

Quintiles Transnational

1Q14 Quick-Take: Solid Beat and Raise - ALERT

Quintiles (Q) reported solid 1Q results, with both the top and bottom lines coming in above JPMe and consensus, with strength seen in both Product Development and Integrated Health Services. More importantly, the company raised FY14 sales and adj. EPS guidance above JPMe and consensus estimates to \$4.13-4.19B (8.4% - 10.0% cc growth) and \$2.45 - \$2.58 respectively. ****Conference call today (05/01) at 8 a.m. ET, dial in 855.484.7367****

- **Solid all-round beat.** 1Q14 service revenues of \$1,005M came in above the Street (\$996M) and JPMe (\$989M) with strength in both Product Development and Integrated Health Services. By segment, Product Development revenue grew 8.6% c.c. to \$771M (vs. JPMe \$759M) due to growth in core clinical services volumes in NA, clinical trial support services, global labs volumes, and the Novella acquisition, partially offset by the conclusion of a large clinical solutions project. Integrated Health revenue grew 7.9% cc to \$234M (vs. JPMe \$230M), due to increases in Japan and NA, as well as growth in real-world and late-phase research services. On the bottom line, adjusted EPS of \$0.68 came in above consensus of \$0.55 and JPMe of \$0.50. More importantly, book-to-bill ratios were healthy across both segments, with Product Development at 1.30 and IHS at 1.15 for the quarter.
- **2014 guidance raised above consensus.** Quintiles updated 2014 service revenue guidance from \$4.09-4.15B to \$4.13-4.19B (vs. consensus of \$4.12B). The company also raised 2014 adjusted EPS from \$2.33-\$2.46 to \$2.45-\$2.58 (vs. consensus of \$2.42).
- **Key questions for the call.** (1) outlook for the Integrated Health business, as growth lags Product Development; (2) the drivers and sustainability of Product Development growth; (3) color on recently announced partnership with Biogen Idec (4) potential impacts of recent pharma M&A on R&D trends; (5) capital deployment strategy for 2014.

Figure 1: Q: 1Q14 Variance

	1Q13A		1Q14E				1Q14A				Variance	
	Actual		JPM Estimate		Consensus		Actual		Change y/y		vs. JPM Est.	
	\$ M	%	\$ M	%	\$ M	%	\$ M	%	Δ \$	Δ margin	\$ M	%
Product Development	706		759				771	9.1%			12	
Integrated Health	221		230				234	6.0%			5	
Total Revenue	927		989		996		1,005	8.4%			16	
Gross Profit	316	34.1%	340	34.3%			362	36.0%	14.3%	184 bp	22	162 bp
SG&A	(198)	21.4%	(221)	22.4%			(219)	21.8%	10.6%	44 bp	2	-58 bp
Adj. Operating Income	118	12.8%	118	12.0%			142	14.2%	20.3%	140 bp	24	220 bp
Income Tax	(26)	30.3%	(28)	30.0%			(38)	30.4%	44.8%	9 bp	(10)	42 bp
Adjusted Net Income	58	6.3%	66	6.7%			91	9.0%	56.3%	277 bp	25	233 bp
Diluted Shares	118.7M		133.5M				133.0M	12.0%			-0.4M	
GAAP EPS	\$0.41		\$0.48				\$0.68	66.6%			\$0.20	
Adjusted Diluted EPS	\$0.49		\$0.50		\$0.55		\$0.68	39.5%			\$0.19	

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

See page 2 for analyst certification and important disclosures.

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Overweight

Q, Q US

Price: \$47.13

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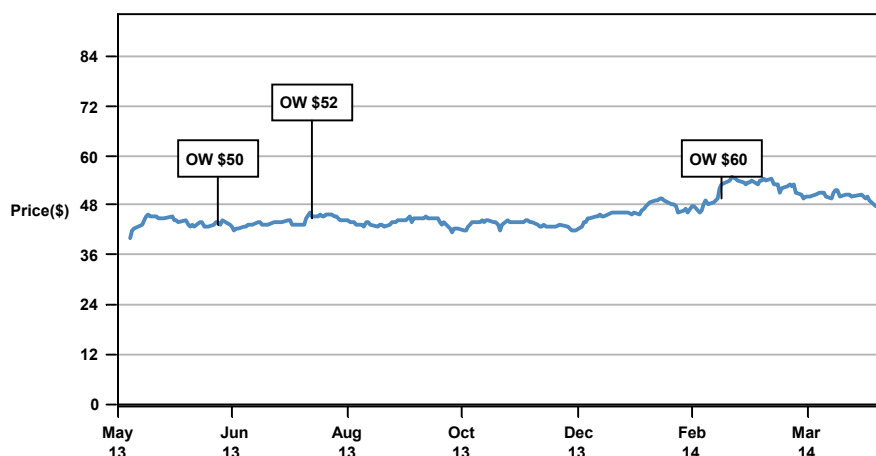
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Quintiles Transnational (Q, Q US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 18, 2013.

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