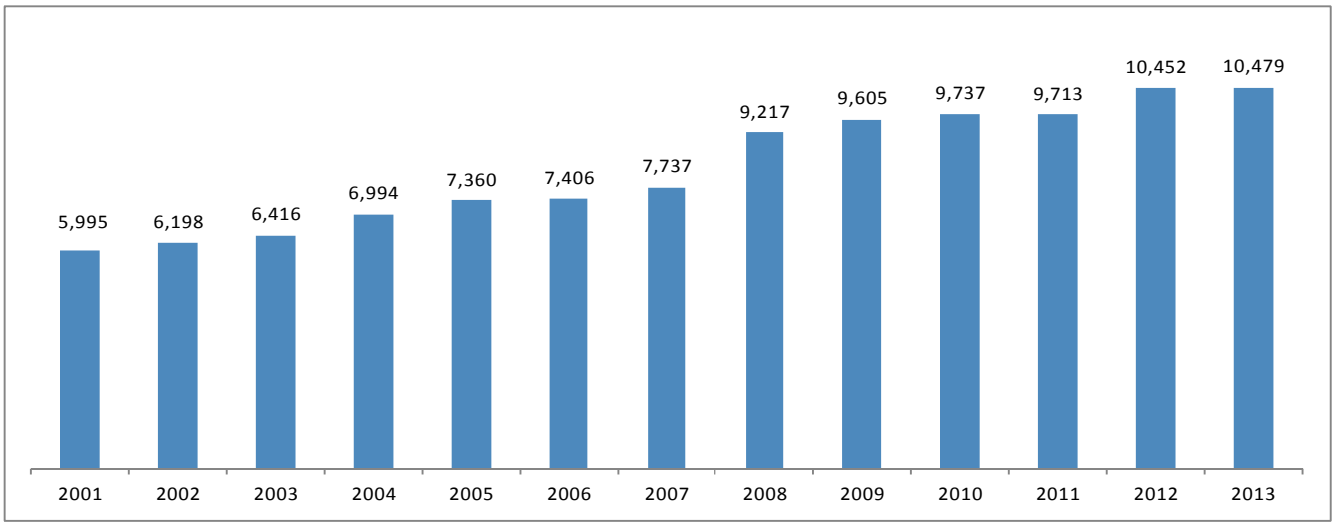



Source: Company data and J.P. Morgan estimates.

While underlying R&D budgets remain tight, R&D pipelines remain robust and should provide a floor to CRO sales. According to Pharmaprojects, there are currently 10,479 drugs under active development, representing a growth rate of over 35% since 2007.

Furthermore, recent commentary and 2013 guidance updates from the world's largest biopharmaceutical companies suggest that most managements are expecting R&D to be flat to slightly up from 2012 levels, with a continued focus on outsourcing and productivity-enhancing initiatives, trends that bode well for the CRO industry.

**Figure 7: While Budgets Are Likely to Remain Tight, R&D Pipelines Remain Robust and Should Provide Underlying Support to CRO Sales**




Source: Citeline (Pharmaprojects).

**Figure 8: Recent Company Commentary Confirms Our View that Steady R&D Budgets and Cost Pressures Will Continue to Drive Outsourcing**

| Company | R&D Expense (last FY) ($M) | Recent R&D budget / CRO Commentary |
|---|---|---|
| Pfizer Inc. | $7,346 | "Our 2012 adjusted R&D expenses **(were) $7.3 billion**...we **expect full-year 2013 adjusted R&D expenses to be in the range of $6.5 billion to $7 billion.**"<br>"In the clinical trial area, we have internal, very sophisticated early Phase I units, and then we **collaborate with a CRO in alliance partner models for the larger Phase II, Phase III type of studies (looking at) various novel tools to increase enrollment and startup speed of trials, reduce timelines.**" |
| Merck & Co., Inc. | $7,912 | " Approximately **25 percent of our trials today (increasing to 50 percent in the future) are outsourced to contract research organizations (CROs)** for the execution of the study."<br>"We have made a **lot of effort in our R&D structure to make it a bit more virtual and partnered** as we work with collaborators, which on the one hand in a sense **variabilizes our cost** so that the activity level goes down, we actually do see savings but conversely, it really does actually open up more capacity."<br>*(Note: Merck's drug develpment group is tapping (Quintiles) as an exclusive clinical trial provider for the next 5 years...to (jointly) shape and guide the company's R&D strategy while the CRO manages trial planning and execution from Phase I through post-marketing studies.)* |
| Roche | $9,034 | "Our R&D budget is precious to us... and so **our development group is looking (at) how do we make things more efficient...**how do we really reduce the cost on an average candidate basis to bring it from Phase II to Phase III." |
| Novartis | $9,332 | "On Pharma, (we) have **worked extensively in making this business more productive**. We think there are still opportunities to do so by...**outsourcing**, working with our suppliers and streamlining processes in drug development." |
| Sanofi | $6,304 | "R&D, I mean we stick to our objective which is to **maintain our R&D expense basically flat**, around €5 billion per year."<br>"R&D, continuing to be tightly managed, **trying to bring down the internal cost in order to give more headroom to invest in externally, both in partnerships but also in late-stage clinical trials..."** |
| Eli Lilly | $5,278 | "We **expect R&D expenses to be flat to increasing**. In absolute term, we expect R&D expenses of between $5.2 billion and $5.5 billion." |
| GlaxoSmithKline | $6,306 | "**(R&D) is probably is going to be more or less where it is,** but it might bump up and down, and if it does it will be opportunity driven." "..continue to expect us to manage our R&D spend to be broadly in line with last year at around £3.6 billion." |
| AstraZeneca | $5,243 | "We guided to core operating costs, so that's combined core SG&A and **R&D costs being held to a slight increase in 2013 in constant-currency terms** and that is indeed our expectation." "So we think overall, if we can **stay flat R&D spending, shift some to late from discovery and early (stage)**, (we can) still be able to have a sustainable pipeline" |
| Astellas | $2,281 | "We decided to **(reshape) the research framework...so that our R&D organization is more agile and flexible**. In the past we have focused on in-house research...but now we will **expand our focus...and also external reallocation of resources**." |

Source: Bloomberg and J.P. Morgan analysis.

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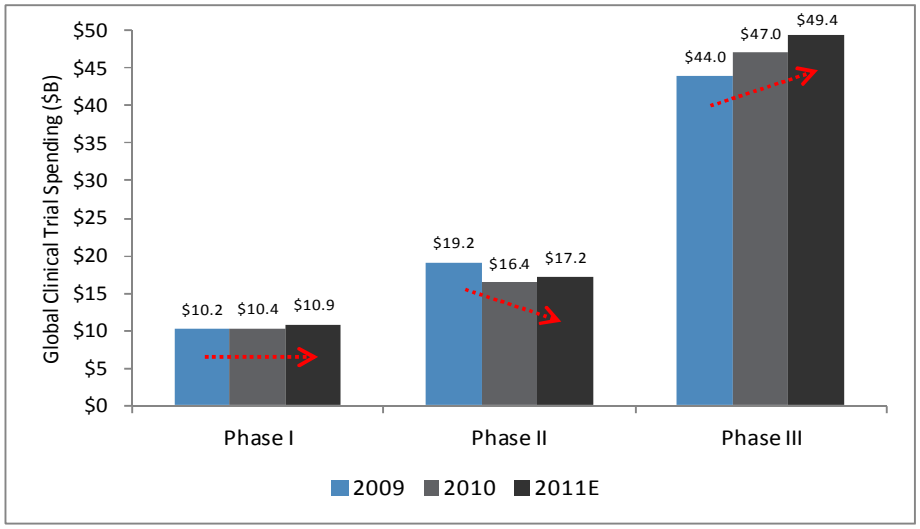
**With its unparalleled late-stage footprint, Quintiles stands to benefit from stronger growth in mid- to late-stage clinical trial spending**

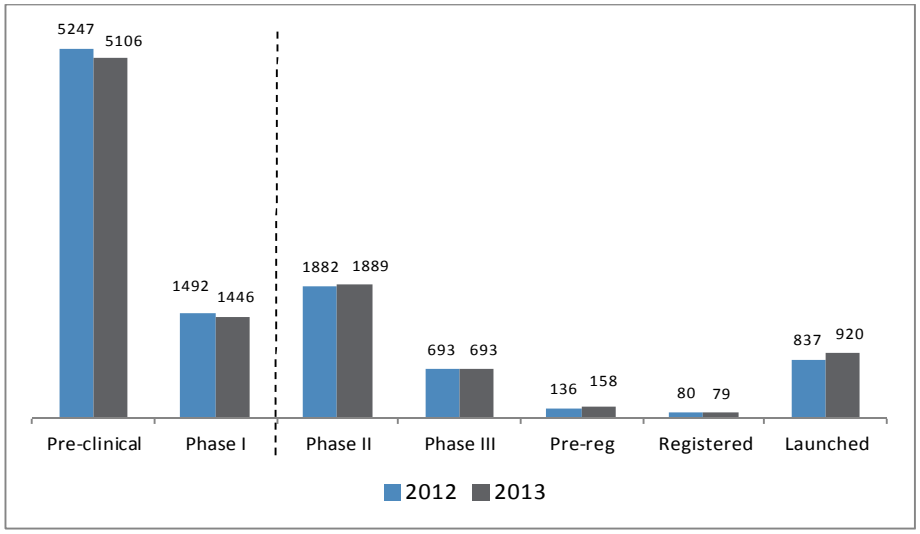
Between 2009 and 2010, industry data from PhRMA shows a marked shift in spending percentages from Phase II to Phase III. In addition to the stable R&D budget trends outlined above, we believe this shift in spending towards drugs that are in Phase III or beyond is particularly beneficial for Quintiles given its unparalleled late-stage footprint. An analysis of the number of drugs under active development by phase also bears out this trend. Between 2012 and 2013, the number of drugs in development in Phase II or beyond have all increased or stayed the same, while there have been declines in the number of pre-clinical and Phase I candidates. While two years do not a trend make, it is encouraging to note this subtle shift, particularly given Quintiles' unmatched late-stage footprint, a key tenet of our above-market top-line growth forecast.

**Figure 9: With its Best-in-Class Late-Stage Footprint, the Mix Shift in Global Clinical Trial Spending Towards Phase III Trials Bodes Well for Quintiles**




Source:Parexel Consulting, EvaluatePharma, PhRMA, and J.P. Morgan analysis.

**Figure 10: From 2012 to 2013, the Number of Drugs in Active Development in Ph. II or Beyond Increased or Stayed the Same, While There Have Been Declines in Pre-Clinical and Ph. I Candidates**




Source: Citeline (Pharmaprojects) and J.P. Morgan analysis.

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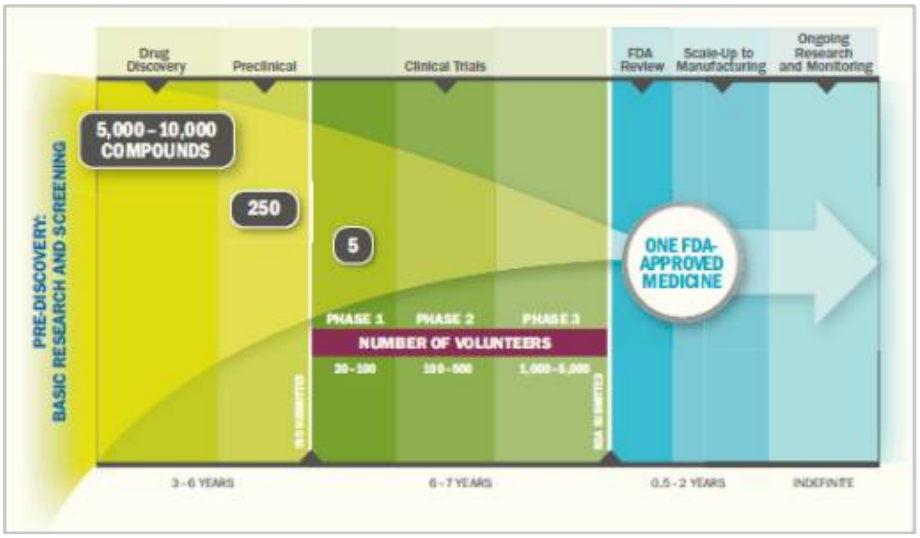
## II. Can CRO Penetration Rates Continue to Increase?

**Biopharmaceutical R&D has been plagued by increasing clinical trial complexity and burden coupled with drug approval probabilities of 10-20%**

According to PhRMA estimates, on average it takes about 10-15 years for a new drug to complete the journey from initial discovery to commercialization. For every 5,000-10,000 compounds that enter the pipeline, only one receives approval. Moreover, clinical trial complexity and burden have increased significantly over the last decade.

Figure 11: The Drug Approval Process Is a Long and Complicated One, with the Odds of Success from Phase I to FDA Approval Estimated to Be ~10-20%*




Source: PhRMA, Parexel Consulting, Tufts CSDD report (2010), BioMedTracker and Biotechnology Industry Association.

Figure 12: Clinical Trial Complexity and Burden Have Increased Significantly Across All Therapeutic Areas and Phases

| Clinical Trial Protocol Complexity and Burden | 2000-03 | 2004-07 | % Change |
|---|---|---|---|
| Unique procedures per protocol (median) | 20.5 | 28.2 | 38% |
| Total procedures per protocol (median) | 105.9 | 158.1 | 49% |
| Total investigative site work burden (median units) | 28.9 | 44.6 | 54% |
| Total eligibility criteria | 31 | 49 | 58% |
| Study volunteer enrollment rate | 75% | 59% | -21% |
| Study volunteer retention rate | 69% | 48% | -30% |
| Number of case report form pages per protocol (median) | 55 | 180 | 227% |
| Time from protocol ready to last patient visit | 413 weeks | 714 weeks | 72% |

Source: Tufts Center for the Study of Drug Development, Parexel Consulting.

The drug approval process is extremely costly, with the average R&D investment for each new drug approximately $1.2 billion, driven by increasingly complex trials and surveillance burdens. Not surprisingly, while industry R&D spend has risen dramatically over the last decade, new drug approvals have been hard to come by. In fact, even for those drugs that do get approved, it is estimated that only two out of every ten ultimately return revenues that match or exceed their R&D costs. In addition, drug companies face further top-line pressures driven by the patent cliff (estimated by EvaluatePharma to be ~$280B through 2018), reimbursement cuts and increasing generic penetration rates (over 80% of U.S. retail prescriptions according to IMS). With this backdrop, biopharmaceutical companies have been keen to cut

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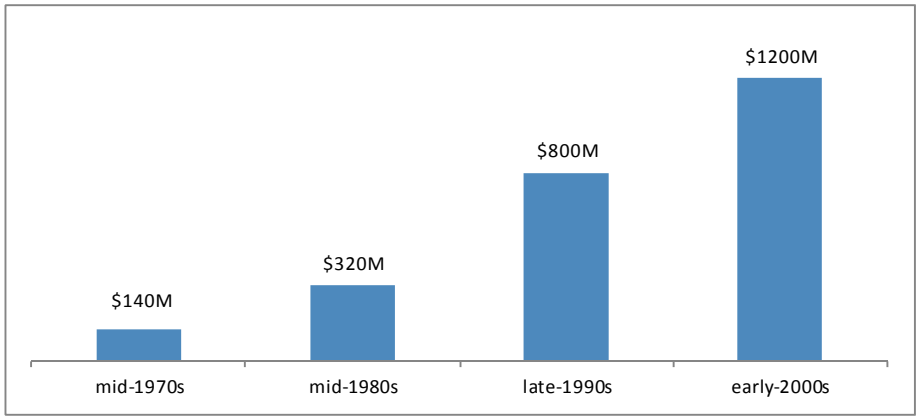
capacity and internal/fixed costs while transitioning to an external/flexible research model.

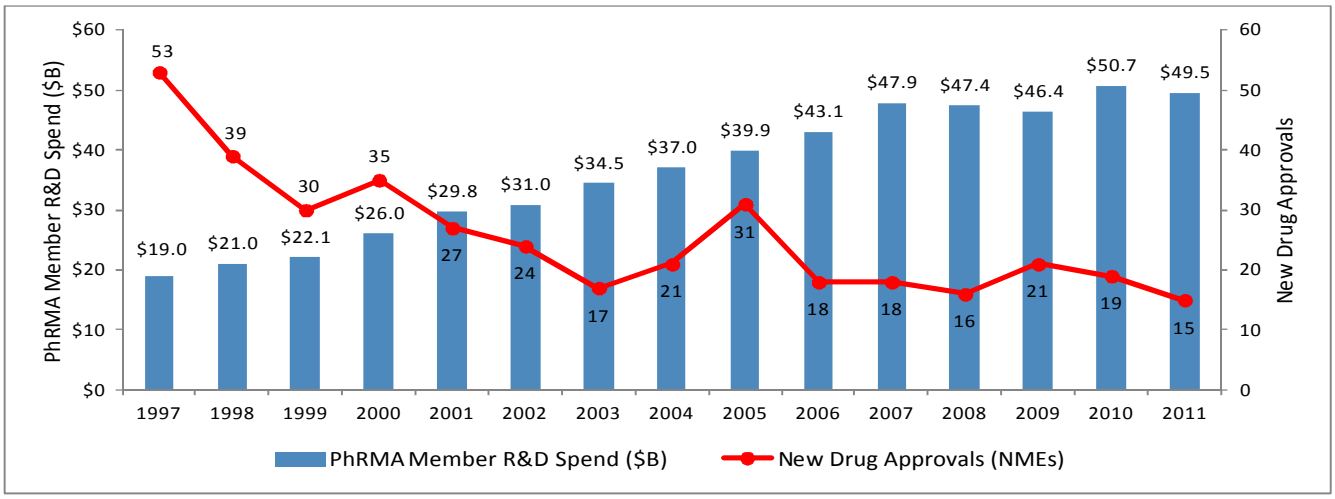
**The ROI on in-house R&D has continued to decline as costs have spiraled and approvals gotten harder to come by**

Figure 13: Consequently, the Average Cost to Develop One New Drug (Including the Cost of Failures) Has Risen Dramatically over the Last Few Decades




Source: PhRMA. (Note: Cost estimates in constant dollar terms, year 2000.)

Figure 14: In Line with Costs, R&D Spending Has Increased Dramatically, While New Drug Approvals Have Been Harder to Come By




Source: PhRMA, FDA and J.P. Morgan analysis.

**In response to falling ROI on R&D, drug companies have continued to cut capacity and costs…**

**Figure 15: With an Eye on Declining Returns on In-House R&D, Biopharmaceutical Companies Have Been Looking to Cut Capacity and Costs**

| Date/Period | Company | Facilities Closed/Number of jobs cut |
|---|---|---|
| Dec-12 | AstraZeneca | 625 Job cuts |
| Nov-12 | Bristol-Myers-Squibb | 137 Job cuts |
| Oct-12 | Sanofi Aventis | Closing Cancer Research Center |
| Oct-12 | Pfizer | 300 job cuts in Canada |
| Oct-12 | Sanofi Aventis | 900 Job cuts |
| Oct-12 | Bristol-Myers-Squibb | 479 Sales Job cuts |
| Oct-12 | Abbott Laboratories | 550 jobs affected |
| Oct-12 | Roche | 100 Jobs cuts in Diabetes restructuring |
| Aug-12 | GSK | API plant in India; 330 jobs affected |
| Jul-12 | MedImmune | California sites, 200 job cuts by 2014 |
| Jun-12 | Pfizer | 180 job cuts in Cork plants |
| Jun-12 | Roche | A Research site in New Jersey |
| May-12 | Sanofi Aventis | Kansas City manufacturing Plant |
| Apr-12 | Merck | Serono division's Geneva HQ |
| Feb-12 | AstraZeneca | R&D site in Sodertalje, Sweden |
| Feb-12 | AstraZeneca | Research Lab in Montreal, Canada |
| Feb-12 | AstraZeneca | Alderley Park Labs in Cheshire |
| Jan-12 | Novartis | To reduce 2,000 of its US workforce |
| Jan-12 | Novartis | Nebraska Production Facility |
| Jan-12 | Johnson & Johnson | Research Center in Quebec |
| Jan-12 | Takeda | 2,800 job cuts by 2015 |
| Sep-11 | Novartis | 500 more jobs (estimated) |
| Aug-11 | Pfizer | Former King Pharmaceuticals (for Bristol manufacturing operations) |
| Jul-11 | Sanofi Aventis | Divested Dermik business incl.manufacturing facilityin Laval, |
| May-11 | Bayer | Emeryville plant; will lead to 540 job cuts |
| Mar-11 | Novartis | 500 jobs cut at Horsham, UK |
| Mar-11 | Novartis | 100 jobs cut at a manufacturing operation in Tlalpan, Mexico |
| Feb-11 | Pfizer | Sandwich |
| Feb-11 | Pfizer | 1,100 job cuts in Groton due to restructuring |
| Feb-11 | GSK | 50 job cuts at US neuroscience site |
| Jan-11 | Abbott Laboratories | 1,900 job cuts |
| Nov-10 | CRL | Molecular Imaging facilityin Ann Arbor |
| Nov-10 | CRL | Announced reduction of 4% or 300 layoffsin the preclinical services |
| Nov-10 | CVD | Vienna Facility |
| Nov-10 | Novartis | 1,400 job cuts |
| Nov-10 | Bayer | 4,500 job cuts |
| Nov-10 | Roche | 4,800 job cuts (6% of workforce) |
| Oct-10 | GSK | Manufacturing facility at County Cork, Ireland; 121 jobs to be axed |
| Sep-10 | Bristol-Myers-Squibb | 840 job cuts |
| Sep-10 | Abbott Laboratories | 3,000 job cuts (3% of worksforce) |
| May-10 | Pfizer | 8 Manufacturing sites in Ireland, Puerto Rico and United States |
| May-10 | Takeda | 1,400 job cuts |
| Mar-10 | AstraZeneca | UK research centre in Charnwood near Loughborough in 2010 |

Source: Company data and J.P. Morgan estimates.

**…while also coming to depend more heavily on a "flexible" CRO-driven research model for their drug development needs**

At the heart of the CRO industry lies this continued focus by biopharmaceutical companies to improve margins and profitability. Shifting personnel and facilities from fixed to variable costs and buying services that may not be available in-house on an as-needed basis can generate significant cost savings.

In addition to the capacity/cost reductions at biopharmaceutical firms, the emergence of new technologies, such as computer-simulated modeling and targeted marketing, which may be easier to buy (from an external vendor) rather than build, is also likely to drive continued adoption of outsourced services, along with increasing regulatory requirements, in particular around post-marketing surveillance.

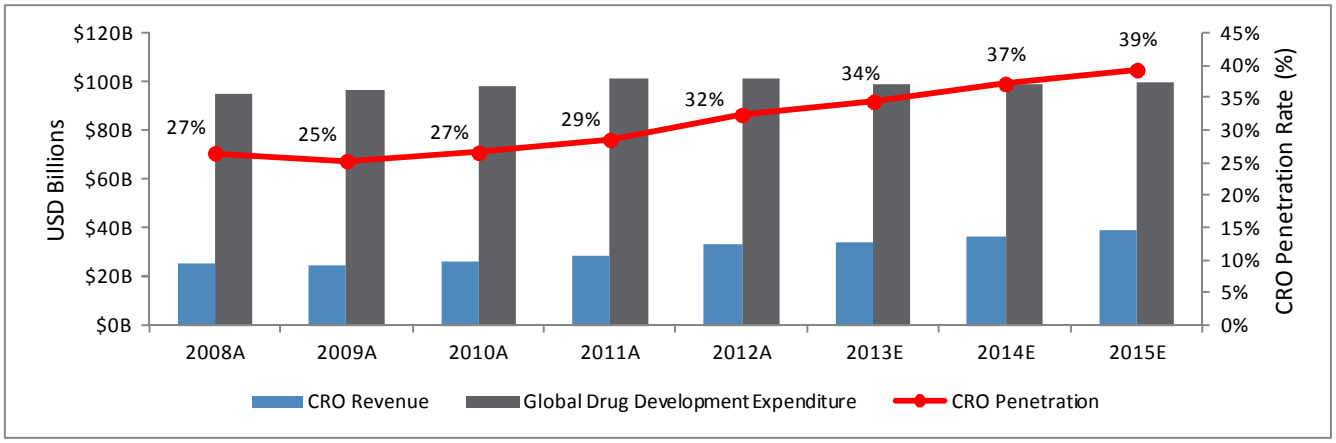
The increased globalization of clinical trials to regions where large pharma has not historically conducted research and the emergence of "new" therapeutic areas will further drive demand for more record keeping and improved data management going forward.

Finally, with the dramatic reduction in genetic analysis costs and growing effort by payers to control costs, pharmacogenomics (i.e., personalized medicine) is expected to play an increasing role, although it remains early and we do not expect DNA sequencing to be incorporated into clinical trials in the near term.

**Consequently, we expect CRO penetration rates to increase to ~39% by 2015**

We believe a combination of these trends will continue to drive CRO penetration rates in the foreseeable future. As such, in our bottom-up industry model we forecast penetration rates to increase from 34% in 2013 to approximately 39% by 2015.

**Figure 16: Driven by Robust R&D Pipelines, Increased Costs and Complexity of Drug Development and a Continued Focus on Internal Budgets, We Expect CRO Penetration Rates to Increase Steadily Through 2015**




Source: Company data and J.P. Morgan estimates.

## III. Strategic Partnerships with Sponsors Are Here to Stay – But Will They Lead to Margin Pressure?

**The last few years have seen sponsors look to consolidate CRO relationships and move towards a partnership model**

Over the last five years, biopharmaceutical sponsors have increasingly looked to consolidate among their vendors by signing multi-year agreements with a smaller number of CROs, particularly those with global reach and broad therapeutic expertise. The idea is to move away from a one-off, project-based model to that of a long-term partnership – creating a comprehensive process that integrates both organizations into a single, well-aligned clinical development engine.

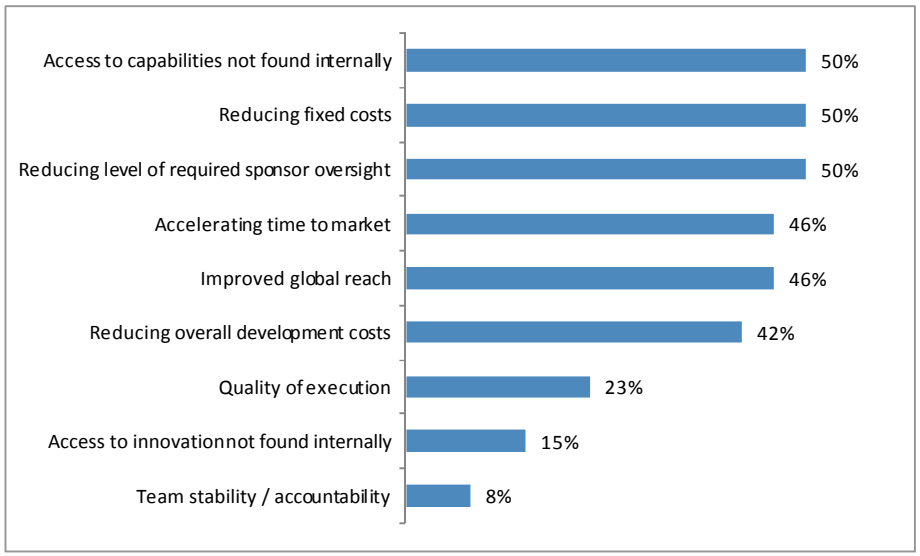
**Figure 17: Global CROs with Broad Therapeutic Expertise Have Continued to Gain Share via Signing Long-Term Strategic Partnerships**

| CRO | Sponsor | Date | Deal Size (USD) | Commentary |
|---|---|---|---|---|
| Covance | Bayer Healthcare | 2012 | NA | Long-term partnership for PII-IV clinical studies and central lab services |
| | Takeda | 2011 | NA | Drug development in all therapeutic areas ex-oncology |
| | Sanofi | 2010 | $1.2-2.2B | 10-year contract for early/late stage drug development services |
| | Kellogg Company | 2009 | $42M | Nutritional chemistry services |
| | Merck | 2009 | $145M | Broad array of genomic analysis services + purchase of MRK's Seattle lab |
| | Eli Lilly | 2008 | >$1.6B | 10-year contract for drug development services |
| Parexel | Pfizer | 2011 | NA | 5-year contract to Increase speed/efficiency of clinical development |
| | UCB | 2011 | NA | 1 of 2 partners to support clinical development in all phases |
| | Gulf Pharma | 2011 | NA | Human recombinant insulin project |
| | Merck Bioventures | 2011 | NA | Biosimilar classes across therapeutic areas |
| | Bristol-Myers Squibb | 2010 | NA | 3-year contract for global execution of clinical studies |
| | GlaxoSmithKline | 2010 | NA | Strategic long term arrangements in move to reduce number of CRO partners |
| | Eli Lilly | 2010 | NA | Study start-up & site monitoring of clinical trials in APAC |
| PPD | Elan | 2011 | NA | Primary provider for all global clinical developent activities |
| | GlaxoSmithKline | 2010 | NA | Strategic long term arrangements in move to reduce number of CRO partners |
| | Merck | 2009 | NA | 5-year contract for vaccine development, assay development, central lab & sample storage services |
| Icon | Roche | 2012 | NA | Technology partner to store/manage medical images |
| | Shire | 2012 | | One of two strategic partners for clinical services |
| | Pfizer | 2011 | NA | 5-year contract to Increase speed/efficiency of clinical development |
| | Bristol-Myers Squibb | 2010 | NA | Global execution of clinical studies over 3 years |
| | Lilly | 2009 | NA | Clinical data management in Japan |
| Charles River | AstraZeneca | 2012 | ~1% of 2013 sales | 3-year contract as preferred partner for regulated safety assessment & development DMPK |
| INC Research | Astellas Pharma | 2012 | NA | 3-year contract for clinical monitoring, trial master file management, site start-up, study-feasibility activities & clinical data management |
| Wuxi Pharma | Taimed | 2012 | NA | Manufacture of ibalizumab in Phase II/III |
| | Bristol-Myers Squibb | 2011 | NA | Strategic partnership to conduct stability studies & provide sample management, analytical testing, quality assurance & other services in support of global dossier submissions in China |
| | Janssen | 2010 | NA | Toxicology and other preclinical services |
| Quintiles | Merck KGaA | 2013 | NA | 5-year contract with Merck-Serono for clinical trial planning and execution |
| | Sinclair IS | 2012 | NA | 10-year contract for dermo-cosmetic products & medical devices |
| | Almirall | 2012 | NA | Chronic obstructive pulmonary disease (COPD) |
| | Intarcia | 2011 | NA | Phase III program in Type II diabetes |
| | Takeda | 2011 | NA | Drug development in all therapeutic areas ex-oncology |
| | AstraZeneca | 2010 | NA | Clinical validation (joint collaboration with Dako) |
| | Biomoda | 2010 | NA | Early stage lung cancer |
| | Pharmaxis | 2010 | NA | Cystic Fibrosis |
| | Movetis | 2010 | NA | Resolor commercialization in UK & Germany |

Source: Parexel, Strategic Partnerships Survey (2013). (Note: n=26)

The advantages to both parties are obvious – the CRO gets an assured revenue stream over the life of the contract while the sponsor stands to benefit from a simpler outsourcing process, reduced oversight, shortened cycle times and deeper collaborations with fewer firms resulting in not just cost flexibility but also operational efficiencies. Given the benefits, we expect to see a continued increase in such strategic partnerships in the future. In an April 2013 Strategic Partnerships survey by Parexel Consulting, 65% of respondents expected to see an increase in R&D outsourcing over the next five years and 85% believed that strategic partnerships have had a positive impact on the CRO-sponsor relationship.

**Figure 18: Survey Results Analyzing the Impact of Strategic Partnerships on CRO-Sponsor Relationships**




Source: Parexel, Strategic Partnerships Survey (2013). (Note: n=26)

It is important to note that strategic partnerships are increasingly being defined not just in terms of commitments of time and work volume, but also by reduced oversight and governance structure and a level of mutual partnership investment (effectively, risk sharing). Moreover, CROs like Quintiles, with its best-in-class global footprint and broad therapeutic expertise, have a natural advantage over their sub-scale peers.

**While we expect a continued shift towards strategic partnerships, a lack of pricing discipline by CROs has pressured margins**

On the flip side, one of the issues often cited by industry watchers regarding strategic outsourcing has been attendant pricing pressure and gross margin erosion. Since 2010, industry gross margins have declined by ~200 bps from 35.1% to 32.9% in 2012. In large part, this erosion is attributable to discounting by some players in an effort to secure new business wins and get selected as strategic outsourcing partners by biopharmaceutical sponsors. To its credit, Quintiles has bucked this trend. Despite outgrowing its peers, the company has managed to maintain gross margins at or above the industry average. Moreover, over the last three years, Quintiles' gross margins have been consistently higher by 400-500 bps relative to those for Covance, which we view as its closest peer.

**Quintiles has managed to maintain gross margins at or above industry average, despite maintaining healthy top-line growth**

Figure 19: Despite Outgrowing Peers, Quintiles Has Maintained Pricing Discipline with Gross Margins At/Above Industry Average over the Last Four Years

| CRO | Gross Margin | | | |
|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013E |
| Q | 35.2% | 34.7% | 33.4% | 33.9% |
| CRL | 33.9% | 35.2% | 34.7% | 34.8% |
| CVD | 30.0% | 30.0% | 29.4% | 30.5% |
| ICLR | 39.8% | 35.3% | 35.6% | 36.5% |
| PRXL | 30.9% | 29.1% | 26.2% | 30.2% |
| WX | 41.1% | 39.7% | 37.8% | 37.5% |
| **Average** | **35.1%** | **34.0%** | **32.9%** | **33.9%** |

Source: Company data, Bloomberg and J.P. Morgan estimates.

## IV. Which CROs Are Leading the Shift Towards Value-Added Services?

**Value-added services such as observational research and personalized medicine are key to future CRO growth…**

Several CROs have attempted a shift towards a value-added strategy but have not committed enough resources to make it succeed. One example is Covance which acquired Merck's Seattle-based Gene Expression Laboratory in July 2009. Although the acquisition should have expanded Covance's presence in genomics testing and personalized medicine, the company under-invested in the space and the segment is now only a minimal part of overall revenue. Icon and Charles River also attempted to penetrate the imaging market with acquisitions but were not successful.

Over the last few years, through a combination of both internal efforts and focused M&A, Quintiles has added a number of differentiated service offerings, which we feel sets it apart from competition. Notable M&A has included Outcome Sciences (late phase), Advion BioServices (biomarker services and advanced testing) and Expression Analysis (genetic sequencing and bioinformatics). These services position Quintiles to be at the forefront of emerging high-growth market segments within healthcare, such as outcome-based observational research, comparable effectiveness and personalized medicine.

**…and Quintiles is leading the industry in building out a differentiated service offering**

In October 2011, Quintiles acquired Outcome Sciences for $177M in order to strengthen its late-phase offerings assisting customers in the process of showing the value of their products to patients, providers and payers. Outcome Sciences was a market leader in registries, post-approval research and quality-improvement initiatives for the biopharma, medical device and government industries. From its founding in 1998 through the acquisition in October 2011, the 200 patient registries and post-approval studies Outcome Sciences designed and managed were more than any other company in the industry. Quintiles estimates that the phase IIIB/IV market will be >$4B by 2015 and observational research will account for ~30% of that total.

In August 2012, Quintiles once again improved its drug development productivity through the acquisition of Expression Analytics, a provider of genomic sequencing, gene expression genotyping and bioinformatics to biopharma, academic and government customers. As the focus on personalized medicine has continued to emerge, this acquisition was the best way for Quintiles to help customers leverage

genomics to better understand diseases, develop diagnostic tools and deliver more effective therapies based on the genetic makeup of the disease and patient. Following the acquisition, Quintiles' services now include whole genome to focused set gene expression profiling and genotyping assays along with DNA and RNA sequencings, sequence enrichment technologies and bioinformatics support.

We believe Quintiles' proactively adding value in areas where no other CROs are actively engaged currently is a key driver of net new business wins, driving an increase from $40M in 2010 to almost $250M in 2012, and maintaining one of the highest revenue per employee ratios relative to its peer group.

Figure 20: Quintiles Has Among the Highest Revenues per Employee Relative to Its Peer Group

| CRO | 2012 Revenue Growth (% y/y) | 2012 Net Income Growth (% y/y) | 2012 Revenues (in 000's) | Number of employees | Revenues per employee (USD) |
|---|---|---|---|---|---|
| | | | | | |
| **Q** | **12.1%** | **9.4%** | **$4,865,510** | **27,000** | **$180,204** |
| CRL | -1.1% | 0.9% | $1,129,530 | 8,500 | $132,886 |
| CVD | 3.6% | -7.9% | $2,171,926 | 11,200 | $193,922 |
| ICLR | 17.9% | 89.5% | $1,115,010 | 10,200 | $109,315 |
| PRXL | 13.8% | 32.6% | $1,618,230 | 14,000 | $115,588 |
| WX | 22.8% | 9.3% | $499,910 | 7,000 | $71,416 |

Source: Company data and J.P. Morgan estimates.

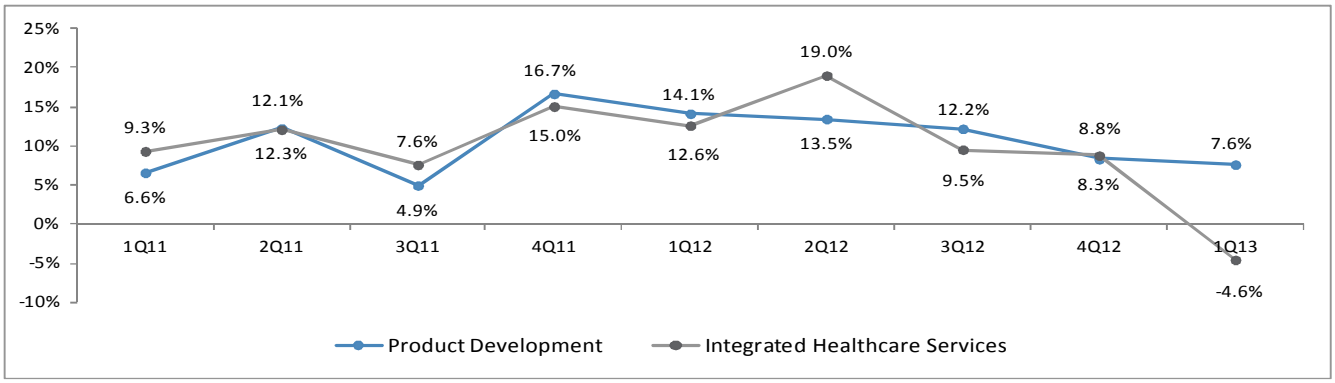
## V. Is Quintiles' Integrated Healthcare Services Business Central to Its Growth Strategy?

**While some investors may question the importance of IHS to Quintiles' growth strategy, the company continues to believe in the long-term value of this segment to its overall service offering**

Given the significant difference in margin profiles between Integrated Healthcare Services and Product Development, investors may question the importance of this segment to Quintiles' overall business strategy. Operating margins in IHS have been in the mid-single-digit range versus high teens for Product Development, dragging down the corporate average to ~12-13%.

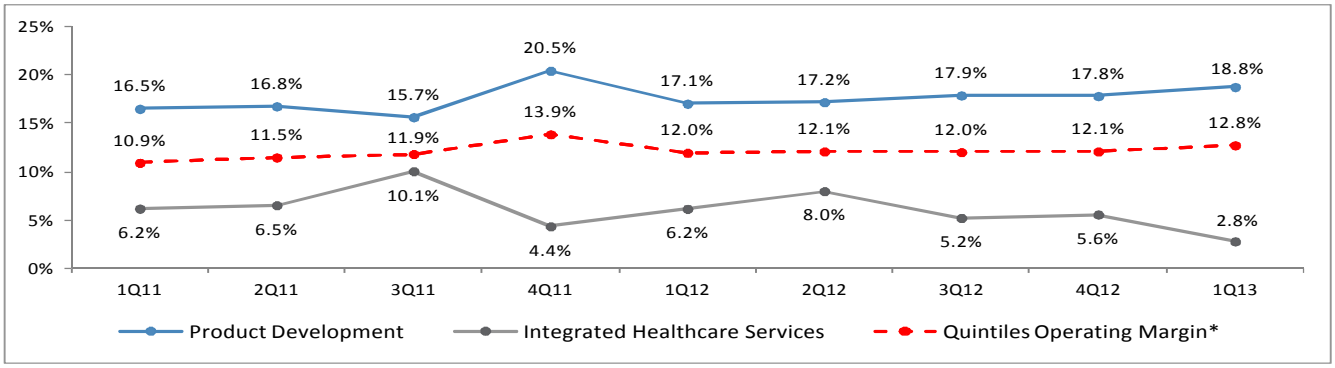
While the company admits that product development is its core market, it believes that the IHS segment complements its portfolio by addressing markets related to the use of approved pharmaceutical products, and linking Product Development to healthcare delivery. As such, the company has no plans to divest the business as of now. Management considers it an important enabler of growth that allows Quintiles to participate in high-growth emerging areas within healthcare such as outcome-based payer and provider services including observational studies, comparative effectiveness research, and product and disease registry services.

Figure 21: Quintiles – Revenue Growth (Y/Y) by Segment




Source: Company data and J.P. Morgan estimates.

Figure 22: Quintiles – Operating Margin Profile by Segment




Source: Company data and J.P. Morgan estimates.

# Financial Outlook

Over the last five years (2007-12A), Quintiles' revenue has grown at a CAGR of 8.4%, essentially all of which was organic. The company has seen gross margins compress from 35.6% to 33.4% due to an industry-wide compression related to pricing pressure. This GM pressure has been offset on the operating margin line by an increasing shift of the sales force to lower-cost regions outside the United States.

Over the next five years, we model a revenue growth CAGR of 6.3% (nearly all of which is organic), cumulative gross margin expansion of +80bp (to 34.2% in 2017) and operating margin expansion of +150bp (to 13.6%). Putting these together along with the paying down of debt, in our view, Quintiles should be a double-digit EPS growth company for multiple years to come.

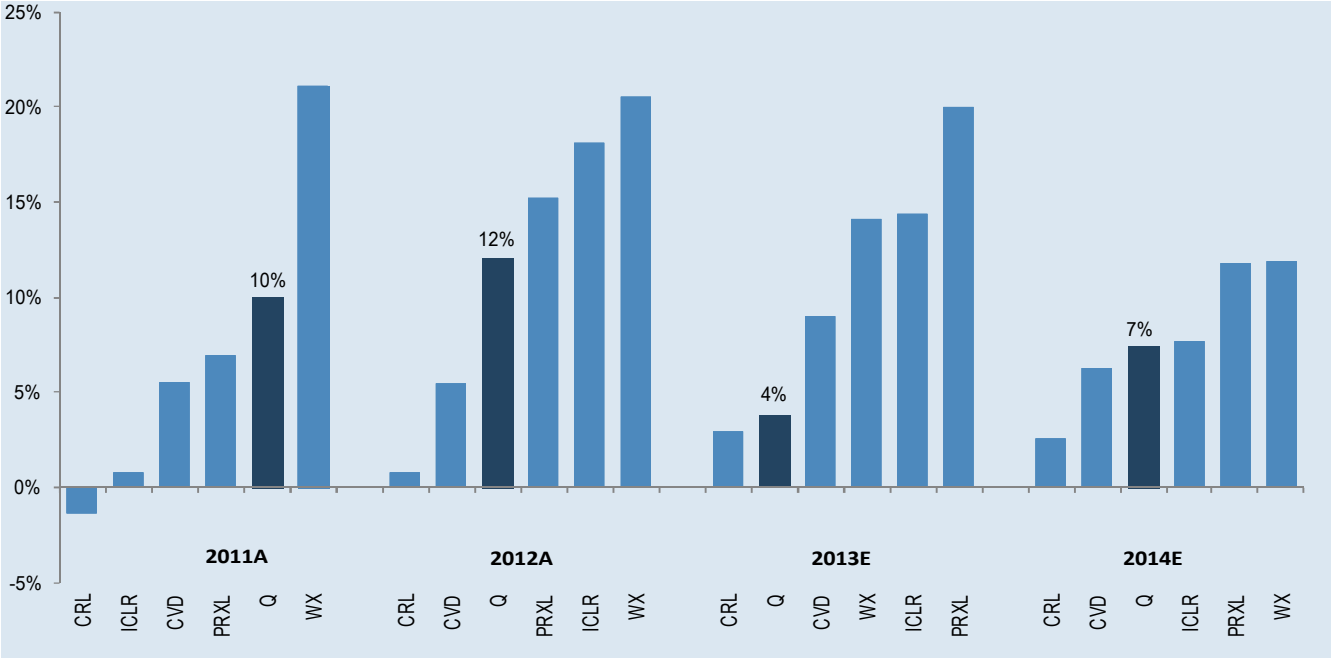
## Global Scale and Late-Stage Footprint Will Drive Above-Market Top-Line Growth

**Driven by Quintiles' unmatched global scale and a best-in-class late-stage footprint, we forecast mid- to high-single-digit top-line growth through 2015**

We model Quintiles with mid- to high-single-digit organic revenue growth for the foreseeable future (versus low-single-digit growth in global drug development budgets). We note that this is with the exception of 4% growth in 2013 when the company is likely to be a victim of its own success, facing a tough year-over-year comparison of 12% growth. We believe there are multiple drivers of this growth with

the primary ones being a best-in-class late-stage footprint and an unrivaled global scale with breadth and depth of therapeutic expertise. While late-stage clinical trial spending continues to grow faster than overall R&D budgets, Quintiles' scale allows the company access to high-growth geographic markets (revenue in China doubled from 2007 to 2012 to >$800M) as well as emerging areas within healthcare such as outcome research and personalized medicine. Another driver is service revenue which grew at a CAGR of 11% from 2010 to 2012 and we expect will continue to grow in the double digits.

**Figure 23: Y/Y Organic Growth – Q versus CRO Peers**



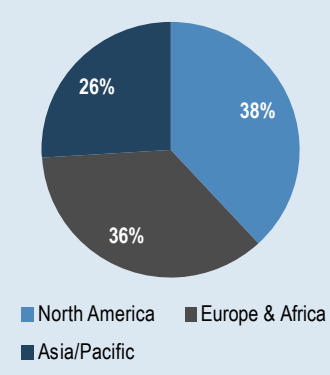

Source: Company data, Bloomberg and J.P. Morgan estimates.

- **Product Development** is expected to be the primary driver of revenue and margin expansion going forward. We project revenue growth of +6.7% over the 2012A-2017E period. We anticipate the operating margin for the segment will expand 180bp from 17.5% in 2012A to 19.3% in 2017E.
- **Integrated Healthcare Services** should have slower growth as we project 5.0% revenue growth over the 2012A-2017E period. We model operating margin for the segment to compress over that time from 13.6% in 2012A to 10.9% in 2017E.

## Deleveraging Is Key Driver of Double-Digit EPS Growth

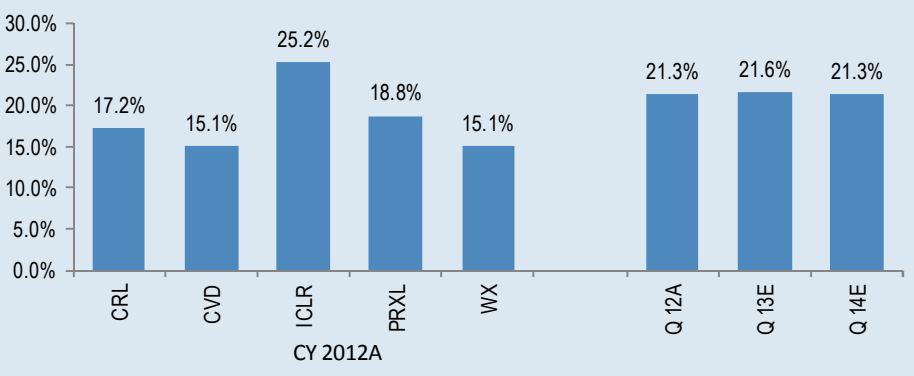
We are not expecting significant operating margin leverage from Quintiles, with operating profit margins forecast to expand 100bps over the next three years from 12.1% in 2012 to 13.1% in 2015. This expansion is driven by improving gross margin as the company continues to leverage costs across the organization. We do not anticipate much leverage in the SG&A line as the company has already optimized capacity by location with offices in 60 countries and ten countries that have >500 employees. Of the company's 27,000 employees, there are 9,850 employees in Europe and Africa and 6,950 employees in Asia/Pacific.

Figure 24: Quintiles – Sales Force by Geography




Source: Company data.

Figure 25: Quintiles vs. Peers – SG&A as a Percentage of Revenue




Source: Company data and J.P. Morgan estimates.

**While opportunities for further operating leverage are limited, deleveraging supported by strong FCF generation should provide ample cushion to support mid-teens EPS growth through 2015**

Currently, Quintiles debt/EBITDA ratio is 3.7x and the company paid $131M in interest expense on debt of $2.4B in 2012. As the company is not driving much leverage in the gross or operating margin lines, paying down this debt will be a key driver for EPS growth, which we expect to be 20% in 2014. We expect management to use the proceeds from the IPO as well as the strong FCF to begin to pay down debt this quarter, with the debt level declining from $2.41B in 1Q to $2.06B in 2Q. We expect interest expense to be $122M in 2013, and then decline to $99M in 2014 which accounts for 7% of the total 20% EPS growth forecast for the year.

Figure 26: Quintiles' Margin Progression

| | 2011A | 2012A | 2013E | 2014E |
|---|---|---|---|---|
| Gross Margin | 34.7% | 33.4% | 33.9% | 34.1% |
| SG&A | 22.6% | 21.3% | 21.6% | 21.3% |
| Operating Margin | 12.1% | 12.1% | 12.3% | 12.8% |

Source: Company data and J.P. Morgan estimates.

**Less reliance on top-five customers than peers**

Quintiles has a well-diversified revenue base, with revenue from top-5 customers accounting for only 35% of sales in 2012, down from 39% in 2011. This compares favorably to other CROs such as ICLR, at which top-5 clients accounted for 51% of 1Q13 sales. Overall, Quntiles derives ~60% of revenue from its top-10 clients and ~77% from the top 20. We view this relatively low customer concentration risk

positively as budget cuts by a top-5 customer would impact Quintiles to a lesser degree than other CROs.

**Bookings and backlog remain strong**

Quintiles reported strong adjusted net orders of $1.3B in 1Q13 and $4.5B in 2012. These orders led to an adjusted net book-to-bill ratio of 1.37 in 1Q13 and 1.22 in 2012 (relative to an average of 1.23x over the last five years). Quintiles had a backlog of $8.7B at the end of 2012 with expectations of recognizing $3.1B of that in 2013. With the largest backlog in the industry ($9.0B in 1Q13) and strong late-stage demand from biopharma companies, we expect the net book-to-bill ratio to improve overall.

**Figure 27: Quintiles – Historical Backlog and Net Orders**

| $ in millions | 1Q11A | 2Q11A | 3Q11A | 4Q11A | 1Q12A | 2Q12A | 3Q12A | 4Q12A | 1Q13A |
|---|---|---|---|---|---|---|---|---|---|
| Total Backlog | $7,022 | $7,333 | $7,502 | $7,973 | $8,088 | $8,028 | $8,153 | $8,704 | $9,000 |
| Product Development Net Orders | $449 | $895 | $863 | $834 | $849 | $746 | $790 | $1,086 | $1,100 |
| Integrated Health Net Orders | $314 | $216 | $105 | $369 | $203 | $154 | $252 | $421 | $170 |
| **Total Net Orders** | $763 | $1,111 | $968 | $1,203 | $1,052 | $900 | $1,042 | $1,507 | $1,270 |
| Product Development Book-to-Bill | 0.78 | 1.47 | 1.43 | 1.28 | 1.29 | 1.08 | 1.17 | 1.54 | 1.56 |
| Integrated Health Book-to-Bill | 1.52 | 1.02 | 0.49 | 1.65 | 0.88 | 0.61 | 1.07 | 1.74 | 0.77 |
| **Net Book-to-Bill** | 0.98 | 1.35 | 1.18 | 1.38 | 1.18 | 0.95 | 1.14 | 1.59 | 1.37 |

Source: Company reports.

**Possible capital deployment strategies**

Quintiles' current debt/EBITDA ratio of 3.7x is likely to preclude the company from any capital deployment in the near term. That said, we expect the proceeds from the IPO along with the strong FCF to go towards paying down the debt. As a result, debt/EBITDA should moderate to 2.1x by the end of 2013 and 1.4x by the end of 2014, which would allow the company to begin to return capital to shareholders. While dividends have not been common in the CRO space, we believe Quintiles may be the first to elect to pay a dividend based on company history and its strong FCF. We expect the company will also institute a share repurchase program, likely sometime in 2014.

# Valuation

At current levels, we believe Q has favorable risk/reward, and see room for multiple expansion as the company continues to organically grow revenues, pay down debt and grow free cash flow. Our December 2014 price target on Q is $50.

Our preferred valuation metric is discounted cash flow of our base-case assumptions, though we sanity-check this value against peers (relative valuation).

**Absolute valuation**

Our 2014 price target of $50 is derived from 10-year discounted cash flow analysis, with a CAPM-derived WACC discount rate of 9.0% and terminal growth of 1.5% (see Figure 31). We show sensitivity analysis for the value of the company's equity on both WACC and the terminal growth rate, the two most subjective metrics of the analysis.

**Relative valuation**

For relative valuation, we use the other publicly traded CROs as the peer group and continue to prefer the EV/EBITDA metric. On a 2014E EV/EBITDA basis, Quintiles currently trades at a ~17% premium to its peer average.

Our $50 price target implies an 11.6x EV/EBITDA multiple on 2014 estimates, a ~10% premium to its closest competitor, Covance, which we believe is justified, given Quintiles' best-in-class scale and superior EPS growth profile.

Figure 28: Quintiles vs. Peers – Fundamentals and Relative Valuation

| Metric | Q (Overweight) | CVD (Overweight) | CRL (Overweight) | ICLR (Neutral) | WX (Overweight) | PRXL (Not Covered) | Average |
|---|---|---|---|---|---|---|---|
| Company Fundamentals | | | | | | | |
| Organic Growth 2011A | 10.0% | 5.5% | -1.4% | 0.8% | 21.4% | 6.9% | 7.2% |
| Organic Growth 2012A | 12.1% | 5.4% | 0.8% | 18.1% | 20.5% | 15.2% | 12.0% |
| Organic Growth 2013E | 3.8% | 8.9% | 2.9% | 14.4% | 14.1% | 21.0% | 10.9% |
| Organic Growth 2014E | 7.4% | 6.3% | 2.6% | 7.7% | 11.9% | 11.0% | 7.8% |
| EBIT Margin 2011A | 12.1% | 10.3% | 17.6% | 4.2% | 23.8% | 7.4% | 12.6% |
| EBIT Margin 2012A | 12.1% | 9.1% | 17.5% | 6.6% | 21.2% | 6.8% | 12.2% |
| EBIT Margin 2013E | 12.3% | 9.8% | 17.3% | 9.1% | 20.9% | 8.5% | 13.0% |
| EBITDA Margin 2011A | 14.9% | 15.2% | 23.2% | 8.3% | 31.4% | 12.8% | 17.6% |
| EBITDA Margin 2012A | 14.7% | 14.3% | 23.2% | 10.4% | 30.3% | 11.6% | 17.4% |
| EBITDA Margin 2013E | 14.8% | 14.8% | 23.0% | 12.5% | 29.4% | 12.8% | 17.9% |
| Book-to-Bill 2011A | 1.23 | 1.21 | | 1.38 | | 1.51 | 1.33 |
| Book-to-Bill 2012A | 1.22 | 1.32 | | 1.42 | | 1.76 | 1.43 |
| Valuation | | | | | | | |
| P/E 2012A (GAAP) | 24.3x | 29.1x | 15.8x | 35.9x | 15.1x | 42.5x | 27.1x |
| P/E 2013E (GAAP) | 23.4x | 24.7x | 15.3x | 22.5x | 13.8x | 28.9x | 21.4x |
| EV/EBITDA 2012A | 13.7x | 13.6x | 10.3x | 17.0x | 8.6x | 16.5x | 13.3x |
| EV/EBITDA 2013E | 13.1x | 12.0x | 10.0x | 12.3x | 7.7x | 12.8x | 11.3x |
| EV/EBITDA 2014E | 11.8x | 10.8x | 9.6x | 10.7x | 7.3x | 10.7x | 10.1x |
| FCF Yield 2012A | 4.8% | 2.6% | 8.0% | 3.9% | 3.0% | 6.1% | 4.7% |

Source: Company data, Bloomberg and J.P. Morgan estimates.

# Appendix I: Questions for Management

- Segmentation & trends within Product Development Services (74% Revenues), 90% OI – 2012

  In Phase 1, why did you buy Advion? What was the thought process there? Since Preclinical/Phase 1 have generally been unprofitable, why buy them?

- Central Lab

  What is the competitive positioning versus CVD? Has it been taking share from DGX and others?

- Phase 2-3 & Phase 4

  What is the outlook on strategic outsourcing in light of PFE/SNY/LLY and the recent Merck-Serono announcement? Is there more to come? Are there any thoughts on PPDI's competitive positioning?

- Late Phase & Consulting Services

  There have been several acquisitions in this area – can these be developed internally, or do you need to acquire to grow? What is the pull-through from Phase III/IV work?

  What are the margins in Central Lab versus the rest of the business? Why was there a dip in OMs in 2011 and a rebound in 2012?

- Segmentation within Integrated Healthcare Services

  Commercial Services – Contract Sales:

  How much of the business is aligned with only a few partners like LLY on Cymbalta?

  Outcome/Payer Solutions:

  How much coordination is there with UNH, ESRX, Medco, etc.? Have there been any comments from UNH?

- Why does Integrated Healthcare Services have low margins – is that because a portion of this is just distributor revenue? What is the revenue and margin outlook for this business? Are there any other Cymbalta-like headwinds ahead?

- How many studies have there been over time that include biomarkers, genomics and personalized medicine? What is the outlook for the future?

- Why was PharmaBio spun off in 2009?

- What are the contributions to growth from acquisitions each year?

- Did operating cash flow and profitability come down significantly in 2011? Also, were there strong earnings off of unconsolidated affiliates and a lower tax rate?

- Do you have thoughts on equity investments and other investments in your model? Or are these just one-off events and generally quite small?
- Can you outline your China strategy going forward? What other markets are interesting from a geographic or therapeutic perspective (e.g., CMO, animal models)?
- Sector Valuations

  The entire sector has traded up – why is this is a good time to play the space?
- Recent Momentum

  Why is your growth in 2013 slower than that of competitors?
- Margin impact of strategic partnerships

  Does pricing power rest with large pharmaceutical companies when awarding large contracts?
- True visibility despite backlog

  There were a number of cancellations in 2008-2009 across the industry despite business being "backlogged" – what does this mean for revenue visibility going forward?
- Potential for another wave of consolidation

  Could another set of pharmaceutical mergers result in a repeat of 2008-2009 performance for CROs?
- Funding environment for biotech companies

  What is the impact of the difficult financing environment for biotech?
- IPO-related changes at Quintiles

  What changes, if any, does the CEO intend to make?

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# Appendix II: Financial Model

## Figure 29: Income Statement

| Income Statement | | | 1QA | 2QA | 3QA | 4QA | | 1QA | 2QE | 3QE | 4QE | | | | CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USD $M | 2010pf | 2011A | Mar | Jun | Sep | Dec | 2012A | Mar | Jun | Sep | Dec | 2013E | 2014E | 2015E | 10-15E |
| Product Development | 2,222 | 2,438 | 656 | 692 | 677 | 703 | 2,729 | 706 | 720 | 719 | 723 | 2,868 | 3,086 | 3,302 | 8.2% |
| Integrated Healthcare Services | 775 | 857 | 232 | 253 | 236 | 243 | 964 | 221 | 231 | 248 | 265 | 965 | 1,033 | 1,095 | 7.2% |
| **Total Revenue** | **2,997** | **3,295** | **888** | **945** | **914** | **946** | **3,692** | **927** | **951** | **967** | **987** | **3,833** | **4,119** | **4,397** | **8.0%** |
| Book-to-Bill | 1.19 | 1.23 | 1.18 | 0.95 | 1.14 | 1.59 | 1.22 | 1 | | | | | | | |
| Gross Profit | 1,055 | 1,142 | 297 | 317 | 301 | 317 | 1,233 | 316 | 323 | 330 | 331 | 1,300 | 1,405 | 1,501 | 7.3% |
| SG&A | (656) | (744) | (191) | (202) | (191) | (203) | (788) | (198) | (208) | (211) | (210) | (828) | (877) | (927) | 0.0% |
| EBIT (Operating Income) | 399 | 398 | 106 | 114 | 110 | 115 | 445 | 118 | 114 | 119 | 121 | 473 | 528 | 574 | 7.5% |
| EBITDA | 483 | 490 | 130 | 138 | 136 | 140 | 544 | 143 | 137 | 143 | 145 | 569 | 631 | 687 | 7.3% |
| Pre-Tax Income | 261 | 296 | 80 | 88 | 74 | 76 | 318 | 86 | 79 | 95 | 96 | 355 | 431 | 485 | |
| Income Taxes | (78) | (102) | (30) | (32) | (22) | (28) | (112) | (34) | (28) | (30) | (31) | (122) | (138) | (155) | |
| Net Income | 180 | 191 | 52 | 56 | 53 | 48 | 209 | 51 | 53 | 65 | 66 | 234 | 296 | 333 | 13.0% |
| Diluted Shares Outstanding | 118.0 | 117.9 | 117.8 | 117.8 | 117.8 | 117.8 | 117.8 | 118.7 | 125.6 | 133.0 | 133.5 | 127.7 | 134.7 | 134.8 | 2.7% |
| GAAP Diluted EPS | $ 1.04 | $ 2.05 | $ 0.37 | $ 0.40 | $ 0.44 | $ 0.30 | $ 1.51 | $ 0.41 | $ 0.34 | $ 0.49 | $ 0.49 | $ 1.73 | $ 2.20 | $ 2.47 | |
| **Adjusted Diluted EPS (non-GAAP)** | **$ 1.53** | **$ 1.62** | **$ 0.44** | **$ 0.47** | **$ 0.45** | **$ 0.41** | **$ 1.77** | **$ 0.43** | **$ 0.42** | **$ 0.49** | **$ 0.49** | **$ 1.84** | **$ 2.20** | **$ 2.47** | **10.1%** |
| Gross Margin | 35.2% | 34.7% | 33.5% | 33.5% | 33.0% | 33.5% | 33.4% | 34.1% | 33.9% | 34.1% | 33.5% | 33.9% | 34.1% | 34.1% | |
| change in gross margin (y/y, bp) | -186 | -55 | -81 | -89 | -112 | -217 | -127 | +62 | +40 | +113 | -3 | +52 | +19 | +3 | |
| SG&A | 21.9% | 22.6% | 21.5% | 21.4% | 21.0% | 21.4% | 21.3% | 21.4% | 21.9% | 21.8% | 21.3% | 21.6% | 21.3% | 21.1% | |
| Operating Margin | 13.3% | 12.1% | 12.0% | 12.1% | 12.0% | 12.1% | 12.1% | 12.8% | 12.0% | 12.4% | 12.2% | 12.3% | 12.8% | 13.1% | |
| change in op margin (y/y, bp) | +1332 | -122 | +103 | +61 | +19 | -178 | -3 | +78 | -12 | +31 | +11 | +26 | +48 | +25 | |
| EBITDA Margin | 16.1% | 14.9% | 14.6% | 14.6% | 14.9% | 14.8% | 14.7% | 15.4% | 14.4% | 14.8% | 14.7% | 14.8% | 15.3% | 15.6% | |
| Tax Rate | 38.1% | 34.5% | 37.0% | 37.1% | 29.7% | 36.3% | 34.9% | 39.2% | 20.0% | 32.0% | 32.0% | 31.8% | 32.0% | 32.0% | |
| Profit Margin | 6.0% | 5.8% | 5.9% | 5.9% | 5.8% | 5.1% | 5.7% | 5.5% | 5.5% | 6.7% | 6.7% | 6.1% | 7.2% | 7.6% | |
| Reported Revenue Growth y/y | -0.5% | 10.0% | 13.7% | 14.9% | 11.5% | 8.4% | 12.1% | 4.4% | 0.7% | 5.9% | 4.4% | 3.8% | 7.4% | 6.7% | |
| EBITDA Growth y/y | | 1.5% | 21.4% | 18.1% | 12.5% | -4.0% | 10.9% | 10.3% | -0.6% | 5.5% | 3.5% | 4.6% | 11.0% | 8.8% | |
| EPS Growth y/y | | 6.0% | 50.8% | 34.2% | 40.5% | -37.4% | 9.5% | -3.5% | -11.7% | 9.6% | 20.5% | 3.5% | 19.8% | 12.3% | |

Source: Company data and J.P. Morgan estimates.

## Figure 30: Balance Sheet and Cash Flow

| Balance Sheet and Cash Flow | | | 1QA | 2QA | 3QA | 4QA | | 1QA | 2QE | 3QE | 4QE | | | | CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USD $M | 2010pf | 2011A | Mar | Jun | Sep | Dec | 2012A | Mar | Jun | Sep | Dec | 2013E | 2014E | 2015E | 10-15E |
| Balance Sheet | | | | | | | | | | | | | | | |
| Cash + ST Investments | 669 | 519 | | | 510 | 571 | 571 | 458 | 770 | 841 | 918 | 918 | 1,066 | 1,152 | |
| Receivables | 593 | 691 | | | 752 | 745 | 745 | 779 | 784 | 789 | 805 | 805 | 865 | 923 | |
| Inventories | 0 | 0 | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Current Assets | 1,414 | 1,365 | | | 1,420 | 1,510 | 1,510 | 1,439 | 1,756 | 1,832 | 1,925 | 1,925 | 2,133 | 2,277 | |
| PP&E | 184 | 186 | | | 188 | 194 | 194 | 190 | 196 | 203 | 215 | 215 | 258 | 299 | |
| Non-Current Assets | 651 | 957 | | | 1,044 | 989 | 989 | 987 | 980 | 974 | 973 | 973 | 964 | 953 | |
| Accounts Payable | 73 | 687 | | | 742 | 752 | 752 | 671 | 760 | 762 | 785 | 785 | 841 | 897 | |
| Current Liabilities | 1,138 | 1,192 | | | 1,222 | 1,318 | 1,318 | 1,222 | 1,326 | 1,353 | 1,401 | 1,401 | 1,557 | 1,613 | |
| Long-Term Debt | 1,677 | 1,952 | | | 2,233 | 2,366 | 2,366 | 2,355 | 2,010 | 1,985 | 1,960 | 1,960 | 1,760 | 1,560 | |
| Non-Current Liabilities | 1,827 | 2,100 | | | 2,400 | 2,541 | 2,541 | 2,527 | 2,183 | 2,158 | 2,133 | 2,133 | 1,933 | 1,733 | |
| Shareholders Equity | (900) | (970) | | | (1,157) | (1,360) | (1,360) | (1,322) | (772) | (704) | (636) | (636) | (392) | (116) | |
| **Net Cash (Debt)** | **(993)** | **(1,419)** | | | **(1,680)** | **(1,815)** | **(1,815)** | **(1,895)** | **(1,254)** | **(1,183)** | **(1,107)** | **(1,107)** | **(859)** | **(573)** | |
| per share | (8.42) | (12.03) | | | (14.26) | (15.41) | (15.41) | (15.96) | (9.99) | (8.90) | (8.29) | (8.67) | (6.37) | (4.25) | |
| Net Debt/EBITDA | 2.4x | 3.2x | | | 3.3x | 3.7x | 3.7x | 3.7x | 2.5x | 2.3x | 2.1x | 2.1x | 1.4x | 0.8x | |
| Cash Conversion Cycle (days) | | | | | | | (36) | 0 | (35) | (35) | (35) | (37) | (35) | (35) | |
| Cash Flow | | | | | | | | | | | | | | | |
| Cash Flow from Operations | 378 | 161 | 53 | 58 | 65 | 160 | 336 | (21) | 153 | 89 | 100 | 320 | 406 | 453 | 3.7% |
| Capex | (80) | (76) | (16) | (16) | (16) | (22) | (71) | (31) | (17) | (17) | (23) | (88) | (95) | (101) | 4.8% |
| Cash Flow from Investments | (141) | (225) | (40) | (40) | (40) | (13) | (132) | (36) | (17) | (17) | (23) | (93) | (95) | (101) | |
| Sale (Repurchase) of Equity | | | (4) | (4) | (4) | 2 | (9) | 0 | 525 | 0 | 0 | 525 | (63) | (66) | |
| Issuance (Reduction) of Debt | | | 90 | 90 | 90 | 165 | 436 | (34) | (350) | 0 | 0 | (384) | (100) | (200) | |
| Dividends Paid | | | (109) | (109) | (109) | (242) | (568) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Cash Flow from Financing | (153) | (59) | (22) | (22) | (22) | (80) | (147) | (34) | 175 | 0 | 0 | 141 | (163) | (266) | |
| **Free Cash Flow** | **298** | **85** | **37** | **41** | **48** | **138** | **264** | **(53)** | **136** | **71** | **77** | **231** | **311** | **352** | **N/A** |
| FCF Per Share | | | 0.31 | 0.35 | 0.41 | 1.17 | 2.24 | (0.45) | 1.09 | 0.54 | 0.57 | 1.81 | 2.31 | 2.61 | |
| FCF Growth y/y | | | | | | | | -244.2% | 229.5% | 47.4% | -44.5% | -12.6% | 34.5% | 13.2% | |
| Dividend per Share | | | 0.92 | 0.92 | 0.92 | 2.05 | 4.82 | 1.18 | 0.00 | 0.00 | 0.00 | 1.18 | 0.00 | 0.00 | |

Source: Company data and J.P. Morgan estimates.

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## Figure 31: Discounted Cash Flow Analysis

Target Period: **Dec 2013**

| *Projected FY Ending Dec* | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue ($M) | 3,295 | 3,692 | 3,833 | 4,119 | 4,397 | 4,693 | 5,010 | 5,349 | 5,710 | 6,096 | 6,508 | 6,948 |
| growth y/y | | 12% | 4% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% |
| EBIT ($M) | 345 | 396 | 427 | 522 | 574 | 612 | 667 | 726 | 790 | 860 | 935 | 1,016 |
| EBIT margin | 10% | 11% | 11% | 13% | 13% | 13% | 13% | 14% | 14% | 14% | 14% | 15% |
| Tax-affected EBIT ($M) | 226 | 258 | 291 | 355 | 390 | 416 | 454 | 494 | 537 | 585 | 636 | 691 |
| **Free Cash Flow** | **195** | **282** | **269** | **359** | **399** | **427** | **465** | **466** | **496** | **543** | **592** | **646** |
| growth y/y | | 45% | -4% | 33% | 11% | 7% | 9% | 0% | 7% | 9% | 9% | 9% |

| Discount Rate | Discounted Cash Flows ($M) 2014-2023 | | PV of Terminal Value ($M) at a Perpetual Growth Rate of 0.5% | 1.0% | 1.5% | 2.0% | 2.5% | | Enterprise Value ($M) 0.5% | 1.0% | 1.5% | 2.0% | 2.5% | | Equivalent Terminal EBITDA Multiple (forward 12 mos) 0.5% | 1.0% | 1.5% | 2.0% | 2.5% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 8.0% | 3,295 | | 4,662 | 5,019 | 5,431 | 5,912 | 6,480 | | 7,957 | 8,314 | 8,726 | 9,207 | 9,775 | | 6.5x | 6.7x | 7.1x | 7.5x | 7.9x |
| 8.5% | 3,216 | | 4,212 | 4,515 | 4,861 | 5,260 | 5,725 | | 7,428 | 7,731 | 8,077 | 8,476 | 8,941 | | 6.0x | 6.3x | 6.6x | 6.9x | 7.3x |
| **9.0%** | 3,139 | + | 3,822 | 4,080 | **4,373** | 4,708 | 5,095 | = | 6,961 | 7,220 | **7,513** | 7,848 | 8,234 | | 5.6x | 5.9x | **6.1x** | 6.4x | 6.7x |
| 9.5% | 3,066 | | 3,480 | 3,703 | 3,953 | 4,237 | 4,561 | | 6,545 | 6,768 | 7,019 | 7,302 | 7,627 | | 5.3x | 5.5x | 5.7x | 5.9x | 6.2x |
| 10.0% | 2,994 | | 3,179 | 3,372 | 3,588 | 3,830 | 4,105 | | 6,173 | 6,366 | 6,582 | 6,825 | 7,100 | | 5.0x | 5.2x | 5.3x | 5.5x | 5.8x |
| | Net Debt (Cash) ($M) | | Equity Value ($M) 0.5% | 1.0% | 1.5% | 2.0% | 2.5% | | Equity Value per Share 0.5% | 1.0% | 1.5% | 2.0% | 2.5% | | Terminal Value as a % of Enterprise Value 0.5% | 1.0% | 1.5% | 2.0% | 2.5% |
| | 1,107 | | 6,850 | 7,208 | 7,620 | 8,100 | 8,668 | | $53.65 | $56.44 | $59.67 | $63.43 | $67.88 | | 59% | 60% | 62% | 64% | 66% |
| | 1,107 | | 6,321 | 6,624 | 6,970 | 7,369 | 7,834 | | $49.50 | $51.87 | $54.58 | $57.71 | $61.35 | | 57% | 58% | 60% | 62% | 64% |
| - | 1,107 | = | 5,854 | 6,113 | **6,406** | 6,741 | 7,127 | = | $45.85 | $47.87 | **$50.17** | $52.79 | $55.81 | | 55% | 57% | **58%** | 60% | 62% |
| | 1,107 | | 5,439 | 5,661 | 5,912 | 6,196 | 6,520 | | $42.59 | $44.34 | $46.30 | $48.52 | $51.06 | | 53% | 55% | 56% | 58% | 60% |
| | 1,107 | | 5,067 | 5,260 | 5,476 | 5,718 | 5,993 | | $39.68 | $41.19 | $42.88 | $44.78 | $46.93 | | 51% | 53% | 55% | 56% | 58% |

Source: Company data and J.P. Morgan estimates.

# Appendix III: Top-10 Holders of Quintiles' Stock

## Figure 32: Top-10 Holders of Quintiles Stock After the IPO

| Top-10 Holders | Shares Held | % Outstanding |
|---|---|---|
| Bain Capital Investors LLC | 23,950,266 | 18.58 |
| TPG Group Holdings (SBS) Advisor | 22,536,759 | 17.48 |
| Dennis B Gillings | 21,253,689 | 16.49 |
| 3I Group PLC | 15,824,533 | 12.28 |
| Temasek Holdings Private LTD | 8,265,828 | 6.41 |
| GF Investment Associates LP | 2,656,897 | 2.06 |
| Aisling Capital | 1,823,575 | 1.41 |
| Interfund Advisory Co SA | 370,465 | 0.29 |
| Derek M Winstanly | 319,500 | 0.25 |
| John D Ratliff | 280,000 | 0.22 |
| | | |
| **Total Float** | 27,236,800 | |
| **Total Shares Outstanding** | 128,915,000 | |

Source: Bloomberg.

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# Appendix IV: Management and Board of Directors

**Figure 33: Management**

| Name / Title | Age | Compensation ($) | | | Ownership | | Experience |
|---|---|---|---|---|---|---|---|
| | | Salary | Bonus | Equity | Shares (#) | Value (%) | |
| Dr. Dennis Gillings<br>*Executive Chairman and Director* | 68 | $1,000,000 | $1,410,000 | $2,357,250 | 21,253,689 | 16.5% | – Executive Chairman and director since founding Q in 1982<br>– Served as CEO of Q from 1982-2012<br>– Serves on several boards and councils<br>–Served more than 15 years as a professor at the University of North Carolina<br>– B.S. from Cambridge University, Ph.D. in Mathematics from University of Exeter |
| Thomas Pike<br>*CEO & Director* | 53 | $670,455 | $916,667 | $7,130,921 | 38,580 | 0.1% | – Q director since August 2012, CEO since January 2013<br>– CEO of Quintiles Transnational since April 2012<br>– CEO of Accelion, a healthcare outsourcing firm, from January 2010-November 2010<br>– Various positions at Accenture from 1992-2009<br>– B.S. in Accounting from University of Delaware |
| John Ratliff<br>*COO & Director* | 53 | $650,000 | $1,914,250 | $2,043,025 | 280,000 | 0.2% | – Q director since May 2006<br>– President of Quintiles since 2010, COO from 2006, previously CFO from 2004-06<br>–Various positions at Acterna, 2000-03, most recently VP and CFO from 2002-03<br>– Various positions at IBM, 1981-2000<br>– Georgia Institute of Technolgy, M.B.A. Duke University |
| Kevin Gordon<br>*EVP and CFO* | 50 | $500,000 | $334,600 | $1,237,431 | | | – EVP and CFO since July 2010<br>– With Teleflex from 1997-2010, most recently as CFO from 2007-10<br>– Spent 12 years in various senior finance positions at Package Machinery Company and KPMG<br>– B.A. in Accounting, University of Connecticut |
| Michael Mortimer<br>*EVP and CAO* | 52 | $500,000 | $819,450 | $1,772,651 | 275,000 | 0.2% | – EVP and CAO since December 2007, previously EVP, Global Human Resources since July 2003<br>– 10 years at Charles Schwab, SVP of Human Resources<br>– B.A. in Behavioral Sciences from The Ohio State University |
| Dr. Derek Winstanly<br>*EVP and Chief Customary and Governance Officer* | 66 | $500,000 | $338,400 | $1,502,277 | 319,500 | 0.3% | – EVP and Chief Customary and Governance Officer since November 2011<br>– Various roles at Quintiles since 1999<br>– Worked at Glaxo Wellcome in various roles for 15 years<br>– MBChB University of Pretoria |
| James Ehrlinger<br>*EVP, General Counsel & Secretary* | 54 | | | | | | – EVP and General Counsel since January 2013, Secretary since February 2013<br>– Spent 27 years practicing corporate law at Bryan Cave<br>– B.A. University of Missouri-Columbia, M.B.A. University of Misouri-Columbia, J.D. University of Missouri-Kansas City School of Law |

Source: Company reports.

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**Figure 34: Board of Directors**

| Name / Title | Committees: Audit | Govern. | Comp. | Experience |
|---|---|---|---|---|
| Dr. Dennis Gillings<br>*Executive Chairman and Director* | | | | – Executive Chairman and director since founding Q in 1982<br>– Served as CEO of Q from 1982-2012<br>– Serves on several boards and councils<br>–Served more than 15 years as a professor at the University of North Carolina<br>– B.S. from Cambridge University, Ph.D. in Mathematics from University of Exeter |
| Dr. Fred Cohen<br>*Director* | | Member | | – Q director since May 2007<br>– Partner at TPG since 2001, head of biotechnology group<br>– Adjunct Professor of Cellular & Molecular Pharmacology at University of California, San Francisco, since 1988<br>– Serves as director of Aptalis Holdings (private) and Genomic Health<br>– B.S. from Yale University, D.Phil in Molecular Biophysics from Oxford University, M.D. from Stanford University |
| John Connaughton<br>*Director* | | | Member | – Q director since January 2008<br>– Joined Bain Capital in 1989, Managing Director at Bain Capital since 1997<br>– Serves as director at HCA Holdings, Warner Chilcott, Clear Channel Communications, Air Medical Group Holdings, and the Boston Celtics<br>– B.S. from University of Virginia, M.B.A. from Harvard Business School |
| Jonathan Coslet<br>*Director* | | | Member | – Q director since 2003<br>– Senior Partner and Chief Invesment Officer at TPG since 1993<br>– Donald, Lufkin & Jenrette investment banker from 1991-93<br>– B.S. from University of Pennsylvania, M.B.A. from Harvard Business School |
| Thomas Pike<br>*CEO & Director* | | | | – Q director since August 2012, CEO since January 2013<br>– CEO of Quintiles Transnational since April 2012<br>– CEO of Accelion, a healthcare outsourcing firm, from January 2010-November 2010<br>– Various positions at Accenture from 1992-2009<br>– B.S. in Accounting from University of Delaware |
| John Ratliff<br>*COO & Director* | | | | – Q director since May 2006<br>– President of Quintiles since 2010, COO from 2006, previously CFO from 2004-06<br>–Various positions at Acterna, 2000-03, most recently VP and CFO from 2002-03<br>– Various positions at IBM, 1981-2000<br>– Georgia Institute of Technolgy, M.B.A. Duke University |

Source: Company reports.

**Figure 35: Board of Directors (continued)**

| Name / Title | Committees | | | Experience |
|---|---|---|---|---|
| | Audit | Govern. | Comp. | |
| Michael Evansiko<br>*Director* | Member | Member | Chairman | – Q Director since May 2010<br>– 2012-present Chairman of PARx<br>– B.A. from Pennsylvania State University, M.P.A. from Pennsylvania State University, Masters in Administrative Sciences and Philosophy from Yale University |
| Dr. Mireille Gillings<br>*Director* | | Member | | – Q director since February 2013<br>– Executive Chair, President, CEO, Founder of HUYA since 2004<br>–COO and founder of MIR3 from 2001-2003<br>– B.A. Concordia University in Montreal, Ph.D. Radboud University Nijmegen in Netherlands |
| Christopher Gordon<br>*Director* | | Member | | – Q director since 2009<br>– Managing Director at Bain Capital since 1997<br>– Serves as director at HCA, Air Medical Group, CRC Health Corporation, SunGard Data Systems, Physio-Control<br>– A.B. Harvard University, M.B.A. Harvard Business School |
| Jack Greenberg<br>*Director* | Chairman | | Member | – Q director since January 2004<br>– Chairman of The Western Union Company since 2006<br>– Chairman of Inner Workings since 2010<br>– Various roles at McDonalds, most recently Chairman and CEO from 1998-2002<br>– Serves as director of The Allstate Corporation, Hasbro Inc, Manpower Inc<br>– BA Depaul University, J.D. Depaul University School of Law |
| Denis Ribon<br>*Director* | | Member | Member | – Q director since December 2011<br>– Managing Director at 3i, joined in 2001<br>– Veterinarian Sciences degree from Lyon Veterinarian School in France, M.B.A. Hautes etudes commericales de Paris |
| Leonard Schaeffer<br>*Director* | Member | Chairman | | – Q director since January 2008<br>– TPG Senior Advisor since 2006<br>– Formerly served as Chairman of the Board of WellPoint, Inc., Chairman and Chief Executive Officer of WellPoint Health Networks Inc. and Chairman and Chief Executive Officer of Blue Cross California<br>– BA Princeton University |

Source: Company reports.

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# Quintiles Transnational: Summary of Financials

| Income Statement - Annual | FY12A | FY13E | FY14E | FY15E | Income Statement - Quarterly | 1Q13A | 2Q13E | 3Q13E | 4Q13E |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 3,692 | 3,833 | 4,119 | 4,397 | Revenues | 927A | 951 | 967 | 987 |
| Cost of products sold | (2,459) | (2,533) | (2,714) | (2,895) | Cost of products sold | (611)A | (629) | (637) | (656) |
| Gross profit | 1,233 | 1,300 | 1,405 | 1,501 | Gross profit | 316A | 323 | 330 | 331 |
| SG&A | (788) | (828) | (877) | (927) | SG&A | (198)A | (208) | (211) | (210) |
| R&D | - | - | - | - | R&D | - | - | - | - |
| Operating income | 445 | 473 | 528 | 574 | Operating income | 118A | 114 | 119 | 121 |
| EBITDA | 544 | 569 | 631 | 687 | EBITDA | 143A | 137 | 143 | 145 |
| Net interest (income) / expense | - | - | - | - | Net interest (income) / expense | - | - | - | - |
| Other income / (expense) | (128) | (117) | (97) | (89) | Other income / (expense) | (33)A | (35) | (25) | (25) |
| Income taxes | (109) | (121) | (135) | (152) | Income taxes | (35)A | (27) | (29) | (30) |
| Net income | 209 | 234 | 296 | 333 | Net income | 51A | 53 | 65 | 66 |
| Diluted shares outstanding | 118 | 128 | 135 | 135 | Diluted shares outstanding | 119A | 126 | 133 | 134 |
| Diluted EPS | 1.77 | 1.84 | 2.20 | 2.47 | Diluted EPS | 0.43A | 0.42 | 0.49 | 0.49 |
| **Balance Sheet and Cash Flow Data** | **FY12A** | **FY13E** | **FY14E** | **FY15E** | **Ratio Analysis** | **FY12A** | **FY13E** | **FY14E** | **FY15E** |
| Cash and cash equivalents | 568 | 914 | 1,062 | 1,148 | Sales growth | 12.1% | 3.8% | 7.4% | 6.7% |
| Accounts receivable | 745 | 805 | 865 | 923 | EBIT growth | 11.8% | 6.1% | 11.6% | 8.8% |
| Inventories | 0 | 0 | 0 | 0 | EPS growth | 9.5% | 3.5% | 19.8% | 12.3% |
| Other current assets | 194 | 202 | 202 | 202 | | | | | |
| Current assets | 1,510 | 1,925 | 2,133 | 2,277 | Gross margin | 33.4% | 33.9% | 34.1% | 34.1% |
| PP&E | 194 | 215 | 258 | 299 | EBIT margin | 12.1% | 12.3% | 12.8% | 13.1% |
| Total assets | 2,499 | 2,897 | 3,097 | 3,230 | EBITDA margin | 14.7% | 14.8% | 15.3% | 15.6% |
| | | | | | Tax rate | 34.2% | 34.1% | 31.3% | 31.3% |
| Total debt | 2,422 | 2,060 | 1,960 | 1,760 | Net margin | 5.7% | 6.1% | 7.2% | 7.6% |
| Total liabilities | 3,858 | 3,533 | 3,489 | 3,345 | | | | | |
| Shareholders' equity | (1,360) | (636) | (392) | (116) | Net Debt / EBITDA | 341.0% | 201.7% | 142.3% | 89.2% |
| | | | | | Net Debt / Capital (book) | 374.8% | 224.5% | 177.6% | 123.3% |
| Net income (including charges) | 177 | 222 | 295 | 332 | | | | | |
| D&A | 98 | 96 | 104 | 113 | Return on assets (ROA) | 8.7% | 8.7% | 9.9% | 10.5% |
| Change in working capital | 12 | (26) | (4) | (2) | Return on equity (ROE) | (17.9%) | (23.5%) | (57.6%) | (131.0%) |
| Other | 48 | 28 | 11 | 11 | | | | | |
| Cash flow from operations | 336 | 320 | 406 | 453 | Enterprise value / sales | - | - | - | - |
| | | | | | Enterprise value / EBITDA | - | - | - | - |
| Capex | (71) | (88) | (95) | (101) | Free cash flow yield | 5.2% | 4.2% | 5.3% | 6.0% |
| Free cash flow | 264 | 231 | 311 | 352 | | | | | |
| Cash flow from investing activities | (132) | (93) | (95) | (101) | | | | | |
| Cash flow from financing activities | (147) | 141 | (163) | (266) | | | | | |
| Dividends | (568) | 0 | 0 | 0 | | | | | |
| Dividend yield | - | - | - | - | | | | | |

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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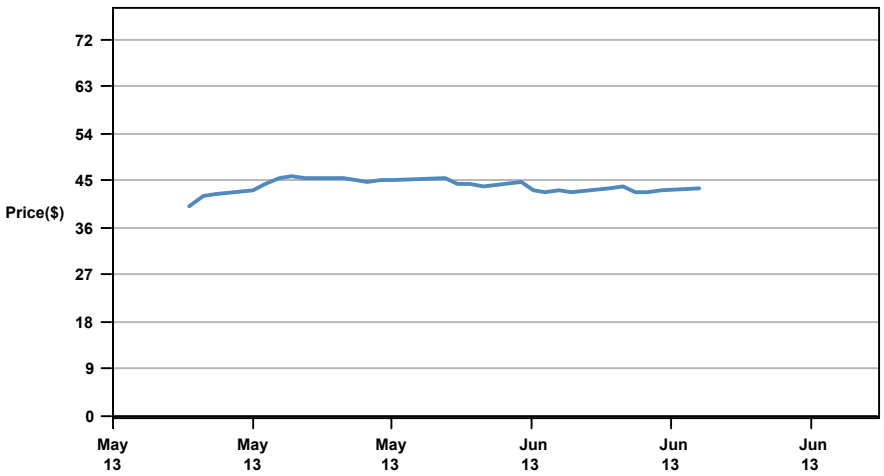
**Quintiles Transnational (Q, Q US) Price Chart**




**Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.**

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