William Blair

Quintiles Transnational Holdings Inc.

Déjà Vu: Initiating Coverage With Outperform Rating Following Return to Public Markets

June 18, 2013

Stock Rating:	**Outperform**
Company Profile:	**Established Growth**

Symbol:	Q (NYSE)
Price:	$43.53 (52-Wk.: $42-$47)
Market Value (mil.):	$5,612
Fiscal Year End:	December
Long-Term EPS Growth Rate:	12%
Dividend/Yield:	None

	2012A	2013E	2014E
Estimates			
EPS FY	$1.77	$1.80	$2.00
CY		$1.80	$2.00
Valuation			
FY P/E	24.6x	24.2x	21.8x
CY P/E		24.2x	21.8x

Trading Data (FactSet)	
Shares Outstanding (mil.)	125
Float (mil.)	NA
Average Daily Volume	1,499,832

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	2.2
Book Value Per Share (MRQ)	-11.4
Enterprise Value (mil.)	7,100.4
EBITDA (TTM)	NA
Enterprise Value/EBITDA (TTM)	NA
Return on Equity (TTM)	NA

- **We are initiating coverage of Quintiles Transnational with an Outperform rating and Established Growth company profile after the company's return to the public markets last month.** Quintiles first went public in 1994 as a pioneer of pharmaceutical outsourcing and has set the standard for the industry ever since. We view Quintiles as a high-quality company in a sector with impressive structural demand trends that should propel industry growth in the mid- to high single digits. Coupled with the potential for share gains and margin leverage, we believe Quintiles offers investors the potential for sustainable low-teens earnings growth with less volatility and more liquidity than its peers.

- **Attractive market trends:** The pharmaceutical outsourcing market refers to a broad array of services offered to drug and biotech companies seeking to develop innovative products more efficiently. Quintiles is focused on the later-stage clinical development and sales-and-marketing segments; we estimate these end-markets combined represent more than $100 billion in annual spending, of which roughly $65 billion is addressable. With the wave of branded drug patents having peaked in 2012, we believe client spending on R&D is poised to accelerate in the next few years. Sales-and-marketing spending could eventually follow a similar trend once the pace of new product approvals picks up. Increased use of outsourcing in these areas allows even modest end-market spending increases to translate into CRO (contract research organization) industry growth in the high single digits.

- **Estimate summary:** We expect 2013 revenue growth of 1.5% to $3.75 billion, adjusted EBITDA of $566 million (up 3.4%), and adjusted earnings per share of $1.80 (up 1.5%). In 2014, we expect revenue of $4.0 billion (up 6.5%), adjusted EBITDA of $610.1 million (up 7.8%), and adjusted earnings per share of $2.00 (up 10.9%).

- **Valuation:** Though we believe the company is a leader in an excellent market and has good long-term growth prospects, we believe valuation for the company appears full at present. The stock is trading at 24.2 times our 2013 earnings estimate and 21.8 times our 2014 estimate, which are toward the high end of the five-year historical CRO group earnings multiple range of 10 to 27 times (excluding Charles River). Thus, while we believe the company should provide solid returns for long-term investors given sustainable EPS growth in the low teens, we believe shares are fully valued and would not expect multiples for either Quintiles or the group to expand from current levels.

Quintiles is the largest pharmaceutical outsourcing company in the world, with an annual revenue base approaching $4 billion. Founded in 1982, the company is now a leader in both outsourced drug development and commercialization services. It operates in 100 countries, employs roughly 27,000 employees, and has generated double-digit revenue and EBITDA growth, on average, over the past decade.

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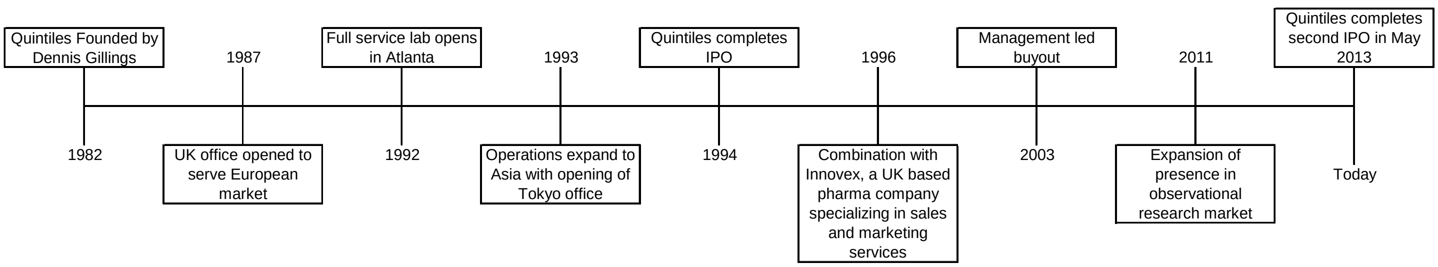
Executive Summary

We are initiating coverage of Quintiles Transnational with an Outperform rating and Established Growth company profile. The company returned to the public markets in May after an eight-year stint under private ownership, following a management-led buyout in 2003. While Quintiles's capital structure has evolved over the past three decades, its status as a pioneer and leader of the pharmaceutical outsourcing industry has not. The company was founded as a CRO in 1982, took the model global in the subsequent 15 years, went public in 1994, added commercialization services in the late 1990s, and then went private a decade later. Today the company's revenue approaches $3.8 billion, with $2.8 billion (75%) coming from late-stage product development, and the remaining $900 million (25%) coming from commercialization (sales and marketing). The CRO generates 91% of EBITDA, while commercialization generates 9%, given that sales-and-marketing trends tend to lag that of R&D (see exhibit 1 for a timeline of the company's key events since founding).

Exhibit 1: Company History



Sources: Company reports and William Blair & Company, L.L.C. estimates

Since 2010, the company has generated a top-line compound annual growth rate (CAGR) of 7.8% through a combination of organic growth and acquisitions, and an EBITDA CAGR of 6.9%. Surprisingly, Quintiles has been able to consistently grow its top and bottom lines since 2008, despite a meaningful demand slowdown in 2009, illustrating the durability of the business model in a challenging backdrop for both the global economy and the pharmaceutical industry. We view Quintiles as an excellent vehicle for investors looking to participate in the ongoing efforts of the biopharmaceutical industry to become much more efficient in bringing novel drugs to market—a trend we believe has 5-10 years left to play out. Given its size and diversity across functions, geographies, and clients, we also believe the company offers investors a lower level of risk and a higher level of liquidity than its peers.

We are establishing EPS estimates for Quintiles of $1.80 for 2013, $2.00 for 2014, and $2.29 for 2015. These targets are based on 6%-8% organic revenue growth over the longer term and typically 10-40 basis points of annual operating margin leverage. We view the core CRO as being the key revenue driver for at least the next two years, as clients focus on reinvigorating their new product pipelines. Longer term, we view commercialization (referred to as the IHS segment) as a source of revenue acceleration and margin leverage once the pharmaceutical industry moves through its cycle of branded product erosion via generics and sees an uptick in new product approvals. In aggregate, we believe Quintiles offers the potential for sustainable low-double-digit earnings growth.

Exhibit 2: Income Statement Summary (millions)

	2010	2011	2012	2013E	2014E	2015E
Revenue	$2,997	$3,295	$3,692	$3,749	$3,994	$4,304
Growth	N/A	9.9%	12.1%	1.5%	6.5%	7.8%
Adjusted EBITDA	$463	$490	$547	$566	$610	$671
Margin	15.4%	14.9%	14.8%	15.1%	15.3%	15.6%
Adjusted Net Income	$162	$191	$209	$233	$273	$315
Growth	N/A	18.0%	9.0%	11.5%	17.2%	15.4%
EPS	$1.37	$1.62	$1.77	$1.80	$2.00	$2.29
Growth	N/A	18.1%	9.5%	1.5%	10.9%	14.5%

Sources: Company reports and William Blair & Company, L.L.C. estimates

We do not believe Quintiles will be able to generate the highest level of revenue growth among its CRO peers, because of its leading revenue base that is already in place and existing presence across the significant majority of top biopharmaceutical companies. However, we believe the company is well positioned to hold or expand share in this industry over time, particularly among the large client segment. Its free cash flow yield of 5%, or roughly $300 million (in 2014), also provides flexibility to deleverage the balance sheet, acquire new companies or technologies, and over time return cash to shareholders via dividends or share buybacks.

In terms of valuation, we believe Quintiles will generally trade in relation to its pharma outsourcing peers focused on R&D, such as Covance, Icon, Parexel, Charles River, and WuXi. To a lesser degree, sales-and-marketing-oriented vendors are also relevant, such as PDI and Publicis. We believe the most-useful approach to valuing the company is by using a blended multiple of earnings, although EV/EBITDA will also be helpful in setting a private market benchmark.

The entire pharmaceutical outsourcing group has performed well in recent months and Quintiles has been no exception. The company is up 7.7% since its IPO last month and currently trades at 21.8 times our 2014 EPS estimate and 12.1 times on a 2014 estimated enterprise-value-to-EBITDA basis. We note that its peer group trades at 21.7 times our 2014 estimate (excluding Charles River). We view Quintiles's valuation as full but not unreasonable at current levels. When we look at the name in the context of where the group has typically traded as a multiple of earnings or EBITDA, Quintiles and its peers are all trading at the upper end of the historical range. Relative to the broader market, Quintiles is trading at a relative valuation of 1.54 times the S&P 500. This compares with a relative valuation of 1.51 times for the broader group over the past year and 1.44 times over the past three years.

Given the historical trading pattern of other pharma outsourcing stocks, we do not believe it is likely that Quintiles's stock will experience much, if any, multiple expansion in the next one or two years. However, we like the durability of the company's earnings stream and believe upside is possible from M&A and perhaps acceleration of underlying spending trends across the drug industry. Exhibit 3 shows our assessment of Quintiles's risk/reward profile in the coming year. Overall, we believe patient investors will be rewarded for owning Quintiles, but history tells us that the group's business model is volatile enough to probably offer windows with lower valuations from time to time.

Exhibit 3: Quintiles 12-Month Risk/Reward Based on 2015 Earnings Scenarios

	Scenario 1 (A)	Scenario 2 (B)	Scenario 3 (C)
Earnings Per Share	$2.11	$2.29	$2.45
Growth	*5.9%*	*14.5%*	*22.9%*
Estimated Multiple	15.0x	20.0x	25.0x
Implied Price	$31.72	$45.72	$61.35
Price Relative to Current Level	-27%	5%	41%
Probability	15%	60%	25%
Probability-Weighted Return		9.2%	

(A) Scenario 1 assumes a 4% increase in revenue and flat operating margin
(B) Scenario 2 is our base case and assumes 8% revenue growth and 37 basis points of margin leverage
(C) Scenario 3 assumes 12% revenue growth and 65 basis points of margin leverage

Sources: FactSet and William Blair & Company, L.L.C. estimates

Investment Highlights

- ***Attractive outsourcing market trends:*** Pharmaceutical and biotechnology companies have been striving for an elusive goal for decades: design a better model for the discovery and testing of innovative new drugs, resulting in more approvals, faster approvals, and a higher success rate. While this goal is unquestionably still a work in progress, one tactic that is becoming widely embraced by manufacturers is outsourcing. Such an approach is allowing innovators to hold permanent staffing at much lower levels, with outsourcing partners filling in the gaps when the new product pipeline is strong. This trend has been most broadly adopted across R&D—primarily for the large global clinical trials that even the largest drug companies cannot efficiently manage. But the concept of tapping the manpower and expertise of outsourcing partners is being tested beyond R&D to include manufacturing and sales and marketing as well. Quintiles is a leading provider of outsourcing services for late-stage product development, sales, and marketing—areas where biopharmaceutical companies spend over $100 billion annually by our estimates. This spending pool is growing only 0%-2% at present, but the portion that is outsourced has been steadily increasing, allowing for industry growth in the mid- to high single digits, by our estimates. We believe this trend of increased outsourcing has another 5-10 years to play out.

- ***Industry drivers appear to be reaching a positive inflection point:*** The recession of 2008 served as a powerful catalyst for drug companies to increase the pace of outsourcing, as they strived to aggressively cut spending while still supporting late-stage product candidates. This shift allowed the CRO industry to experience respectable growth since 2010, despite negligible client R&D spending growth. Looking ahead, we believe underlying R&D spending growth is poised to modestly accelerate, as large clients move beyond their patent cliffs (which peaked for the overall industry in 2012) and smaller clients regain the confidence that they can tap the capital markets when needed. Our spring 2013 industry survey suggests the pace of overall R&D spending should improve from 3% today to 8% by 2015. Our survey also suggests that the amount of work that is outsourced should climb in the coming five years. Though industry estimates differ widely depending on what is included, we believe penetration for clinical development work is currently between 30% and 35% and should climb to 40% to 45% over the next 5-10 years. Better underlying R&D growth and increasing outsourcing should combine to generate CRO industry growth in the high single digits over the next several years, by our estimates.

- ***Quintiles is an outsourcing leader by virtually any metric:*** Quintiles has been one of the industry's innovators since its founding in 1982. While industry figures are hard to come by within outsourcing given that most competitors are privately owned, we believe Quintiles is the largest player in pharmaceutical outsourcing overall, with a revenue base approaching $4 billion generated from 100 countries. The company is the largest player in late-stage product development (share of 15%-20%), and also the largest player in the less mature field of sales and marketing (share of 20%-30%). In addition to being the largest, the company has done a great job maintaining a reputation for high quality, typically scoring as the first or second favorite CRO partner for late-stage development work. We believe Quintiles is particularly well positioned to capture increasing work from large pharmaceutical clients, given its geographic coverage and therapeutic expertise, having worked on every one of the industry's 50 top-selling drugs and 20 top-selling biologics.

- ***IHS segment provides potential for revenue acceleration and margin leverage***: The contract sales-and-marketing industry is not as well known by investors and has been a far worse performer in the past decade. With the number of new product approvals typically lagging the number of products losing patent protection, pharmaceutical companies have been generally downsizing their sales-and-marketing efforts since the turn of the century. In the United States, for example, we believe the number of industry salespeople peaked at around 120,000 during the past decade, but it has since fallen steadily to below 60,000 today. As a result, we believe the sales-and-marketing outsourcing industry is much smaller than the CRO category, perhaps generating annual revenues of about $3 billion and much lower growth (we estimate 5% at present). However, we see no structural reason that drug companies will not eventually adopt a similar attitude about outsourcing for this function as well. Moreover, with the FDA approving the highest number of new drugs and biologics in 2012 since 1996 (39), there are some early signs that this market could follow the trajectory of the CRO space in a few years.The IHS segment for Quintiles currently accounts for 23% of revenues and just 12 % of EBITDA, given a margin of 7.5%. We believe investor expectations for this business are relatively low, but we view it as a source of potential top-line acceleration and margin leverage over the longer term. We project IHS to deliver an operating income decline of 28% in 2013 with a 4.9% EBIT margin, improving by 17% in 2015 with a 5.5% EBIT margin.

Investment Risks

We view Quintiles as a lower-risk way for investors to participate in the pharmaceutical outsourcing industry. However, history has taught us that the business model of CROs can be volatile from quarter-to-quarter and also subject to occasional demand shocks.

- Consolidation among drug companies over the years has concentrated R&D spending power among the past two decades. Over the past five years, the trend toward strategic partnering has further concentrated the market among a smaller number of larger CROs. As contracting transitions from a trial-by-trial basis to now sometimes encompassing an entire function over several years, the renewal risk for the industry will go up. This greater concentration may also increase the temptation of CROs to use aggressive pricing to gain share. Our channel checks suggests that later-stage pricing is rational at present, while early-stage pricing is still quite depressed in certain pockets like safety toxicology (animal testing) and synthetic chemistry.

- New business contracts are the key leading indicator for CRO revenue growth. Thus, metrics for contract wins like book-to-bill ratios, backlog growth, and backlog coverage are watched closely by investors. While contracts in the CRO space often run for two to three years, the flow of new business can be volatile, particularly around vacations in August and December. Contract cancelations further add to the quarter-to-quarter volatility. We view one quarter of disappointing net new business flow as normal and not overly concerning. If this pattern extends for two or three quarters and/or the backlog coverage ratio declines to 70% or less of the next-12-months' revenues, then the risk of guidance reductions becomes much greater, in our view.

- Once outsourcing penetration rates reach a ceiling, industry growth rates must naturally fall to a rate that mirrors the underlying rate of spending. For the CRO industry, this means that the current 8%-9% pace of expansion will eventually fall to the low to midsingle digits (unless R&D spending accelerates). Our surveys indicate penetration rates should be able to climb from roughly 30%-40% (depending on the source) today to 60%-70% longer term.The timing of this progression is hard to discern, but we believe it will likely take 5-10 years.

- Since the recession of 2008, the pharmaceutical industry has cut spending on discovery and early-stage drug development. That pattern has persisted for over four years, creating the risk that underinvestment in discovery will translate into a late-stage pipeline crisis in the years to come. Our channel checks suggest this risk is not high now, given that much of the early-stage cutbacks were low-quality programs. Nevertheless, we suggest investors watch the industry's pipeline statistics closely for warning signs.

Pharmaceutical Outsourcing Market Opportunity and Industry Update

The market for outsourced pharmaceutical services remains strong, in our view, as R&D growth appears poised to increase and penetration has room for continued expansion. Below, we provide an update of the four leading indicators that we believe are most relevant for overall CRO industry demand and stock performance: R&D spending trends, biotechnology industry funding, the product pipeline, and changes in outsourcing. In exhibit 4, we detail the key players in each area of the drug development market. Over the years, Quintiles has become a leader in late stage, with particular strength in phase II-IV and, to a lesser extent, central lab.

Exhibit 4. Selected Market Participants by Development Phase and Function

Discovery Services	Preclinical Toxicology	Phase I	Phases II-IV	Central Lab
Wuxi	Covance	Celerion	Quintiles	Covance
Albany Molecular	Charles River	Lambda	Parexel	Quintiles
Charles River	Huntingdon LSR	Novum PRS	PPD	Quest
Covance	MPI Research	Covance	ICON	PPD
ChemBridge	WIL Research	PAREXEL	Covance	Labcorp
Argenta Discovery	LAB Research	Quintiles	Inventiv/PharmaNet	ICON
Ricerca	SNBL	PPD	PRA	
Jubilant Organosys	Harlan	Inventiv/PharmaNet	INC Research	
Syngene*	CIT	INC/Kendle	RPS	
Piramal		ICON		
Dishman Pharmaceuticals		PRA		
Divis Laboratories				

* Syngene is BioCon's chemistry subsidiary

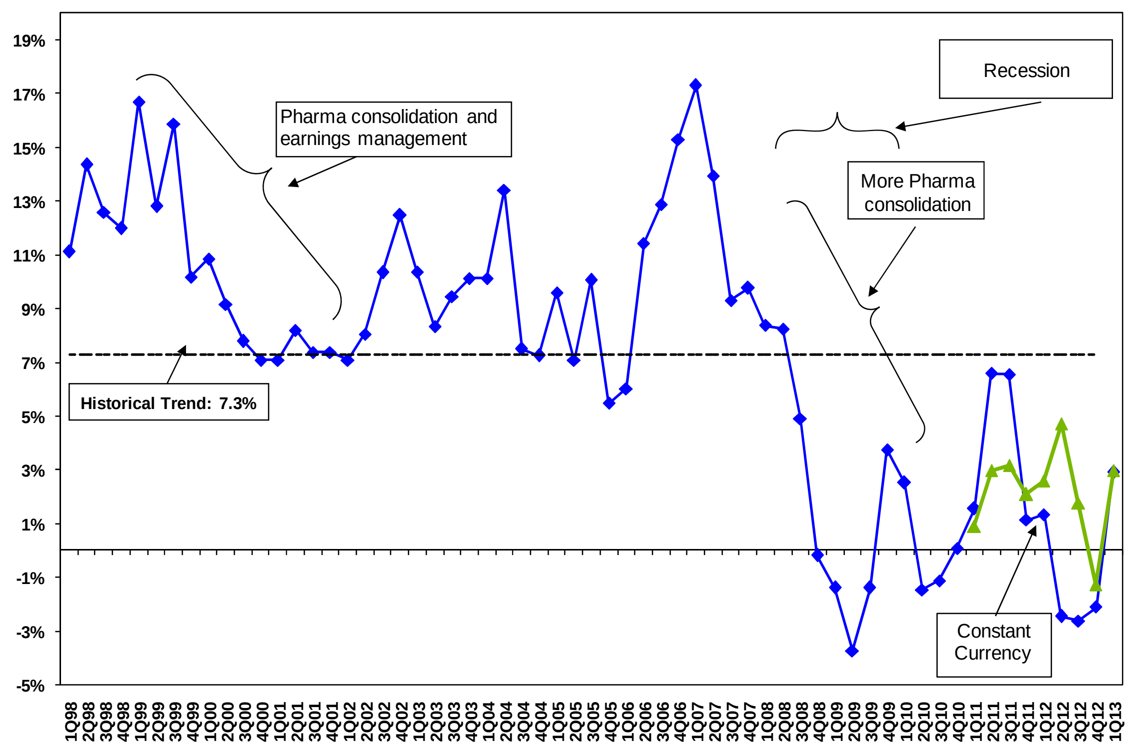
Sources: Company reports and William Blair & Company, L.L.C. estimates

R&D spending. As shown in exhibit 5, the pharmaceutical industry's R&D spending growth peaked in early 2007 and then rapidly decelerated over the next two years. R&D spending trends stabilized in 2010 and started to recover somewhat in 2011 and 2012 (on a constant-currency basis). Based on channel checks and data gathered in our spring 2013 survey (see our industry report, "Results From Spring 2013 Survey of Pharma and Biotech Sponsors," dated April 25, 2013, for more detail), we expect R&D spending growth to be in the low- to midsingle-digit range over the next several years (3%-4%), which is lower than the historical trend but higher than the declines observed during 2009 and 2010. Over the longer term, our survey data suggests that growth rates may return to the historical average of around 7.5%, though given the tight historical correlation between top-line growth and spending trends among sponsors (with little variation as a percentage of sales), we believe that for spending to return to these levels would require a significant number of new approvals by the FDA or an even more-accelerated mix shift toward specialty drugs.

Our channel checks have given us some comfort that the modest acceleration in R&D seen in recent years is likely to continue, particularly now that the peak year of generic expirations has passed. As illustrated in exhibits 6 and 7 (on the following page), data conducted in conjunction with Life Sciences Research Group earlier this year suggests that most respondents expect midsingle-digit growth in R&D expenses for the next several years. Equally weighting responses from respondents of all sizes, growth is expected to accelerate from 3% in 2012 to 8% in 2015. If we focus on large pharma, which today conducts the vast majority of R&D in the industry, growth is expected to increase from 3% to 7%. More importantly, we were pleased by some upward revisions in growth expectations from large pharma, which gives us greater confidence that trends are moving in the right direction.

We maintain our view that the maturation of the strategic partnership model will ultimately result in more-efficient R&D spending and a larger portion of those dollars funneled to CROs, as opposed to work done in-house. As penetration rates approach peak levels (in perhaps 5-10 years), we believe R&D spending will be a key variable to watch longer term.

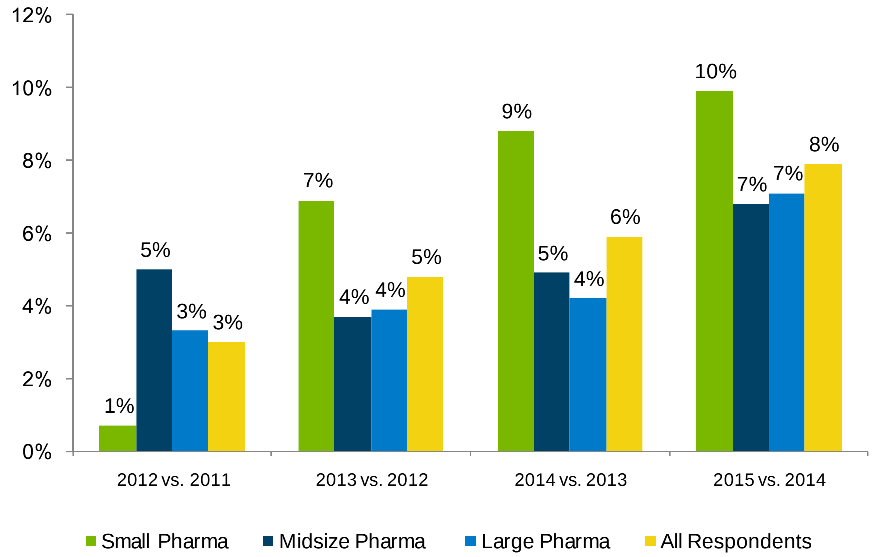
Exhibit 5. R&D Spending Growth Trend



Note: William Blair & Company, L.L.C. sample of companies includes: Pfizer, Johnson & Johnson, GlaxoSmithKline, AstraZeneca, Merck, Bristol-Myers, Eli Lilly, Novartis Sanofi-Aventis, Roche, Amgen, Amylin, Biogen, BioMarin, Celgene, Cephalon, Genentech, Genzyme, Gilead, Isis, The Medicines Company, and Vertex

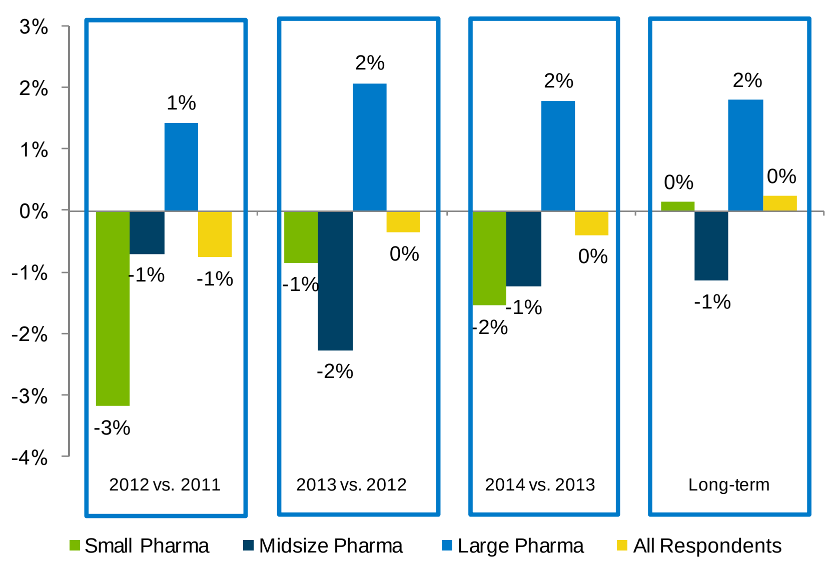
Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 6. R&D Budget Growth by Company Size



Note: 143 respondents (Large - 51; Midsize - 47; Small - 45)
Sources: Life Science Strategy Group, LLC and William Blair & Company, L.L.C.

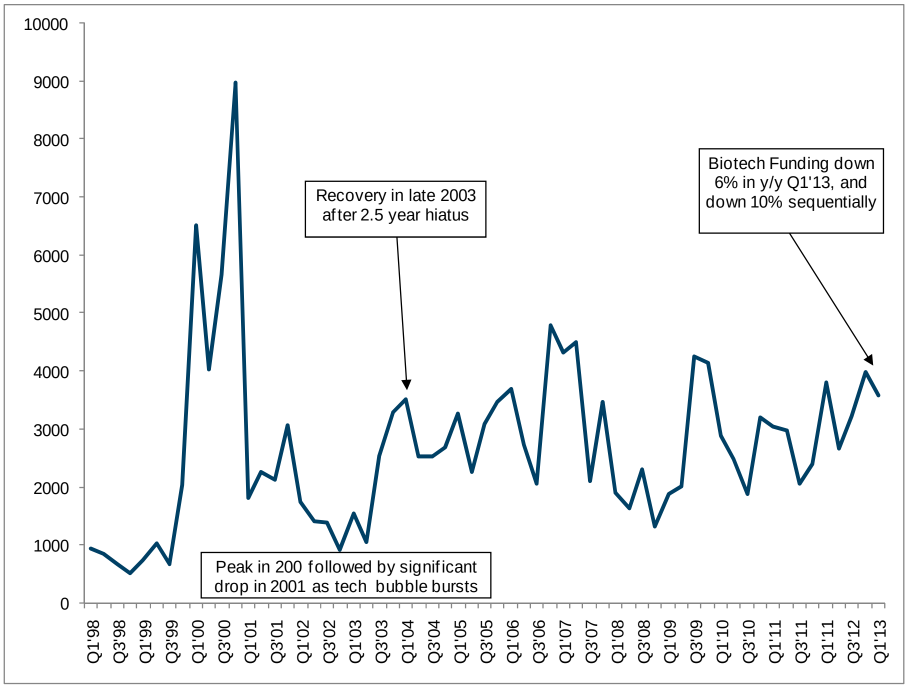
Exhibit 7. Change in R&D Budget Growth by Company Type, Fall 2012 Survey Versus Spring 2013 Survey



Note: 143 respondents in Spring 2013 Survey (Large - 51; Midsize - 47; Small - 45); 149 respondents in Fall 2012 Survey (Large - 51; Midsize - 47; Small - 51)
Sources: Life Science Strategy Group, LLC and William Blair & Company, L.L.C.

Biotechnology industry funding. We view the flow of capital to the biotechnology industry as an important proxy for small client drug development and discovery activity. Smaller clients are a key source of incremental demand swings from quarter-to-quarter. Given the volatility in the capital markets in recent years, it is not particularly surprising that biotechnology industry funding has also been volatile, although the trend *is* positive. First quarter 2013 biotech funding totals, according to our data, were down a modest 6% from the prior year and 10% from fourth quarter 2012 (see exhibit 8). Despite the lower quarter, the broader trend appears positive for the moment, which should bode well for early-stage-focused CROs, as they tend to have a higher exposure to biotech customers.

Exhibit 8. Biotechnology Industry Funding



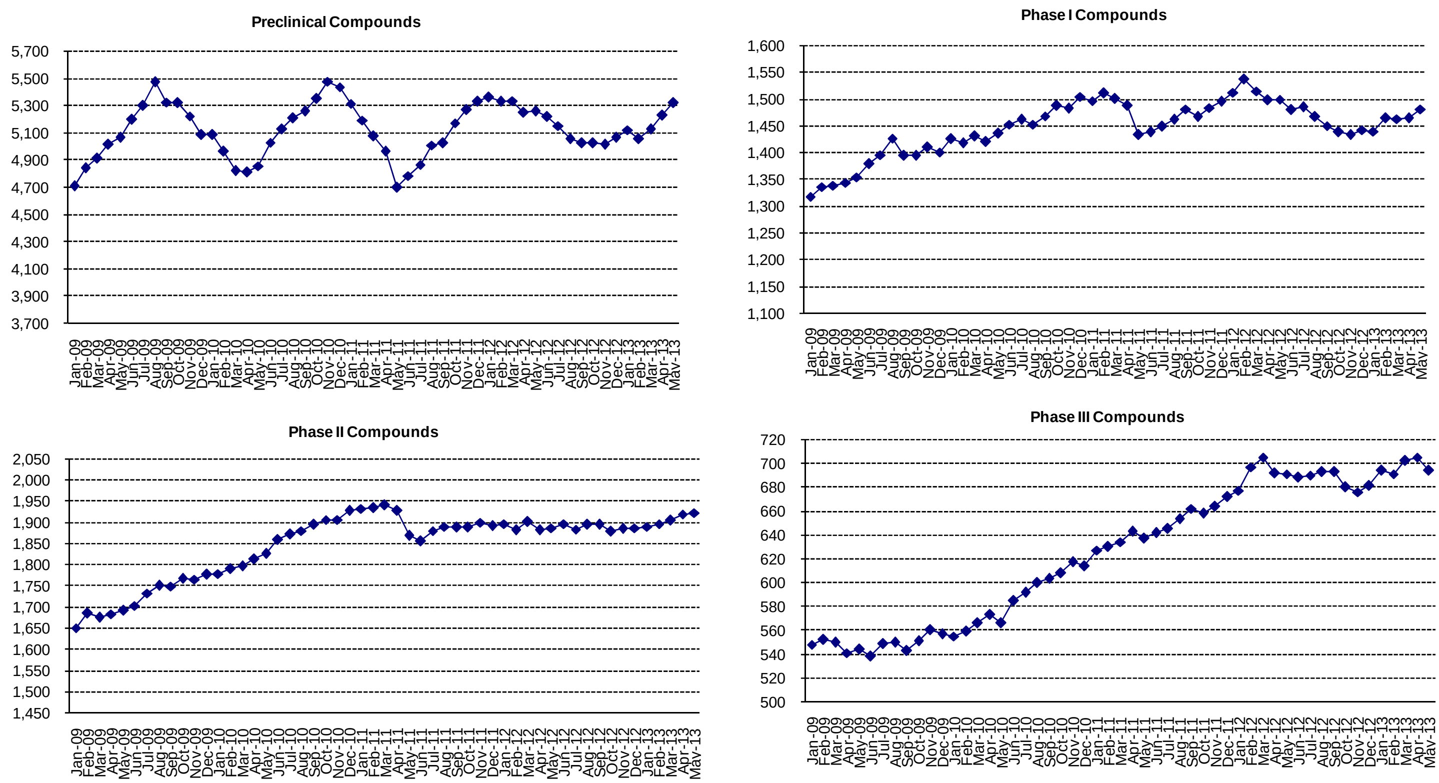
Source: BioCentury

Pipeline. In terms of the pharmaceutical industry's compound pipeline (another critical driver of CRO demand), while the data illustrated in exhibit 9 does not show a strong upturn overall in the number of compounds, if we take a longer-term view of the industry's pipeline trend, over the past four years there is a clear pattern of sponsors favoring late stage over early stage. Since the beginning of 2009, the number of compounds in preclinical testing has essentially been range-bound, while the number of Phase III compounds has increased 28%. Looking at more-recent data, the trend shows some signs of reversing: there has been a modest increase in early stage (preclinical, Phase I, and Phase II) over the past few months, but a slight decline in Phase III compounds. We believe this is due in part to an increasing number of products receiving approval or entering the registration phase. From the beginning of 2013, the number of compounds in pre-registration or later grew nearly 2%, according to Pharmaprojects. If this trend continues, the R&D budget pendulum could swing back to early stage as sponsors attempt to backfill pipelines.

Looking at our spring 2013 survey data (exhibit 10), 56% of respondents expect to increase the number of programs being funded in the coming year, and another 25% expect to hold program numbers flat. Only 19% expect to decrease the number of funded programs over the same period.

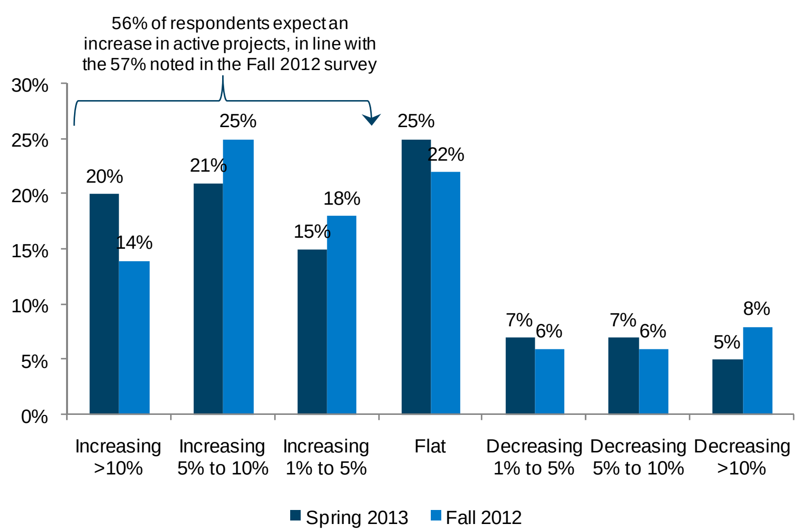
Expanding on this point, while outsourcing increases alone can generate growth for the CROs in the intermediate term, we believe it is critical in the long term for the industry's overall pipeline to grow. While Pharmaprojects' pipeline data does not suggest significant growth, our survey data suggests that companies are planning to increase their pipelines at an increasing rate. We suspect smaller biotech companies will likely drive most, if not all, of the pipeline growth in the coming several years (at least at the discovery stage), as large pharmas downsize internal discovery efforts.

Exhibit 9. Estimated Number of Drug Candidates in Each State of Development (Preclinical Through Phase III)



Source: PharmaProjects

Exhibit 10. How Has the Number of Active Projects Currently Being Funded Changed in 2013 Versus 2012?



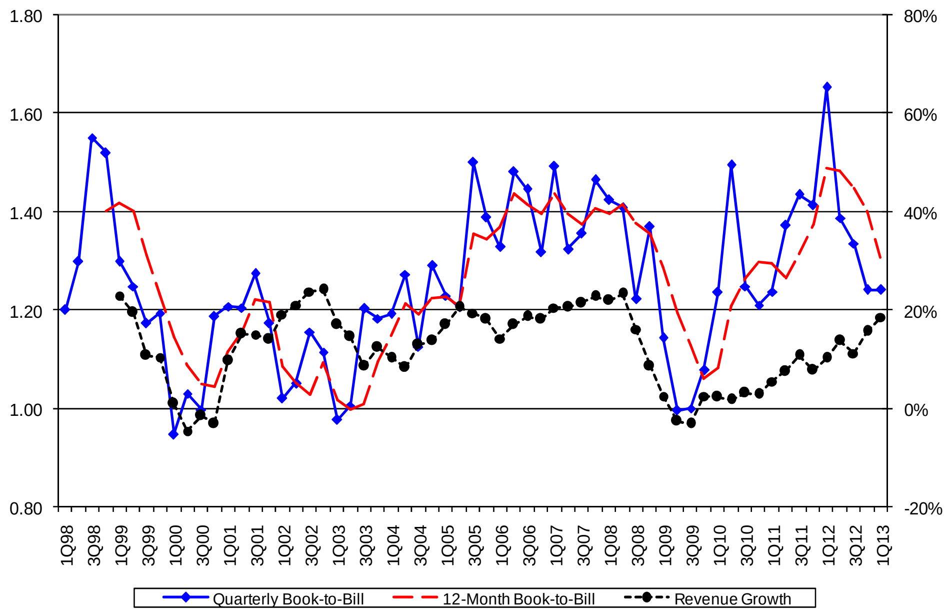
Note 1: 138 respondents in Spring 2013 and 141 respondents in Fall 2012
Note 2: Fall 2012 survey asks about funding changes between 2012 and 2011
Sources: Life Science Strategy Group, LLC and William Blair & Company, L.L.C.

Bookings and penetration. As shown in exhibit 11, significant bookings improvement since late 2009 translated to modest improvement in CRO revenue growth, although revenue growth has been somewhat slower to recover, which we believe is at least partly because of the emergence of the strategic partnership outsourcing model. Though 2012 bookings slowed, the CRO industry's book-to-bill ratio average remained in a very strong range of 1.2 times to 1.4 times after peaking about 1.6 times in the first quarter of the year. Despite the normalizing bookings, as the strong wins began to convert into revenue, the group's top-line growth trend accelerated to the high teens by the end of 2012. Given the slowdown in bookings by the group over the last nine months, we expect revenue growth on average to gradually slow, but remain in the low double digits.

Comparing this top-line growth to the low- to midsingle-digit R&D trend suggests that CROs are conducting an increasing percentage of the development work in the pharmaceutical industry. Based on our survey data, we believe that there is still room for penetration increases. Specifically, respondents suggested that over the next five years, between 7 and 10 percentage points of additional penetration can be expected across the development spectrum (see exhibit 12). Large pharma cited a similar amount of expected increases in penetration, but unlike the broader sample, the larger increases are expected on the discovery side (11 percentage points), versus early- and late-stage development (both expected to increase of 8 percentage points).

In our view, outsourcing penetration remains a key longer-term risk for Quintiles and the group, as once we arrive at peak levels (60%-70%), industry growth will likely slow in the absence of an acceleration of R&D. Still, we believe that we may be at the beginning of a cyclical recovery in R&D spending trends, which should help extend the industry's growth for the next decade.

Exhibit 11. Pharmaceutical Outsourcing Group Book-to-Bill Ratio Versus Revenue Growth



CRO companies included: Covance, ICON, Inveresk, Kendle, Parexel, PharmaNet, PPD, PRA, Quintiles
Source: Company reports

Exhibit 12. Percentage of Total Work Outsourced by Phase, by Company Type

Note: 125 respondents Spring 2013; 147 respondents Fall 2012; 143 respondents Spring 2012
Sources: Life Science Strategy Group, LLC and William Blair & Company, L.L.C.

The combination of slight improvements in R&D growth with an additional 10 percentage points of penetration should bode well for market growth for the remainder of the decade. We expect a CAGR of roughly 4% in R&D from 2013 through 2020.

In summary, our analysis of the leading indicators suggests that there is some incremental optimism for a near-term improvement in demand for CROs, particularly on the clinical side, given the focus on late-stage development and expected ramp-up of strategic business throughout 2012. Over the longer term, we remain confident in the opportunity for outsourcing companies to play a larger role in the drug discovery and development processes. We estimate that in the current year, the clinical development market is about $19 billion and is roughly 31% penetrated (41% including investigator payments). Our survey suggests penetration rates are higher, as the methodology for defining the total market may vary. As a result, for our forward projections, we consider only the change in penetration implied by the data. Excluding investigator payments, we expect penetration to increase from 31% today to 43% by 2020 (seven years). Combining these estimates, we believe the clinical development portion of the CRO market can grow at a compound annual rate of 8% to 9% for the next seven years.

As shown in exhibits 13, 14, 15, and 16, we believe there can be significant variability in R&D growth and potential penetration over our forecast period; as a result, our sensitivity analysis includes R&D growth estimates from 0% to 9% and penetration increases of 3 percentage points to 39 percentage points from our current estimate. The most likely scenarios of 3%-5% R&D growth and 3-19 percentage points of penetration increases over the next seven years suggest annual market growth between 4.6% and 12.2%.

Exhibit 13. CRO Market Model

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Development Spend	$61.5	$68.0	$76.0	$79.1	$75.1	$74.4	$75.8	$76.6	$78.5	$80.9	$84.5	$87.9	$91.4	$95.1	$98.9	$102.8
% Growth (y-o-y)	8%	11%	12%	4%	-5%	-1%	2%	1%	2%	3%	4%	4%	4%	4%	4%	4%
% of R&D	68%	68%	68%	68%	68%	68%	68%	68%	68%	68%	68%	68%	68%	68%	68%	68%
Outsourced Preclinical Development	$3.0	$3.4	$3.8	$4.0	$3.0	$2.9	$2.9	$2.9	$3.0	$3.2	$3.5	$3.8	$4.1	$4.4	$4.7	$5.0
% Growth (y-o-y)	12%	11%	13%	6%	-24%	-6%	1%	1%	3%	7%	8%	8%	8%	7%	7%	7%
% Outsourced to CROs	23%	25%	26%	27%	27%	28%	30%	31%	32%	33%	34%	35%	36%	37%	38%	39%
Outsourced Clinical Development (to CROs)	$8.2	$9.4	$10.8	$12.4	$13.5	$14.7	$15.9	$17.2	$18.7	$20.3	$22.0	$24.0	$26.0	$28.3	$30.8	$33.5
% Growth (y-o-y)	14%	14%	15%	15%	9%	9%	8%	8%	9%	9%	9%	9%	9%	9%	9%	9%
% of Total Clinical Development	20%	20%	20%	22%	24%	26%	28%	30%	31%	33%	35%	36%	38%	40%	41%	43%
Outsourced Clinical Development to CROs and Investigators	$14.9	$16.5	$18.6	$20.5	$21.8	$23.2	$24.7	$26.2	$28.1	$30.0	$32.3	$34.6	$37.1	$39.9	$42.8	$46.0
% Growth (y-o-y)	11%	11%	12%	10%	6%	6%	7%	6%	7%	7%	8%	7%	7%	7%	7%	7%
% of Total Clinical Development	31%	30%	30%	32%	34%	36%	37%	39%	41%	42%	44%	45%	46%	48%	50%	51%
Total Outsourced Development (to CROs)	$11.3	$12.7	$14.6	$16.4	$16.6	$17.6	$18.8	$20.1	$21.7	$23.5	$25.5	$27.7	$30.1	$32.7	$35.5	$38.5
% Growth (y-o-y)	13%	13%	14%	13%	1%	6%	7%	7%	8%	8%	9%	9%	9%	9%	9%	9%
% of Total Development	21%	21%	21%	23%	25%	27%	28%	30%	31%	33%	34%	36%	37%	39%	41%	43%
Total Payments to CROs and Investigators	$17.9	$19.9	$22.4	$24.5	$24.8	$26.1	$27.6	$29.2	$31.1	$33.3	$35.8	$38.4	$41.2	$44.2	$47.5	$51.0
% Growth (y-o-y)	11%	11%	13%	10%	1%	5%	6%	6%	7%	7%	8%	7%	7%	7%	7%	7%
% of Total Development	29%	29%	29%	31%	33%	35%	36%	38%	40%	41%	42%	44%	45%	47%	48%	50%

*Dollars in millions
Sources: Company reports, EFPIA, JPMA, PhRMA, Pharmaprojects, and William Blair & Company, L.L.C. estimates

Exhibit 14. Potential 2020 Outsourced Clinical Development Market Size Under Various Scenarios

Outsourcing Penetration	R&D Spending Growth: 0%	1%	3%	5%	7%	9%
35%	$20.8	$22.3	$25.6	$29.3	$33.4	$38.1
40%	$23.8	$25.5	$29.3	$33.5	$38.2	$43.5
45%	$26.8	$28.7	$32.9	$37.7	$43.0	$48.9
50%	$29.7	$31.9	$36.6	$41.9	$47.8	$54.4
55%	$32.7	$35.1	$40.2	$46.0	$52.5	$59.8
60%	$35.7	$38.3	$43.9	$50.2	$57.3	$65.3
65%	$38.7	$41.5	$47.6	$54.4	$62.1	$70.7
70%	$41.6	$44.6	$51.2	$58.6	$66.9	$76.1

*Dollars in billions

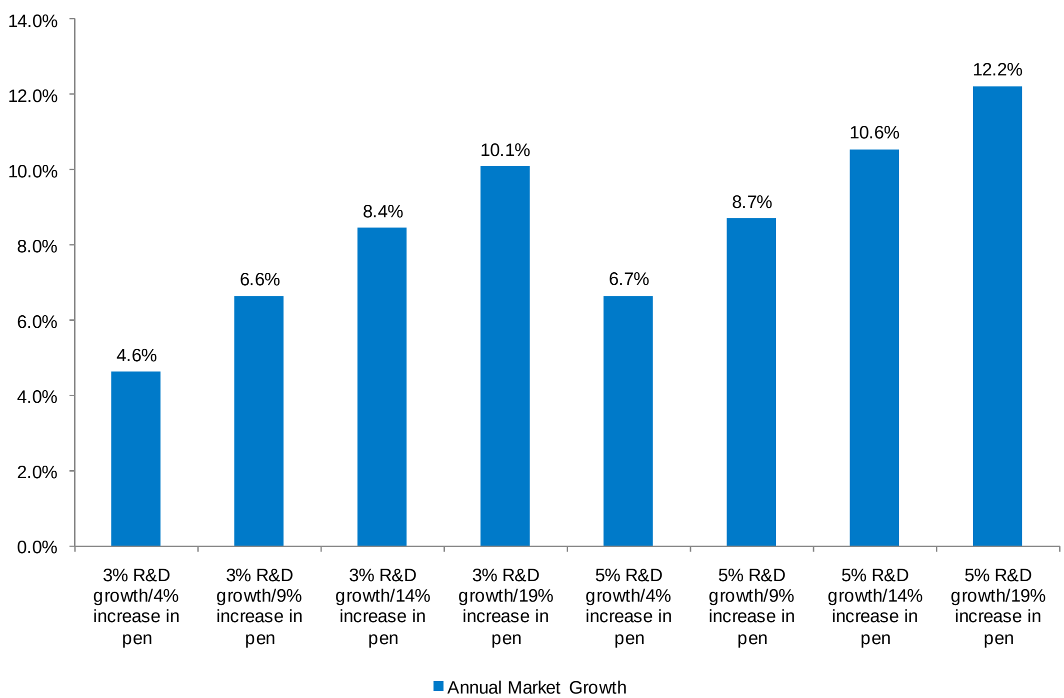
Sources: Company reports, EFPIA, JPMA, PhRMA, Pharmaprojects, and William Blair & Company, L.L.C. estimates

Exhibit 15. Potential Outsourced Clinical Development Annual Market Growth Under Various Scenarios (2013-2020)

Change in Outsourcing Penetration	R&D Spending Growth: 0%	1%	3%	5%	7%	9%
4%	2%	3%	5%	7%	9%	11%
9%	4%	5%	7%	9%	11%	13%
14%	5%	6%	8%	11%	13%	15%
19%	7%	8%	10%	12%	14%	17%
24%	8%	9%	12%	14%	16%	18%
29%	10%	11%	13%	15%	17%	20%
34%	11%	12%	14%	17%	19%	21%
39%	12%	13%	16%	18%	20%	22%

Sources: Company reports, EFPIA, JPMA, PhRMA, Pharmaprojects, and William Blair & Company, L.L.C. estimates

Exhibit 16. Implied Annual Market Growth in Selected Scenarios



Sources: Company reports, EFPIA, JPMA, PhRMA, Pharmaprojects, and William Blair & Company, L.L.C. estimates

Integrated Healthcare Services Market Opportunity

Though we have spent the vast majority of our time monitoring the CRO market over the past decade, the market for contract sales has quietly grown as well and may be poised for acceleration over the next decade, in our view. Given the persistently slowing revenue growth of the pharmaceutical industry over the past decade, we would have thought SG&A as a percentage of sales would have taken a significant hit as pharmaceutical salesforces around the world have been slashed during the peak period of patent losses. However, we have been surprised that SG&A spending as a percentage of revenue has remained fairly consistent in the low 30% range since 2003. This has led to an estimated aggregate SG&A spending of roughly $140 billion as of 2012, according to our data sample. Assuming this ratio holds firm, as revenue across the pharmaceutical industry reaccelerates, similar to the potential upswing in R&D spending we expect, underlying marketing spending trends can improve as well.

Given that a fairly large percentage of SG&A expenditures reported by pharma and biotech go to support the massive commercial infrastructure these companies have developed, we assume that only 50% of these expenditures are related to sales and marketing, or about $70 billion. Of this total, we assume 20% could be feasibly outsourced at present, producing an addressable market opportunity of $14 billion-$15 billion. We believe roughly $3 billion, or 20% of this spending, is outsourced to the likes of Quintiles, inVentiv, PDI, and Publicis (lower in the United States, but higher in the United Kingdom, Europe, and Japan). Our channel checks and coverage of PDI, Inc. suggest that outsourcing penetration rates are poised to increase from around 20% today to roughly 29% by 2020, driven by the combination of increasing new product introductions and a reluctance to hire internal sales staff to detail these new products following a decade of layoffs (which may be nearing an end). Assuming these assumptions prove to be reasonable, we estimate the market growth opportunity for the IHS business could be in the mid- to high single digits for the next few years and into the double digits by 2017.

Large drug companies have been slower to adopt outsourcing in sales and marketing than we had expected, because commercialization has historically been one of the industry's core competencies. In addition, during the past several years, as salesforces were significantly downsized, the contract sales teams were often the first to be eliminated. Thus cancelations have proved to be a significant headwind for contract sales in recent years. Historically, core competencies such as drug discovery and commercialization would not likely be part of an outsourcing agenda, but as the pharma business model adapts to the changing healthcare landscape, we believe the industry has become increasingly willing to cede control of areas that would once have been considered untouchable. To that point, outsourcing of the discovery portion of R&D has started to increase slowly (as much as 15%-20% penetrated, according to some estimates), and we believe that eventually, we will see the same phenomenon in sales and marketing. Thus, while we see the potential for significant growth longer term, we estimate market growth in the high single digits at present. See exhibit 17 for additional detail.

Unlike R&D where there are hundreds of small competitors with niche expertise and roughly a dozen high-quality players with global scale, there are fewer competitors in the commercialization services market, particularly with global reach. Apart from Quintiles, there are two publicly traded entities (Publicis SA and PDI) and a large private entity (inVentiv) that compete in the market. We believe the breadth of product offerings across these and other companies serving the commercialization segment are quite different, which makes market share difficult to ascertain. We believe in the core CSO business, market share between the top four players is relatively equal in the United States, though penetration varies by country, as each one has unique regulatory requirements and requires local commercial expertise. For example, Quintiles has a significant presence in both the United Kingdom and Japan, while PDI is focused only in the United States. We believe Quintiles has roughly 30% share of the current IHS market and about 6% share of the addressable market.

While the commercialization services market has not performed as well as drug development over the past decade, we believe that performance should improve as the new compounds that have been fueling the growth in late-stage development in recent years come to market. Though the timing of this bolus of work is uncertain, we believe it is inevitable that growth in this market reaccelerates. Unlike the drug development segment, the ideal customer in IHS is the midsize pharmaceutical client with a robust pipeline, but a less developed commercial infrastructure than its larger peers. However, given the reduction of more than 50,000 sales reps over the past decade to roughly 60,000 today (from nearly 120,000), we believe outsourcing growth from both client segments is poised to eventually accelerate.

Exhibit 17. IHS Market Model

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Biotech SG&A	$4,099	$5,063	$5,525	$6,557	$6,811	$7,474	$8,726	$9,723	$10,401	$11,605	$13,284	$15,048	$16,392	$17,868	$19,476	$21,229
% Growth (y-o-y)	*12%*	*24%*	*9%*	*19%*	*4%*	*10%*	*17%*	*11%*	*7%*	*12%*	*14%*	*13%*	*9%*	*9%*	*9%*	*9%*
% of Biotech Sales	*23%*	*24%*	*23%*	*24%*	*23%*	*23%*	*24%*	*24%*	*24%*	*24%*	*24%*	*24%*	*24%*	*24%*	*24%*	*24%*
Pharma SG&A	$96,426	$102,198	$111,639	$115,230	$116,790	$131,224	$140,041	$131,444	$126,797	$129,125	$132,727	$136,758	$140,405	$144,617	$148,522	$152,978
% Growth (y-o-y)	*5%*	*6%*	*9%*	*3%*	*1%*	*12%*	*7%*	*-6%*	*-4%*	*2%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
% of Pharma Sales	*31%*	*31%*	*32%*	*31%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Total Sales & Marketing Expense (50% of total SG&A)	$50,263	$53,631	$58,582	$60,894	$61,800	$69,349	$74,383	$70,584	$68,599	$70,365	$73,005	$75,903	$78,399	$81,242	$83,999	$87,103
%Growth (y-o-y)		*7%*	*9%*	*4%*	*1%*	*12%*	*7%*	*-5%*	*-3%*	*3%*	*4%*	*4%*	*3%*	*4%*	*3%*	*4%*
Addressable Market	$12,566	$12,754	$12,945	$13,140	$13,337	$13,537	$13,740	$13,946	$14,155	$14,519	$15,064	$15,662	$16,177	$16,764	$17,333	$17,973
%Growth (y-o-y)		*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*3%*	*4%*	*4%*	*3%*	*4%*	*3%*	*4%*
Dollar Market Penetration	$1,948	$2,073	$2,201	$2,299	$2,334	$2,504	$2,611	$2,754	$2,888	$3,049	$3,239	$3,477	$3,818	$4,191	$4,637	$5,167
Market Penetration	*16%*	*16%*	*17%*	*18%*	*18%*	*19%*	*19%*	*20%*	*20%*	*21%*	*22%*	*22%*	*24%*	*25%*	*27%*	*29%*
%Growth (y-o-y)		*6%*	*6%*	*4%*	*1%*	*7%*	*4%*	*6%*	*5%*	*6%*	*6%*	*7%*	*10%*	*10%*	*11%*	*11%*

Sources: Factset and William Blair & Company, L.L.C. estimates

Quintiles Company Detail

Brief History

Quintiles was founded in 1982 in North Carolina by Dennis Gillings as a small statistical and data management firm for pharmaceutical customers. The company was one of the first to recognize a need for outsourcing for pharmaceutical companies on a global basis; to that end, in 1987 the company began its global expansion in the United Kingdom and then added Japan in 1993. In addition, the company expanded its service offering beyond biostatistics and into other areas of clinical development (Phases I-III) as it became increasingly clear that the opportunity to provide outsourced services to the pharma industry offered strong potential for growth. In 1992, Quintiles opened a central laboratory in Atlanta, which now offers lab testing across the development spectrum. More recently, the company expanded its presence in the late-phase and observational research market through the acquisition of Outcome Sciences in 2011, which gives the company a broad and deep footprint across the clinical development spectrum, differentiating the company among its clinical CRO competitors. Over the years the company has grown to be a leader in multiple areas, but has been particularly strong in late-stage clinical.

After nearly 15 years focused on product development, in 1996 Quintiles combined with Innovex, a U.K.-based pharmaceutical services company that specialized in sales and marketing. The addition of Innovex made Quintiles the world's largest full-service biopharmaceutical services company, allowing it to provide services not only across the development segment of the market but across the full lifecycle of a pharmaceutical product, from first-in-man testing to approval and consumption. This broad capability allowed the company to win business that would not likely be available to other CROs, particularly at that time. A prime example of this was a landmark partnership with Eli Lilly (LLY $52.36) to commercialize Cymbalta in 2002. Today, Quintiles maintains a roughly equal presence in the United States, the United Kingdom, and Japanese markets in IHS, complementing its traditional CRO presence across 100 countries.

Competitive Advantage

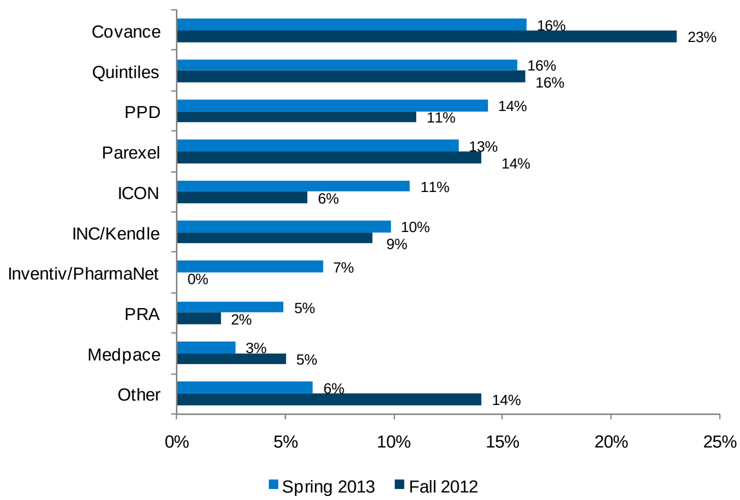
Given a track record of quality and the depth and breadth of its product offering in clinical development and commercialization, we believe Quintiles is a partner (if not the partner) of choice for most of the major biopharmaceutical companies. In our view, there are three key differentiators for the company: 1) geographic and functional breadth, 2) quality track record and expertise across all key therapeutic areas, and 3) technology leadership and operational consistency.

Breadth of capabilities. Quintiles is the largest participant in most markets that it serves. It was the first CRO to invest aggressively overseas and to first link the CRO with a significant commercialization presence as well. The company has a strong product offering in all areas of clinical development from Phase I through Phase IV and is in a unique position to bundle commercialization services with this development expertise through its IHS business. The ability to provide value to clients in both the R&D and sales-and-marketing components of their business should allow Quintiles to have a lower-risk profile than its outsourcing peers.

Track record with large clients. Quintiles has worked with nearly all of the industry's largest companies and has touched the vast majority of recently approved new molecular entities. Over its 30-year history, the company has developed deep relationships with clients, which is evident in their size and duration. In 2012, the company had nine relationships that exceeded $100 million in annual revenue contribution. We believe the company should be able to maintain this market-leading position, particularly with large pharmaceutical sponsors, as share is consolidated into the hands of global CROs, and the company continues to invest its considerable cash flow into expansion of its global presence and therapeutic expertise. As mentioned above, a key risk is a plateau in penetration rates, which could come earlier for Quintiles than the 10 years we estimate for the broader industry, as it appears it has achieved a deeper level of penetration with its clients than its peers have.

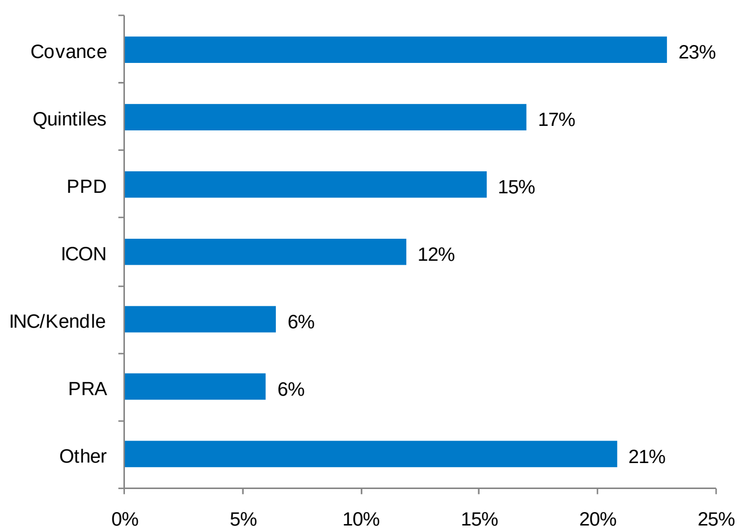
Recent survey data has shown that sponsors view Quintiles as a leader in both Phase I as well as Phase II/III (see exhibits 18-21), and we believe this positions the company well to win a disproportionate amount of business from these entities. Furthermore, as the evolution toward strategic partnerships continues, this market leadership in various categories should result in Quintiles signing more than its fair share of strategic contracts (see exhibit 22 for a list of current strategic partners).

Exhibit 18. Best Positioned CRO to Win Late Stage Outsourced Work—All Respondents



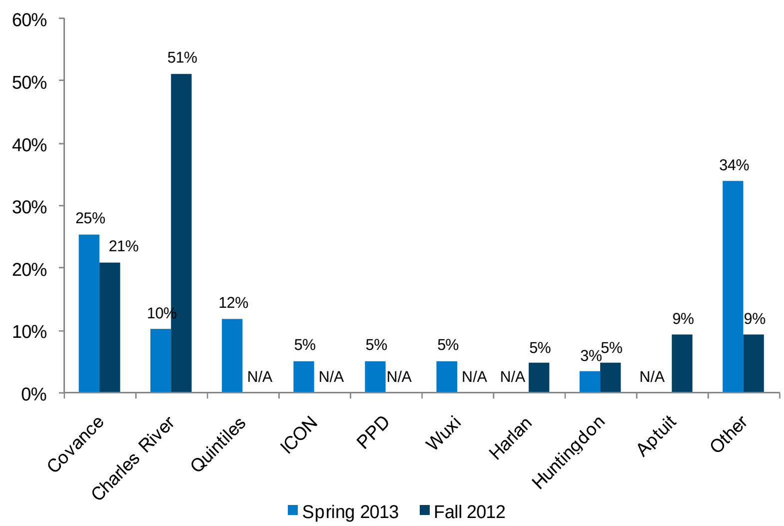
Note: 112 respondents in Spring 2013 and 90 respondents in Fall 2012
Sources: Life Science Strategy Group, LLC and William Blair & Company, L.L.C.

Exhibit 19. Best Positioned CRO to Win Phase I Work—All Respondents



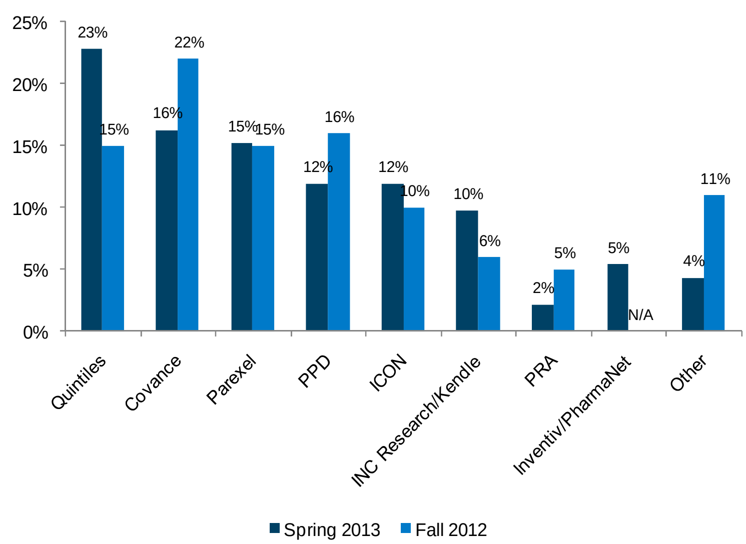
Note: 107 respondents (excluding N/A)
Sources: Life Science Strategy Group, LLC and William Blair & Company, L.L.C.

Exhibit 20. If Your Company Has Selected a Strategic Partner(s), Which CRO Was Selected? Early Development (Preclinical & Clinical Pharmacology)—All Respondents



Note: 59 respondents in Spring 2013, 43 respondents (All applicable selections were encouraged)
Includes strategic partner selections receiving >5% of responses
Sources: Life Science Strategy Group, LLC and William Blair & Company, L.L.C.

Exhibit 21. If Your Company Has Selected a Strategic Partner(s), Which CRO Was Selected? Late Stage—All Respondents



Note: 92 total responses in Spring 2013, 172 total responses in Fall 2012 (All applicable selections were encouraged)
Includes strategic partner selections receiving >5% of responses
Sources: Life Science Strategy Group, LLC and William Blair & Company, L.L.C.

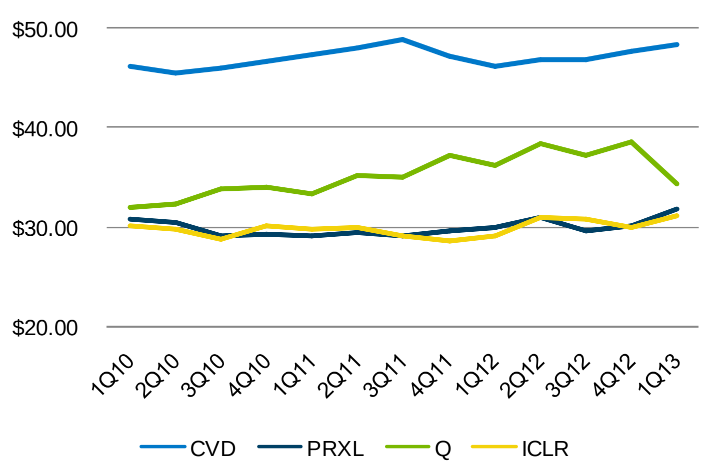
Exhibit 22. Select Quintiles CRO Strategic Partnerships

CRO	Pharma	Date Announced	Geography and Function	Comments
Quintiles	Solvay	2001	Clinical Development	NA
Quintiles	AstraZeneca	11/3/2009	Global; Clinical Pharmacology	perform "the majority" of AstraZeneca's (AZ) **clinical pharmacology** work
Quintiles	Eisai	11/3/2009	Global; Drug Development	Under the terms of the deal Quintiles will partially **fund development of 6 oncology compounds** in exchange for success milestone payment
Quintiles	Eli Lilly	8/1/2010	North and South America; Clinical Site Monitoring	NA
Quintiles	Takeda	2/15/2010	Global clinical development and central lab services	Takeda announced that they selected Covance and Quintiles as partners for global clinical development and central lab services.
Quintiles	Bristol-Myers Squibb	4/11/2013	Central lab, biomarker test, and assay development	Five-year agreement (into 2018). Unclear if this is a new relationship or incremental to the existing business they do with BMS
Quintiles	Merck Serono	5/15/2013	Sole provider of all outsourced clinical development services for global clinical programs	Five-year deal that will span from Phase I-Phase IV for global clinical programs. We believe this is the first sole-source deal of this size that spans such a large portion of the development spectrum. Given that there was an existing relationship, we believe the incremental revenue opportunity here for Quintiles is 50 million-100 million euros. Merck serono's annual R&D spending is 1.2 billion euros.

Source: Company reports

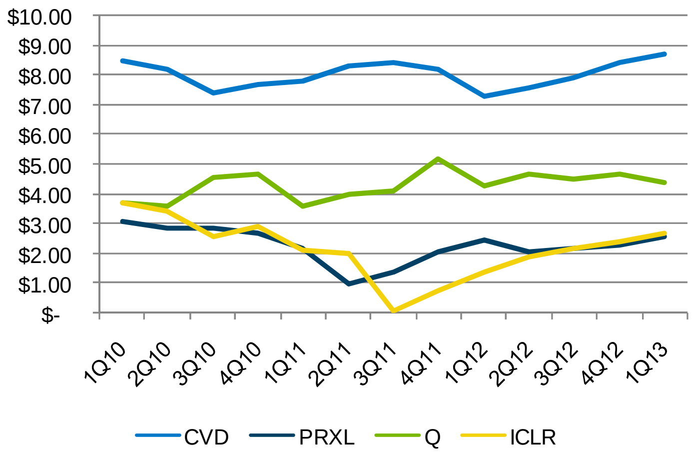
Efficiency through technology. Quintiles has been a leader in the use of technologies to streamline the development process and this has allowed it to generate a higher level of revenue per employee than its clinical peers, trailing only Covance among public CROs (see exhibits 23 and 24) likely because of a difference in mix (Covance has a larger exposure as a percentage of revenue to the highly automated central lab, compared with the labor-intensive late-stage clinical business where Quintiles is the industry leader). Over time, we believe increased use of technology that enables efficiency improvements should allow additional margin leverage and productivity gains, and we suspect that Quintiles will be at the forefront of the adoption of such technologies. For example, technology is now beginning to allow the capability to monitor trials remotely rather than having to periodically send a CRA to each site. This concept—known as risk-based monitoring—offers the potential for Quintiles and its peers to require less headcount growth to support the clinical business. Another technology opportunity is data mining experience with clinical investigators around the world to better design clinical trials. This could help avoid enrollment delays and improve customer satisfaction, which should ultimately help improve the hit rate on new business.

Exhibit 23. Estimated Revenue Per Employee (per quarter, in $000s)



Sources: Company reports and William Blair & Company, L.L.C.

Exhibit 24. Estimated EBIT Per Employee (per quarter, in $000s)



Sources: Company reports and William Blair & Company, L.L.C.

Management

We believe another key differentiator for Quintiles is its experienced management team. Founder Dennis Gillings is the executive chairman and still owns 20% of the company. He is an industry pioneer who has made excellent strategic decisions in the past and will likely help keep the company's strategy at the leading edge of outsourcing in the coming years. CEO Tom Pike, despite a relatively short tenure at the firm, has deep expertise in clinical outsourcing, having been CEO of another healthcare outsourcing firm and having spent more than 20 years in Accenture's (ACN $82.45) global healthcare group. John Ratliff, currently the COO and president, has also served as CFO and has been at the firm for nearly 10 years. Lastly, CFO Kevin Gordon has been at the firm for 3 years and has 13 years of experience with Teleflex (TFX $77.91), a publicly traded healthcare company, including time spent as CFO. In our view, this is one of the deepest management teams in the industry, with a strong bench and a top-quality scientific staff that rivals those of its clients.

Exhibit 25. Executive Biographies

Name	Title	Tenure	Experience
Dennis B Gillings, CBE, Ph.D.	Executive Chairman and Director	31	Dr. Gillings has served as executive chairman and director since he founded the company in 1982. He also served as CEO from 1982 to December 2012. He formally served as the founding chairman of the Association of Clinical Research Organizations, a Washington-based trade group formed in 2002. Dr. Gillings has a diploma in mathematical statistics from Cambridge and a Ph.D. in mathematics from the University of Exeter, England.
Thomas H. Pike	Chief Executive Officer and Director	1	Mr. Pike has served as CEO since January 2013, as director since August 2012 and as CEO since April 2012. Before joining Quintiles, he served as CEO of Accelion, Inc., a healthcare outsourcing firm, from January 2010 to November 2010. Following his service with Accelion, he acted as an independent consultant. Mr. Pike previously spent 22 years with Accenture, a global management consulting, technology services and outsourcing company, serving as chief risk officer from September 2009 to January 2010. Mr. Pike received his B.S. in accounting from the University of Delaware.
John D. Ratliff	President, Chief Operating Officer and Director	9	Mr. Ratliff has served as director since May 2006, as COO since November 2006, and as president since August 2010. Previously, he served as CFO from June 2004 to October 2006. Prior to joining Quintiles, he worked for Acterna Corporation, a global communications equipment company, from January 2002 through October 2003. Prior to Acterna, Ratliff held senior executive positions over 19 years at IBM. Mr. Ratliff received his B.S. in industrial and systems engineering from Georgia Tech and his M.B.A. from Duke University.
Kevin K. Gordon	Executive Vice President and Chief Financial Officer	3	Mr. Gordon has served as executive vice president and CFO since July 2010. Prior to joining Quintiles, he spent 13 years with Teleflex Inc., a global, publicly traded healthcare company, most recently serving as CFO from March 2007 to January 2010, during which time he was responsible for Teleflex's financial, tax, risk management, corporate development, and investor relations activity. Mr. Gordon received his B.S. in accounting from the University of Connecticut.
Michael I. Mortimer	Executive Vice President and Chief Administrative Officer	10	Mr. Mortimer has served as executive vice president and CAO since December 2007. Previously, he served as executive vice president of Global Human Resources beginning in July 2003. Before Quintiles, Mr. Mortimer worked for 10 years at Charles Schwab Corp., where he was senior vice president of human resources for the company's international and U.S. domestic retail organizations. He received a B.S. in behavior sciences from Ohio State University.
Derek M. Winstanly, MBChB	Executive Vice President and Chief Customer and Governance Officer	14	Dr. Winstanly has served as executive vice president and chief customer and governance officer since November 2011. He joined Quintiles in 1999 as president of Quintiles Japan and was responsible for the implementation of the Asia-Pacific Contract Pharma Organization. In 2002, he became chairman of Quintiles Japan and regional director of the Asia-Pacific region. In his current role, Dr. Winstanly is responsible for the office of the chief medical and chief compliance officers and quality assurance. Prior to joining Quintiles, he worked for GlaxoSmithKline for 15 years, serving as medical director in charge of clinical development, regulatory and medical affairs. Dr. Winstanly qualified as a medical doctor with his MBChB at the University of Pretoria and is registered as a medical practitioner in both the U.K. and South Africa.
James H. Erlinger III	Executive Vice President, General Counsel, and Secretary	1	Mr. Erlinger has served as executive vice president and general counsel since January 2013 and as secretary since February 2013. Prior to joining Quintiles, he spent 27 years practicing corporate law at Bryan Cave, LLP, a multinational law firm. He focused his practice on outsourcing, healthcare, joint ventures, M&A, licensing and capital formation. Mr. Erlinger is a CPA and received his B.S. in finance from the University of Missouri - Columbia, his M.B.A. from the University of Missouri - Columbia, and his J.D. from the University of Missouri - Kansas City School of Law.

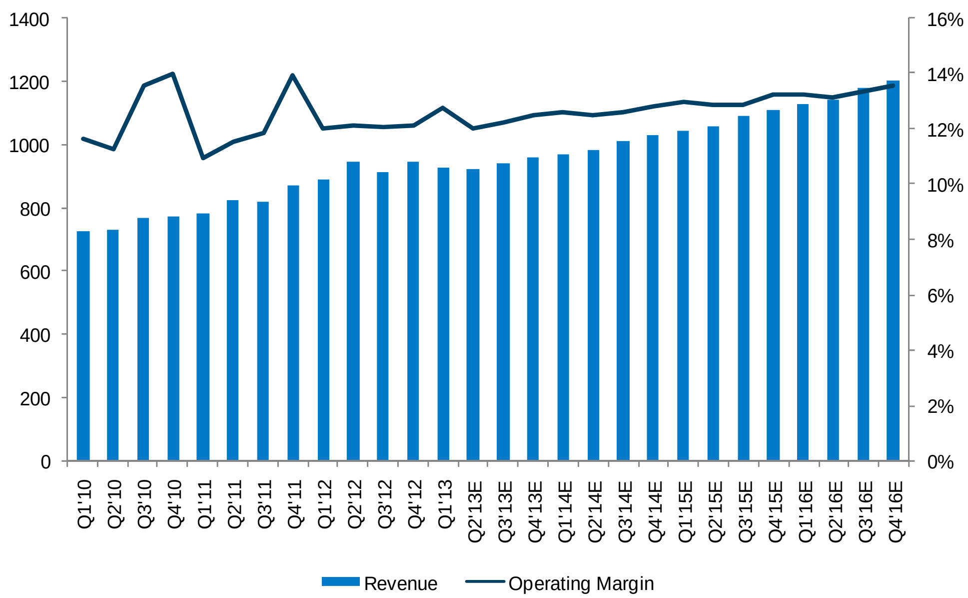
Source: Company reports

Financial Outlook and Key Modeling Assumptions

In addition to being the largest company in the CRO category, Quintiles is also among the most profitable, and has set the standard for operational and financial consistency as well. Though opportunities for market share gains remain robust, we believe Quintiles's size will likely result in more-stable, but also more-moderate growth trends over the next several years, compared with its smaller peers who have smaller revenue bases and lower margins. For the core product development segment, we believe Quintiles can grow modestly above the market's mid- to high-single-digit pace. Similarly, we expect IHS can also slightly outpace the broader market. We expect the commercialization market will trail that of product development for the next few years, but believe IHS has greater potential for acceleration, as generic erosion wanes and approvals pick up. We also expect an additional 1 to 2 percentage points of growth from acquisitions. Therefore, including acquisitions, we expect longer-term top-line growth may approach 10%, but we prefer not to include future acquisitions into our assumptions. As a result, our Quintiles modeling estimates (in a normal economic environment) are for top-line growth in the 7% to 8% range (all organic), with steady growth in the product development segment and a bit more volatility in IHS.

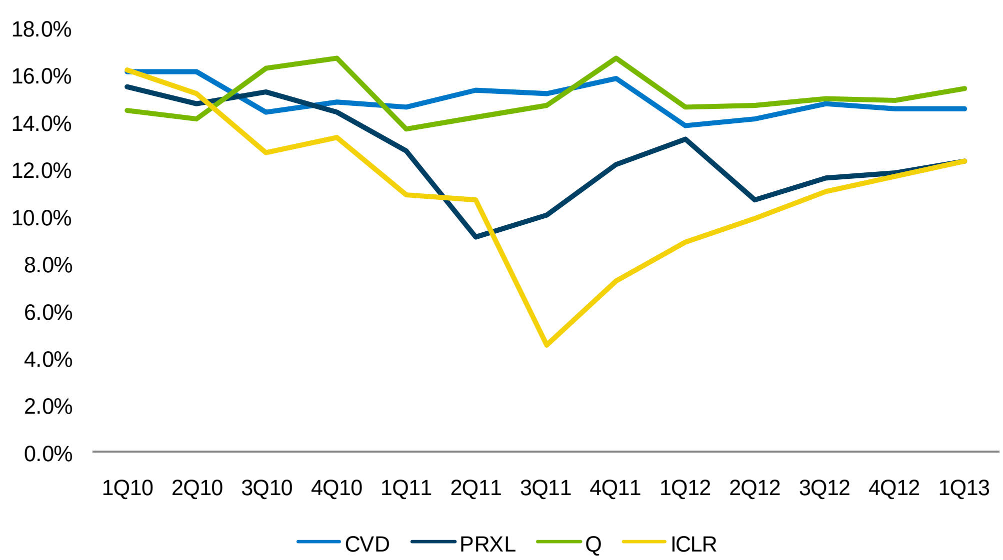
On a consolidated basis, we believe the company can realize operating margin leverage of 10-40 basis points per year (the bulk of which should come from IHS), which should allow for bottom-line growth in the midteens over the long term. As the company grows, the already modest corporate expenditure of 2.5% of revenue should remain relatively stable, in our view. Given that margins are already high relative to its peers in the product development business, we believe that any improvement is likely to come from top-line acceleration, a moderation in pricing competiveness, innovative contract structures that allow for an element of performance-based payments, and the increasing automation of the clinical development process. In IHS, we believe more consistency in the business pipeline is necessary for sustained improvement in margins, and we suspect this should occur naturally if or when an increasing number of new medications are approved by the FDA, resulting in higher demand for outsourced sales-and-marketing services. See exhibit26 for additional detail.

Exhibit 26. Consolidated Quarterly Revenue and Operating Margin



Sources: Company reports and William Blair & Company, L.L.C. estimates

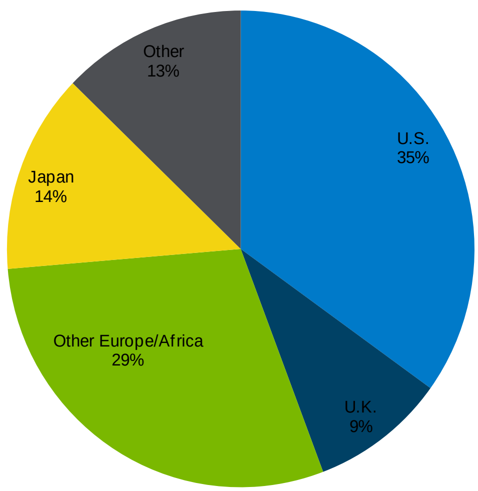
Exhibit 27. Quarterly EBITDA Margins Relative to Competitors



Sources: Company reports and William Blair & Company, L.L.C. estimates

Foreign exchange will likely contribute to quarter-to-quarter volatility of results for Quintiles, as it has for other global CROs. Quintiles derives roughly 65% of revenue outside the United States. The three largest currency exposures are to the euro, yen, and pound sterling (see exhibit 28). Europe and Africa make up nearly 40% of total revenue, with the United Kingdom at 9.3% (nearly $350 million, the vast majority of which is in IHS) and the remaining 29.4% split between continental Europe and Africa. We do not believe that a significant amount of revenue is derived in Africa; thus, we estimate that about two-thirds of this other amount (20% of total revenue or nearly $750 million) is denominated in euros. The yen accounted for $500 million in revenue in 2012, or roughly 13.5% of the total. About $325 million is derived from the IHS segment, which may see significant headwinds to reported revenue growth for the balance of the year if rates remain at current levels. The remaining roughly 20% of revenue is denominated in a variety of currencies, none of which has a significant impact on revenue in isolation.

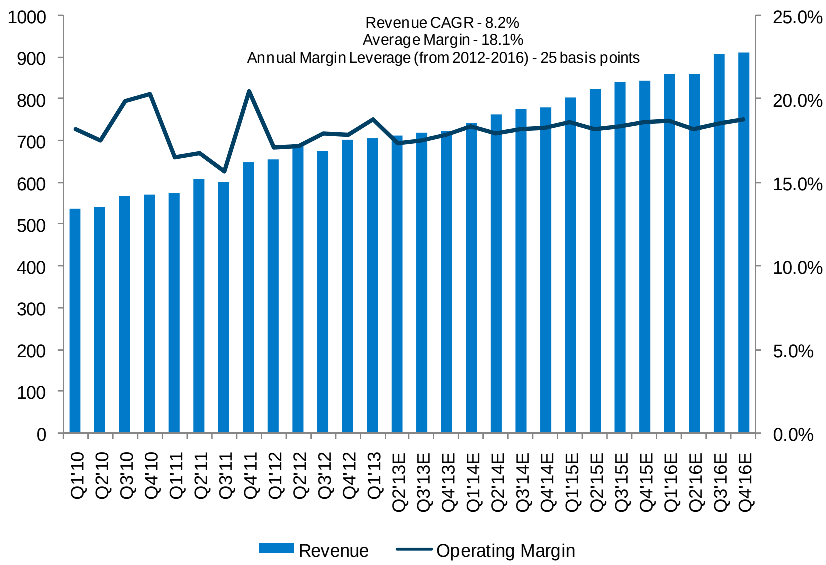
Exhibit 28. 2012 Revenue Breakdown by Geography



Source: Company reports

More specific to product development, we estimate 2013 revenue growth of 5.0% (4.8% on a constant dollar, organic basis), which we expect to accelerate to 7.1% in 2014 (7.3% constant dollar, organic) and 8.0% in 2015 and 2016. As mentioned above, given the size of the product development business relative to its competition (more than 50% larger than its next-largest competitor), we believe that growth over time should approximate the pace of market expansion. Similarly, operating margins in the product development business are among the highest in the industry (18% before corporate expenses and 15%-16% including corporate expenses), which combined with a competitive environment, could make it difficult for significant margin expansion to take place. From current levels, we believe technological improvements that increase automation, combined with high-single-digit revenue growth, should allow for 20-30 basis points of annual margin leverage with the product development segment.

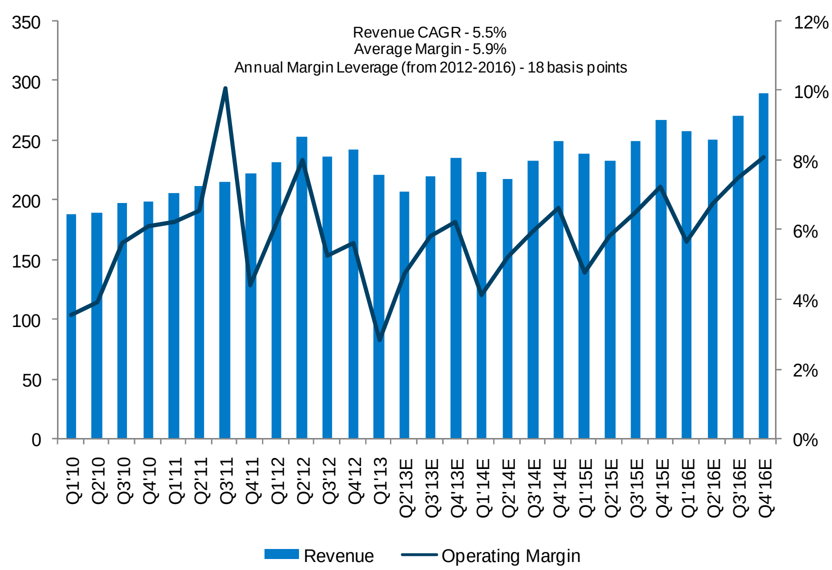
Exhibit 29. Quarterly Product Development Operational Trends



Sources: Company reports and William Blair & Company, L.L.C. estimates

In IHS, we expect slightly more volatility. Fourth-quarter seasonality in revenue tends to be strong, given year-end budget purges, and typically one other quarter during the year (usually the third) is strong as well. We believe exposure to the Japanese yen will severely hamper revenue growth trends this year (about a 9% headwind), but view the longer-term growth opportunity in IHS as roughly equivalent to the product development segment, with organic growth in the high single digits. We estimate an 8.3% reduction in growth in 2013 (up 0.6% on a constant-currency basis) due to the heavy exposure to the yen (33% of IHS revenue, or about $325 million). In 2014, we expect a return to growth (4.5%) and forecast high-single-digit growth (7%-8%) thereafter. In addition, we expect 18 basis points of annual operating margin improvement from 2012 through 2016 in IHS, though we note that 2013 assumes a 140-basis-point reduction in margin. From the end of 2013 through 2016 we expect 210 basis points (70 basis points each year) of improvement to 7.0% in EBIT.

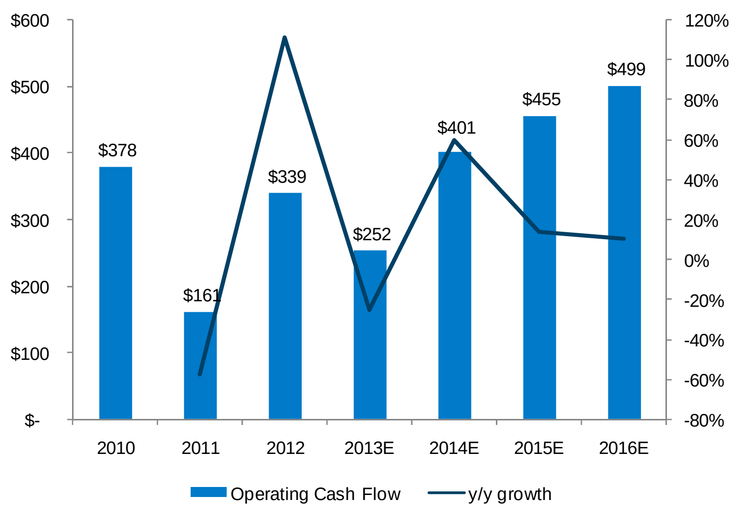
Exhibit 30. Quarterly IHS Operational Trends



Sources: Company reports and William Blair & Company, L.L.C. estimates

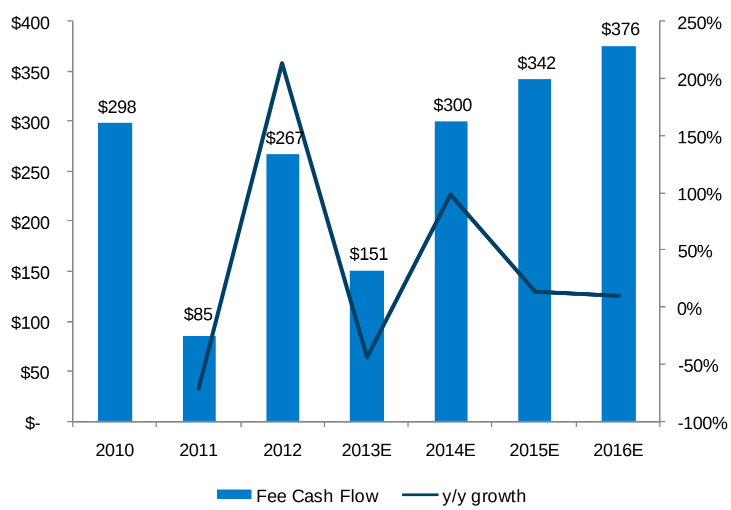
Cash Flow. Given high margins, relatively low capital expenditure requirements, and favorable working capital metrics, we believe Quintiles is poised to generate strong free cash flow in the coming years. We expect 2013 to be the trough year for free cash flow, as a temporary spike in working capital usage and slightly higher capital expenditures as a result of being a public company drive free cash flow down to $151 million, but we expect this to double to $300 million as working capital normalizes. We believe cash will be used to fund acquisitions, buy back shares, and pay down debt. Our model does not include any acquisitions in future years and assumes option dilution is largely offset with buybacks. In addition, we assume some level of debt reduction and other expense reductions that allow our interest and other expense estimates to come down by $9.3 million in 2013 and $17.6 million in 2014.

Exhibit 31. Operating Cash Flow Projections



Sources: Company reports and William Blair & Company, L.L.C. estimates

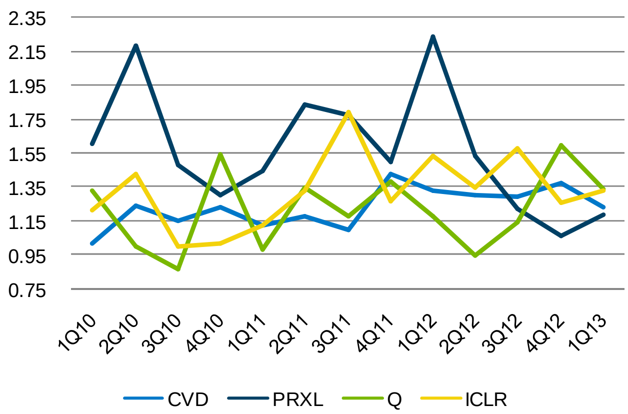
Exhibit 32. Free Cash Flow Projections



Sources: Company reports and William Blair & Company, L.L.C. estimates

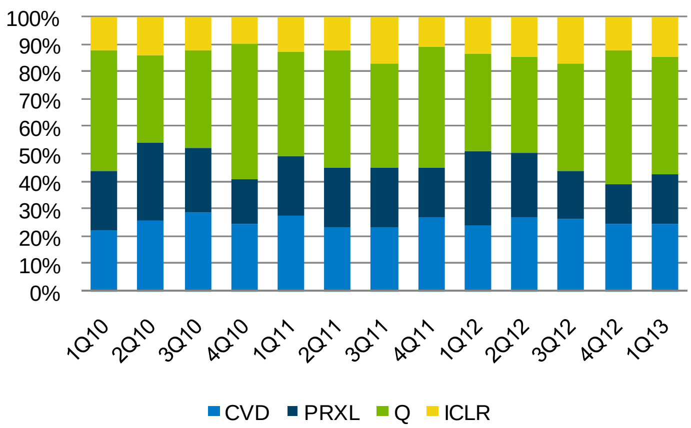
Book to bill ratio. Over the past 13 quarters, Quintiles has reported an average quarterly book-to-bill ratio of 1.22 times, compared with 1.23 times for Covance, 1.32 times for ICON, and 1.56 times for Parexel. We believe that this is a more impressive feat than it initially appears, as the average net new business per quarter for Quintiles is in excess of $1 billion, which is 60% higher than its closest peer. We believe Quintiles will find it increasingly difficult to deliver book-to-bill ratios at these levels, given its growing revenue base, but on an absolute basis, we expect the company to continue to outpace its peers meaningfully for the near term.

Exhibit 33. Book-to-Bill Comparison



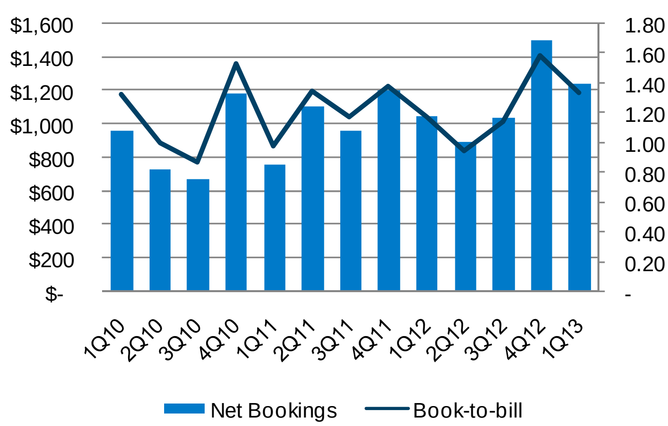
Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 34.Bookings as a Percent of Total Comparison



Sources: Company reports and William Blair & Company, L.L.C. estimates

Exhibit 35. Quarterly Net New Business (000s)



Sources: Company reports and William Blair & Company, L.L.C. estimates

Sensitivity of Key Assumptions

Operating margins. We believe Quintiles can improve margins by 10 to 40 basis points per year, thanks to improved cost controls and increased use of technology (SG&A leverage), as well as improved utilization in IHS. Our EPS estimates are sensitive to changes in operating margin. Based on our 2014 estimates, every 10 basis points of operating leverage result in a $0.02 swing to earnings per share (about 1% of the earnings base). Thus, if the 30 basis points of leverage we forecast do not materialize, we believe there could be as much as 3% downside to our earnings expectations.

Revenues. We project constant-currency, organic revenue growth of roughly 6.5% in 2014. Every 100 basis points in 2014 revenue growth is equivalent to roughly $40 million in sales. Assuming our margin assumptions remain unchanged, every 100-basis-point change in revenue growth yields a change of 2.3 cents in EPS (just above 1%) annually.

From 2012 actual results through 2016, we expect a top-line CAGR of 5.9% and annual operating leverage of 31 basis points. In exhibit 36, we estimate a range of 2016 earnings per share, based on annual revenue growth between 2% and 14% and annual operating margin declines of as much as 50 basis points to increases of as much as 50 basis points. We believe that the most-likely range of outcomes is for a minimum of 4% annual revenue growth and 10 basis points of annual margin leverage and a maximum of 10% annual revenue growth and 40 basis points of annual margin leverage. This results in a potential EPS range of $2.21 to $3.23, or a four-year EPS CAGR of 6%-16%. We currently estimate 2016 EPS of $2.62, a 10.3% CAGR.

Exhibit. 36. 2016 EPS Range Based on Revenue CAGR and Operating Leverage Variations

Annual Operating Margin Change	4-Year Revenue CAGR						
	2%	4%	6%	8%	10%	12%	14%
-0.50%	$1.52	$1.68	$1.86	$2.04	$2.24	$2.45	$2.67
0.40%	$2.25	$2.47	$2.71	$2.97	$3.23	$3.51	$3.81
-0.30%	$1.68	$1.86	$2.05	$2.25	$2.46	$2.68	$2.92
-0.20%	$1.76	$1.95	$2.14	$2.35	$2.57	$2.80	$3.05
-0.10%	$1.84	$2.03	$2.24	$2.45	$2.68	$2.92	$3.17
0.00%	$1.92	$2.12	$2.33	$2.56	$2.79	$3.04	$3.30
0.10%	$2.01	$2.21	$2.43	$2.66	$2.90	$3.16	$3.43
0.20%	$2.09	$2.30	$2.52	$2.76	$3.01	$3.28	$3.56
0.30%	$2.17	$2.39	$2.62	$2.86	$3.12	$3.40	$3.68
0.40%	$2.25	$2.47	$2.71	$2.97	$3.23	$3.51	$3.81
0.50%	$2.33	$2.56	$2.81	$3.07	$3.34	$3.63	$3.94

Sources: Company reports and William Blair & Company, L.L.C. estimates

Lastly, breaking down growth further, operational growth is driving a substantial portion of earnings growth in 2014 and beyond. In 2013, debt reduction is more than offset by share count dilution related to the deal. Still, debt reduction and other capital changes contribute a net benefit of 2% in 2014 and roughly 4% in 2015 and 2016.

Exhibit 37. Earnings Build

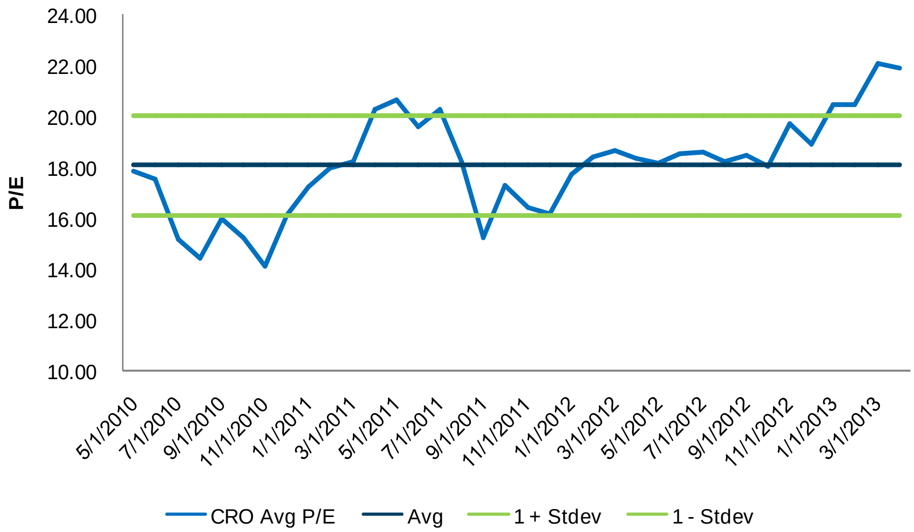
	2011	2012	2013E	2014E	2015E	2016E
Revenue	9.9%	12.1%	1.5%	6.5%	7.8%	8.1%
Gross Margin Improvement	-3.4%	-4.1%	1.9%	0.7%	0.5%	0.5%
Expense Leverage	-1.2%	3.9%	0.6%	1.5%	2.6%	2.2%
Operating Growth	5.3%	11.9%	4.0%	8.7%	10.9%	10.8%
Debt Reduction/Tax/Other	12.8%	-2.5%	7.5%	8.5%	4.5%	4.7%
Share Count	0.0%	0.1%	-10.0%	-6.3%	-0.8%	-0.8%
EPS Growth	18.1%	9.5%	1.5%	10.9%	14.5%	14.7%

Sources: Company reports and William Blair & Company, L.L.C. estimates

Valuation

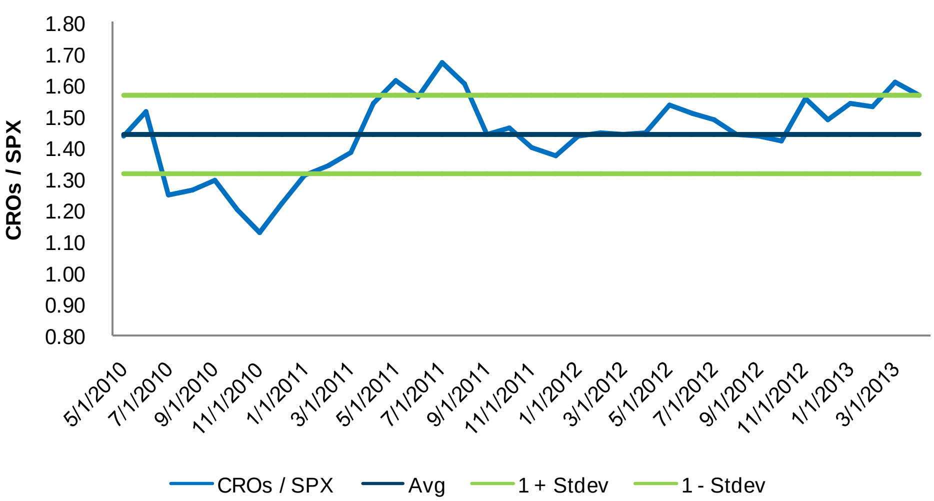
Since the IPO at $40 on May 9, Quintiles's stock is up 7.7% (14.6% at its peak), compared with its peers up an average of 4.8% over the same period. Interestingly, late-stage peers are up 8.2% while early-stage peers are up 1.2%. Year to date, clinical development CRO stocks have risen 35% (excluding Quintiles). As a result, P/E ratios (currently 22.9 times forward estimates for the group) have pushed higher, reaching the top end of the five-year averages of 10 to 27 times (excluding Charles River) (see exhibits 38 and 39). Historically, the group has traded at a relative premium to the broad S&P 500, given superior growth characteristics. Specifically, the group has traded between 1.1 and 1.6 times; while the group does not look quite as expensive on a relative basis, given the higher valuation for the S&P, it is trading at the top end of its historical range on this metric as well (1.51 times).

Exhibit 38. CRO Group Three Year Forward P/E



*CRO Group Includes Covance (CVD), Parexel International (PRXL), and ICON plc (ICLR)
Source: FactSet

Exhibit 39. CRO Group Three Year Forward P/E Relative to S&P 500

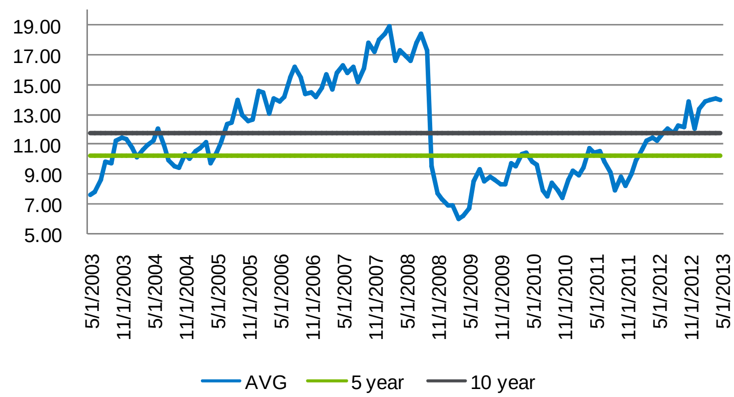


*CRO Group Includes Covance (CVD), Parexel International (PRXL), and ICON plc (ICLR)
Source: FactSet

Quintiles currently trades at a multiple of 24.2 times our 2013 estimate, which represents a 7.1% premium relative to its CRO peers, but it is a trading at a 3.5% discount excluding Charles River. We believe a slight premium is justifiable in a more low-growth environment, given what appears to be a more-stable growth model relative to its peers, but in the current fast-growth environment for late stage, we expect its faster growth peers to maintain a bit of a premium. Over multiple market cycles, Quintiles should be able to maintain a valuation premium over its competitors, in our view, given its industry-leading position and strong free cash flow, which should allow for favorable capital deployment in the form of debt reduction, share buybacks, and acquisitions.

We believe enterprise to EBITDA (EV/EBITDA) represents an alternative way to assess the company's valuation. According to FactSet data, during normalized markets, CROs trade in a narrower range of between 9 and 16.5 times EBITDA. Currently, the market is trading around 14 times 2014 EBITDA on a trailing basis (see exhibit 40). Based on our estimates, the group is trading at 11.6 times 2013 expectations (12.0 times excluding Charles River) and 10.6 times our 2014 expectations (11.0 times excluding Charles River). In our view, an appropriate forward EV/EBITDA multiple is 9-15 times for the group. Quintiles is currently trading at a 12.1 times EV/2014 EBITDA, using our estimates, implying a premium of 1.5 turns to its peers.

Exhibit 40. Historical EV/LTM EBITDA Trend (Long Term)



Includes: PRXL, ICLR, CVD
Source: FactSet

In summary, we believe that while valuations appears to be somewhat high at current levels for the group and for Quintiles in particular, we believe that its industry-leading position should allow for more-predictable revenue and better visibility to double-digit earnings growth potential relative to its peers. We believe the company should be able to maintain or even increase its market leadership over the next decade, and as a result, we believe the stock represents a lower risk way to participate in the fast-growing CRO market. We therefore rate Quintiles as Outperform with an Established Growth company profile. See exhibit 41 for a summary of Quintiles's valuation statistics compared with its peer groups, followed by our financial projections in exhibits 42 through 45.

Exhibit 41. Valuation Comparison

					Curr.	Mkt.	Calendar Year EPS			P/E Ratio			EV/EBITDA	3 Yr Est	2013	Last Quarter Actual		
	Rating /	6/17/2013	Diluted	Market	Ann.	Cap/								Growth	P/E to	Growth Rate		EBIT
Company	Profile	Price	Shares	Cap.	Rev.	Rev	2012(E)	2013(E)	2014(E)	'12(E)	'13(E)	'14(E)	'13(E)	Rate	Growth	Rev	EPS	Margin
CONTRACT RESEARCH ORGANIZATIONS																		
Charles River Laboratories (CRL)	M/C	43.21	48.4	$2,093	$1,165	1.8x	$2.74	$2.85	$3.15	15.8x	15.1x	13.7x	9.1x	12%	1.3x	2%	-1%	17%
Covance (CVD)	O/E	78.43	56.3	$4,416	$2,321	1.9x	$2.70	$3.10	$3.55	29.0x	25.3x	22.1x	10.1x	15%	1.7x	9%	25%	9%
ICON plc (ICLR)	O/A	35.94	61.3	$2,204	$1,267	1.7x	$1.00	$1.52	$1.76	36.0x	23.7x	20.5x	11.1x	15%	1.6x	26%	NM	9%
Parexel International (PRXL)	O/A	46.74	59.1	$2,761	$1,818	1.5x	$1.36	$1.78	$2.07	34.3x	26.2x	22.6x	10.6x	15%	1.7x	28%	52%	8%
Quintiles (Q)	O/E	43.53	135.9	$5,916	$3,711	1.6x	$1.77	$1.80	$2.00	24.6x	24.2x	21.8x	12.1x	12%	2.0x	4%	-5%	13%
CRO AVERAGE						**1.7x**				**27.9x**	**22.9x**	**20.1x**	**10.6x**	**14%**	**1.6x**	**14%**	**18%**	**11%**
CONTRACT SALES ORGANIZATIONS																		
**Omnicom Group (OMC)	M/E	63.29	263.2	$16,658	$13,596	1.2x	$3.61	$3.92	$4.38	17.5x	16.2x	14.4x	8.8x	9%	1.8x	3%	6%	11%
Professional Detailing (PDII)	M/A	4.24	15.1	$64	$172	0.4x	$0.04	($0.28)	($0.05)	NM	NM	NM	NM	15%	NM	36%	NM	6%
Publicis Groupe S.A (PUB-PAR)	NR	73.25	210.0	$15,385	$8,255	1.9x	$4.27	$4.62	$4.99	17.2x	15.9x	14.7x	9.4x	9%	1.7x	8%	NA	NA
CSO AVERAGE						**1.2x**				**17.4x**	**16.0x**	**14.6x**	**9.1x**	**11%**	**1.7x**	**16%**	**6%**	**9%**
CLINICAL TRIAL TECHNOLOGY ORGANIZATIONS/HEALTHCARE IT																		
*Greenway Medical Technologies (GWAY)	O/A	11.77	30.8	$363	$135	2.7x	$0.14	$0.03	$0.06	83.6x	457.3x	182.3x	49.6x	20%	23.5x	3%	-88%	-8%
Medidata (MDSO)	NR	72.21	26.3	$1,896	$253	7.5x	$1.03	$1.29	$1.55	70.1x	55.8x	46.6x	28.5x	21%	2.7x	26%	59%	22%
*Merge Healthcare Incorporated (MRGE)	M/A	3.63	93.3	$339	$255	1.3x	$0.08	$0.18	$0.27	45.1x	20.4x	13.2x	9.1x	15%	1.4x	4%	-133%	11%
WebMD Health Corp. (WBMD)	NR	28.67	49.0	$1,405	$451	3.1x	$0.49	$0.72	$0.93	58.7x	40.0x	30.9x	13.7x	10%	4.2x	5%	168%	4%
CLINICAL TRIAL TECH AVERAGE						**3.7x**				**64.4x**	**143.4x**	**68.3x**	**25.2x**	**16%**	**7.9x**	**10%**	**2%**	**7%**
ASIAN CONTRACT RESEARCH ORGANIZATIONS																		
CMIC Holdings Co., Ltd. (2309-TKS)	NR	23.16	18.0	$417	$536	0.8x	$1.47	$1.36	$1.49	15.8x	17.1x	15.6x	6.2x	10%	1.8x	-15%	NA	NA
EPS Corporation (4282-TKS)	NR	1,175.88	0.4	$421	$420	1.0x	$72.22	$67.44	$85.96	16.3x	17.4x	13.7x	6.7x	16%	1.1x	-9%	NA	NA
Hangzhou Tigermed Consulting (300347-SHE)	NR	8.07	106.8	$862	$48	18.0x	$0.10	$0.15	$0.20	79.3x	54.3x	39.8x	43.5x	NM	NM	NA	NA	NA
WuXi PharmaTech (WX)	O/A	21.11	71.9	$1,518	$527	2.9x	$1.40	$1.52	$1.68	15.0x	13.9x	12.6x	9.2x	15%	0.9x	12%	8%	20%
CHEMISTRY SERVICES AVERAGE						**5.7x**				**31.6x**	**25.7x**	**20.4x**	**16.4x**	**14%**	**1.3x**	**-4%**	**8%**	**20%**
OTHER																		
Albany Molecular (AMRI)	NR	12.10	31.4	$379	$238	1.6x	$0.25	NA	NA	NM	NA	NA	NA	NA	NA	11%	1050%	NA
Cambrex Corporation (CBM)	NR	13.98	30.0	$420	$300	1.4x	$2.09	$0.84	$0.95	6.7x	16.7x	14.7x	7.1x	13%	1.2x	7%	50%	14%
Lonza Group (LONN-CH)	NR	70.90	52.0	$3,685	$3,922	0.9x	$4.86	$4.64	$5.58	14.6x	15.3x	12.7x	8.7x	17%	0.9x	31%	NA	9%
Patheon (PTI-CA)	NR	5.66	133.8	$758	$854	0.9x	($0.64)	$0.26	NA	-8.9x	NM	NM	8.9x	NA	NA	39%	168%	-1%
OTHER AVERAGE						**1.1x**				**4.1x**	**16.0x**	**13.7x**	**8.2x**	**15%**	**1.1x**	**25%**	**109%**	**8%**

*Rated by William Blair Analyst Ryan Daniels (estimates reflect FactSet consensus)
**Rated by William Blair Analyst Brandon Dobell (estimates reflect FactSet consensus)

(NR) Not Rated
(A) Consensus estimates from Factset for companies not rated by William Blair & Company, L.L.C.
Sources: Company reports, FactSet, and William Blair & Company, L.L.C.

Exhibit 42. Income Statement Summary

	2010	2011	2012	Q1'13	Q2'13E	Q3'13E	Q4'13E	2013E	2014E	2015E	2016E
Product Development Revenue	$2,221.9	$2,437.8	$2,728.7	$706.3	$714.3	$720.7	$724.1	$2,865.4	$3,069.9	$3,315.4	$3,580.7
I.H.S. Revenue	$774.8	$857.1	$963.7	$221.1	$207.3	$219.9	$235.5	$883.8	$923.7	$988.3	$1,070.0
Net revenue	**$2,996.8**	**$3,294.9**	**$3,692.4**	**$927.4**	**$921.6**	**$940.6**	**$959.6**	**$3,749.2**	**$3,993.5**	**$4,303.8**	**$4,650.7**
Total Cost of revenue	1,925.0	$2,153.0	$2,459.4	$611.0	$610.2	$620.2	$633.3	$2,474.6	$2,626.7	$2,823.6	$3,043.3
Gross profit	1,071.8	$1,142.0	$1,233.0	$316.4	$311.4	$320.4	$326.3	$1,274.6	$1,366.9	$1,480.2	$1,607.4
Selling, general and administrative expense	608.9	$651.7	$686.1	$173.4	$176.2	$179.6	$179.8	$708.9	$756.8	$809.0	$869.0
EBITDA	462.9	$490.3	$546.9	$143.0	$135.2	$140.8	$146.6	$565.7	$610.1	$671.2	$738.4
Depreciation and amortization expense	84.6	$91.9	$101.3	$24.6	$24.7	$26.1	$26.6	$102.1	$106.3	$112.6	$119.5
Operating income (inlcuding options beg Q105)	**378.3**	**$398.4**	**$445.6**	**$118.4**	**$110.5**	**$114.7**	**$120.0**	**$463.6**	**$503.8**	**$558.6**	**$618.9**
Interest and other income (expense), net	(133.4)	($102.8)	($127.8)	($33.2)	($34.8)	($25.4)	($25.4)	($118.8)	($101.2)	($94.4)	($82.8)
Pretax income	245	$295.6	$317.8	$85.2	$75.7	$89.3	$94.6	$344.8	$402.5	$464.2	$536.1
Income tax expense	84.2	$100.4	$111.5	33.4	$18.9	$28.6	$30.3	$111.2	$128.8	$148.5	$171.5
Equity investee earnings	1.11	($4.2)	$2.6	($1.7)	$0.3	$0.9	($0.2)	($0.7)	($0.7)	($0.7)	($0.7)
Net income (non-GAAP)	**$161.8**	**$191.0**	**$209.0**	**$50.1**	**$57.1**	**$61.7**	**$64.1**	**$233.0**	**$273.0**	**$315.0**	**$363.8**
Loss/(income) from Noncontrolling interests/minority interest	0.0	1.4	0.9	0.15	0.3	0.3	0.3	1.0	1.1	1.1	1.1
Net Income Attributable to QTHI	161.8	192.4	209.9	50.28	57.3	61.9	64.4	233.9	274.1	316.1	364.9
Nonrecurring items	(5.2)	(36.3)	(50.3)	(3.8)	(45.2)	(3.3)	(6.8)	(59.1)	(6.3)	(6.0)	(6.0)
Tax adjustment	1.8	87.1	18.9	2.0	16.9	1.0	2.2	22.1	2.0	2.0	2.0
Non controlling interest		(1.4)	(0.9)	(0.2)	(0.3)	(0.3)	(0.3)	(1.1)	(1.1)	(1.1)	(1.1)
Nonrecurring items (net of tax)	(3.4)	49.4	(32.3)	(1.980)	(28.6)	(2.6)	(4.9)	(38.1)	(5.4)	(5.1)	(5.1)
Net income (GAAP)	**$158**	**$240.4**	**$176.7**	**$48.147**	**$28.5**	**$59.1**	**$59.2**	**$194.9**	**$267.6**	**$309.8**	**$358.7**
EPS (excl. nonrecurring items, incl. options beg Q105, diluted)	**$1.37**	**$1.62**	**$1.77**	**$0.42**	**$0.45**	**$0.45**	**$0.47**	**$1.80**	**$2.00**	**$2.29**	**$2.62**
EPS (as reported)	**$1.34**	**$2.04**	**$1.50**	**$0.41**	**$0.23**	**$0.43**	**$0.43**	**$1.50**	**$1.96**	**$2.25**	**$2.58**
Weighted average shares outstanding (basic)	116.4	116.2	115.7	115.8	122.7	129.6	129.9	124.5	130.5	131.5	132.5
Weighted average shares outstanding (diluted)	118.0	117.9	117.8	118.7	125.8	135.9	136.1	129.2	136.8	137.8	138.8
MARGIN ANALYSIS:											
Gross profit	35.8%	34.7%	33.4%	34.1%	33.8%	34.1%	34.0%	34.0%	34.2%	34.4%	34.6%
SG&A	20.3%	19.8%	18.6%	18.7%	19.1%	19.1%	18.7%	18.9%	19.0%	18.8%	18.7%
EBITDA	15.4%	14.9%	14.8%	15.4%	14.7%	15.0%	15.3%	15.1%	15.3%	15.6%	15.9%
Depreciation & amortization	2.8%	2.8%	2.7%	2.7%	2.7%	2.8%	2.8%	2.7%	2.7%	2.6%	2.6%
Operating income	12.62%	12.1%	12.1%	12.8%	12.0%	12.2%	12.5%	12.4%	12.6%	13.0%	13.3%
Tax rate	34.4%	34.0%	35.1%	39.2%	25.0%	32.0%	32.0%	32.2%	32.0%	32.0%	32.0%
Net income	5.4%	5.8%	5.7%	5.4%	6.2%	6.6%	6.7%	6.2%	6.8%	7.3%	7.8%
GROWTH RATES:											
Revenue		**9.9%**	**12.1%**	**4.4%**	**-2.5%**	**3.0%**	**1.5%**	**1.5%**	**6.5%**	**7.8%**	**8.1%**
Revenue (excl. foreign exchange effect)				6.3%	0.6%	6.1%	4.4%	4.2%			
Revenue (organic)				5.7%	0.1%	5.5%	4.4%	3.7%		7.8%	8.1%
Product Development Revenue (as reported)		9.7%	11.9%	8%	3%	6%	3%	5.0%	7.1%	8.0%	8.0%
I.H.S. Revenue (as reported)		10.6%	12.4%	-5%	-18%	-7%	-3%	-8.3%	4.5%	7.0%	8.3%
Gross profit		7%	8%	6.4%	-1.7%	6.3%	2.8%	3.4%	7.2%	8.3%	8.6%
SG&A		7%	5%	3.4%	-0.7%	9.0%	2.1%	3.3%	6.8%	7%	7%
EBITDA		6%	12%	10.2%	-2.8%	3.0%	3.8%	3.4%	7.8%	10%	10%
Operating income		**5%**	**12%**	**11.2%**	**-3.5%**	**4.3%**	**4.7%**	**4.0%**	**8.7%**	**11%**	**11%**
Net income (excl. non-recurring items)		18%	9%	-4.1%	2.2%	17.3%	32.9%	11.5%	17.2%	15%	16%
EPS (exlc. non-recurring items, incl. options)		**18%**	**10%**	**-4.8%**	**-4.4%**	**1.6%**	**15.0%**	**1.5%**	**10.9%**	**15%**	**15%**

E=William Blair & Company, L.L.C. estimate

(a) Reflects PharmaBio deconsolidation as it had occurred on Jan. 1, 2010 so results are comparable to other periods

Sources: Company reports and William Blair & Company, L.L.C.

Exhibit 42. Income Statement Summary (cont.)

	2010	2011	2012	Q1'13	Q2'13E	Q3'13E	Q4'13E	2013E	2014E	2015E	2016E
Functional P&L Breakdown:											
Product Development											
Total Revenue	$2,221.9	$2,437.8	$2,728.7	$706.3	$714.3	$720.7	$724.1	$2,865	$3,070	$3,315	$3,581
Y/Y Growth	N/A	9.7%	11.9%	7.6%	3.2%	6.4%	3.0%	5.0%	7.1%	8.0%	8.0%
Y/Y Growth, constant dollar	N/A	0.0%	0.0%	7.8%	3.8%	6.8%	3.5%	5.4%	7.3%		
Y/Y Growth, organic	N/A			6.9%	3.0%	6.0%	3.5%	4.8%	7.3%		
% of Total Revenue	74.1%	74.0%	73.9%	76.2%	77.5%	76.6%	75.5%	76.4%	76.9%	77.0%	77.0%
COGS	$1,285.3	$1,463.9	$1,683.3	$428.9	$442.9	$445.4	$446.0	$1,763.2	$1,883.4	$2,033.3	$2,194.1
Gross Profit	936.7	973.9	1045.4	277.4	271.4	275.3	278.1	1102.2	1186.5	1282.1	1386.6
Y/Y Growth	N/A	4%	7%	10%	3.1%	6.7%	2.2%	5.4%	7.6%	8.1%	8.1%
Gross Margin	42.2%	39.9%	38.3%	39.3%	38.0%	38.2%	38.4%	38.5%	38.6%	38.7%	38.7%
SG&A (adjusted)	452.1	481.2	496.1	126.3	128.6	129.7	129.6	514.2	548.7	586.0	632.0
Y/Y Growth	N/A	6%	3%	2%	1%	10%	2%	4%	7%	7%	8%
SG&A Expense Ratio	20.3%	19.7%	18.2%	17.9%	18.0%	18.0%	17.9%	17.9%	17.9%	17.7%	17.7%
Product Development EBITDA (adjusted)	484.6	492.7	549.3	151.1	142.9	145.6	148.4	588.0	637.7	696.1	754.6
Y/Y Growth	N/A	2%	11%	18%	5%	4%	3%	7%	8%	9%	8%
% of Total EBTIDA											
EBITDA Margin	21.8%	20.2%	20.1%	21.4%	20.0%	20.2%	20.5%	20.5%	20.8%	21.0%	21.1%
D&A (est)	62.8	68.0	71.3	18.4	18.9	19.1	19.2	75.7	79.4	84.5	90.4
Y/Y Growth	N/A	8%	5%	16%	9%	0%	1%	6%	5%	6.4%	6.9%
D&A Expense Ratio	2.8%	2.8%	2.6%	2.6%	2.7%	2.7%	2.7%	2.6%	2.6%	2.5%	2.5%
Product Development Operating Income	$421.9	$424.7	$478.0	$132.7	$123.9	$126.5	$129.3	$512.3	$558.3	$612	$664
Y/Y Growth	N/A	1%	13%	18%	4%	4%	3%	7%	9%	10%	9%
Operating Margin	19.0%	17.4%	17.5%	18.8%	17.4%	17.6%	17.9%	17.9%	18.2%	18.4%	18.6%
I.H.S.											
Total Revenue	$774.8	$857.1	$963.7	$221.1	$207.3	$219.9	$235.5	$884	$924	$988	$1,070
Y/Y Growth	N/A	10.6%	12.4%	-4.6%	-18.0%	-7.0%	-3.0%	-8.3%	4.5%	7.0%	8.3%
Y/Y Growth, constant dollar	N/A			-0.3%	-8.0%	4.0%	7.0%	0.6%	5.5%		
Y/Y Growth, organic	N/A			-0.3%	-8.0%	4.0%	7.0%	0.6%	5.0%		
% of Total Revenue	25.9%	26.0%	26.1%	23.8%	22.5%	23.4%	24.5%	23.6%	23.1%	23.0%	23.0%
COGS	$639.6	$688.7	$779.2	$182.1	$167.3	$174.8	$187.2	$711.4	$743.3	$790.3	$849.2
Gross Profit	135.3	168.5	187.6	39.0	40.0	45.1	48.3	172.4	180.4	198.1	220.8
Y/Y Growth	N/A	24.5%	11.4%	-14%	-25.2%	3.8%	6.6%	-8.1%	4.7%	9.8%	11.5%
Gross Margin	17.5%	19.7%	19.5%	17.6%	19.3%	20.5%	20.5%	19.5%	19.5%	20.0%	20.6%
SG&A	76.1	86.4	101.2	27.4	25.3	26.2	27.1	106.0	106.0	113.0	120.0
Y/Y Growth	N/A	13.5%	17.2%	11%	-6%	7%	8%	5%	0%	7%	6%
SG&A Expense Ratio	9.8%	10.1%	10.5%	12.4%	12.2%	11.9%	11.5%	12.0%	11.5%	11.4%	11.2%
I.H.S. EBITDA (adjusted)	$59.2	$82.1	$86.4	$11.6	$14.7	$18.9	$21.2	$66.4	$74.4	$85.1	100.8
Y/Y Growth	N/A	38.7%	5.2%	-44%	-45%	-1%	5%	-23%	12%	14%	18%
EBITDA Margin	7.6%	9.6%	9.0%	5.2%	7.1%	8.6%	9.0%	7.5%	8.1%	8.6%	9.4%
D&A	21.9	23.9	25.9	5.4	5.0	6.1	6.6	23.0	23.5	24.7	25.8
Y/Y Growth	N/A	N/A	N/A	-15%	-22%	-8%	0%	-11%	2%	5.0%	4.3%
D&A Expense Ratio	2.8%	2.8%	2.7%	2.4%	2.4%	2.4%	2.4%	2.6%	2.5%	2.5%	2.4%
I.H.S. Operating Income (adjusted)	$37.3	$58.2	$60.5	$6.2	$9.7	$12.8	$14.6	$43.4	$50.8	$60.4	$75.0
Y/Y Growth	N/A	56%	4%	-56%	-52%	3%	8%	-28%	17%	19%	24%
Operating Margin	4.8%	6.8%	6.3%	2.8%	4.7%	5.8%	6.2%	4.9%	5.5%	6.1%	7.0%
Corporate Expenses											
Gross Profit Impact	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SG&A Impact	80.8	84.1	88.8	19.7	22.4	23.7	23.1	88.7	102.1	110.0	117.0
D&A Impact			4.1	0.8	0.8	0.8	0.8	3.4	3.4	3.4	3.4
Total Corporate Expense	$80.9	$84.5	$92.9	$20.5	$23.2	$24.5	$23.9	$92.1	$102.9	$110.9	$117.8
Corp Exp as a percent of Total revenue	2.7%	2.6%	2.5%	2.2%	2.5%	2.6%	2.5%	2.5%	2.6%	2.6%	2.5%
Y/Y Growth		4.4%	9.9%	3.0%	-6.8%	3.8%	-2.4%	-0.9%	11.7%	7.8%	6.3%

	2010	2011	2012	Q1'13	Q2'13E	Q3'13E	Q4'13E	2013E	2014E	2015E	2016E
Key Metrics:											
PDEV Gross New Business		$3,234.9	$4,069.6		$1,000.0	$973.0	$977.5	$2,950.5	$3,837.3	$4,144.3	$4,475.9
Gross Book to Bill		1.33	1.49		1.40	1.35	1.35	1.03	1.25	1.25	1.25
Cancellation rate		8.0%	22.0%		10%	10%	10%	-30.0%	10.0%	10.0%	10.0%
PDEV Net New Business		$3,040.4	$3,468.0	$1,075.0	$928.6	$900.9	$905.1	$3,809.6	$3,530.3	$3,812.8	$4,117.8
Net Book to Bill		1.25	1.27	1.52	1.30	1.25	1.25	1.33	1.15	1.15	1.15
I.H.S Gross New Business		1,173.6	1,001.0		$290.2	$296.8	$317.9	905.0	1,154.6	1,235.4	1,337.5
Gross Book to Bill		1.37	1.04		1.40	1.35	1.35	1.02	1.25	1.25	1.25
Cancellation rate		19.8%	-3.3%		8%	8%	8%	-11.8%	10.0%	10.0%	10.0%
I.H.S. Net New Business		1,003.7	1,033.2	$170.4	$269.5	$274.8	$294.4	1,009.1	1,062.2	1,136.6	1,230.5
Net Book to Bill		1.17	1.07	0.77	1.30	1.25	1.25	1.14	1.15	1.15	1.15
Consolidated Gross Business Signed		4,408.5	5,070.6		$1,290.2	$1,269.8	$1,295.5	3,855.5	4,991.9	5,379.7	5,813.3
Y/Y Growth		N/A	15.0%		18.6%	3.9%	-32.0%	-24.0%	29.5%	7.8%	8.1%
Book-to-Bill Ratio		1.34	1.37		1.40	1.35	1.35	1.03	1.25	1.25	1.25
Net New Business Signed	$3,552	$4,044	$4,501	$1,245.4	$1,198.1	$1,175.7	$1,199.5	$4,819	$4,593	$4,949	$5,348
Y/Y Growth	N/A	14%	11%	18%	33%	13%	-20%	7%	-5%	8%	8%
Book-to-Bill Ratio	1.19	1.23	1.22	1.34	1.30	1.25	1.25	1.29	1.15	1.15	1.15
Running 12-Mo. Total of Net New Business Signed	$3,552	$4,044	$4,501	$4,695	$4,993	$5,126	$4,819	$4,819	$4,593	$4,949	$5,348
Running 12-Mo. Book-to-Bill Ratio	1.19	1.23	1.22	1.26	1.35	1.37	1.29	1.29	1.15	1.15	1.15
Backlog (total)	$7,153.3	$7,972.9	$8,704.5	$9,022.5	$9,299.0	$9,534.1	$9,774.0	$9,774.0	$10,373.0	$11,018.6	$11,716.2
Y/Y Growth		11%	9%	11.6%	15.8%	16.9%	12.3%	12%	6%	6%	6%

Sources: Company reports and William Blair & Company, L.L.C.

Exhibit 43. Balance Sheet Summary

	2011	2012	Q1'13	Q2'13E	Q3'13E	Q4'13E	2013E	2014E	2015E	2016E
Cash and cash equivalents	$516.3	$567.7	$454.3	$590	$636	$682	$682	$1,044	$1,345	$1,682
Restricted cash	$3.0	$2.8	$3.9							
Accounts receivable and unbilled services, net	$691.0	$745.4	$779.3	$802	$835	$835	$835	$917	$969	$1,028
% of A/R reserved										
Other current assets	$1,551.1	$194.1	$202.0	$212	$223	$234	$234	$253	$308	$374
Total current assets	$2,761.4	$1,507.2	$1,439.5	$1,604.1	$1,693.0	$1,750.9	$1,751	$2,214	$2,622	$3,083
PP&E, net	$185.8	$194.0	$190.2	$194	$198	$201	$201	$218	$235	$254
Goodwill and other intangibles	$547.5	$575.2	$571.6	$572	$572	$572	$572	$572	$572	$572
Other assets	$224.2	$219.9	$225.5	$228	$230	$232	$232	$242	$252	$262
Total assets	$3,718.9	$2,496.3	$2,426.7	$2,597	$2,692	$2,756	$2,756	$3,245	$3,680	$4,171
Accounts payable and accrued expenses	$686.9	$751.8	$671.4	$673	$684	$696	$696	$746	$814	$885
Unearned revenue	$398.5	$456.6	$454.1	$445	$470	$463	$463	$498	$537	$580
Current portion of LT debt and obligations held under capital leases	$0.0	$55.7	$34.7	$35	$35	$35	$35	$35	$35	$35
Other expenses	$86.6	$53.9	$96.4	$96	$96	$96	$96	$96	$96	$96
Total current liabilities	$1,172.0	$1,318.0	$1,256.7	$1,249	$1,285	$1,290	$1,290	$1,376	$1,482	$1,597
Deferred income taxes	$9.9	$11.6	$16.0	$16	$16	$16	$16	$16	$16	$16
Long-term debt and capital lease obligations	$1,971.9	$2,366.3	$2,354.8	$2,005	$1,995	$1,985	$1,985	$1,945	$1,905	$1,865
Other liabilities	$138.8	$162.3	$156.2	$156	$156	$156	$156	$156	$156	$156
Minority Interest	$0.8	$0.5	$0.3							
Paid-in capital	$0.0	$4.6	$9.2	$9	$9	$9	$9	$9	$9	$9
Retained earnings (deficit)	$0.0	($1,371.8)	($1,323.5)	($1,295)	($1,236)	($1,177)	($1,177)	($909)	($599)	($241)
Other	($970.4)	$7.7	($8.4)	$456	$466	$476	$476	$651	$711	$768
Total stockholder's equity	($969.6)	($1,359.0)	($1,322.3)	($830)	($761)	($691)	($691)	($248)	$121	$537
Total liabilities and stockholder's equity	$2,323.0	$2,499.1	$2,461	$2,597	$2,692	$2,756	$2,756	$3,245	$3,680	$4,171
Key Metrics:										
Debt-to-capital ratio	197%	228%	217%	165%	157%	150%	150%	114%	94%	79%
Net Debt-to-Capital ratio	145%	174%	181%	120%	110%	101%	101%	54%	29%	9%
Net Debt-to-EBITDA	4.0x	4.2x	4.1x	3.6x	3.5x	3.3x	3.4x	3.1x	2.8x	2.5x
Working capital (excl. cash)	$1,070	($378)	($275)	($235)	($228)	($221)	($221)	($206)	($205)	($195)
A/P days (calculated)	85	84	77	77	77	77	77	77	78	79
A/R DSO (reported)										
A/R DSO (calculated on net revenue)	30	27	32	35	35	35	34.9	37	35	34
ROE (excluding one time items)	#REF!	-17.9%	-15.0%	-21.2%	-31.0%	-35.3%	-22.7%	-58.1%	-494.0%	110.7%
ROA (excluding one time items)	#REF!	6.7%	8.1%	9.1%	9.3%	9.4%	8.9%	9.1%	9.1%	9.3%
ROIC (excluding one time items)	#REF!	21.5%	39.2%	65.9%	63.5%	42.3%	42.3%	40.8%	43.5%	46.4%
Cash per share	$4.38	$4.82	$3.83	$4.69	$4.68	$5.01	$5.28	$7.63	$9.77	$12.12
Tangible book value per share	($12.86)	($16.42)	($15.95)	($11.13)	($9.80)	($9.28)	($9.78)	($5.99)	($3.27)	($0.25)
Book value per share (including goodwill)	($8.22)	($11.54)	($11.14)	($6.59)	($5.60)	($5.08)	($5.35)	($1.82)	$0.88	$3.87

Sources: Company reports and William Blair & Company, L.L.C.

Exhibit 44. Cash Flow Summary

	2010	2011	2012	Q1'13	Q2'13E	Q3'13E	Q4'13E	2013E	2014E	2015E	2016E
Cash flow from operating activities:											
GAAP Net income (loss)	$158.3	$240.4	$176.7	$48.2	$28.5	$59.1	$59.2	$194.9	$268	$310	$359
Adjustments to reconcile to net cash from operations:											
Depreciation and amortization	$84.6	$91.9	$101.3	$24.6	$24.7	$26.1	$26.6	$102.1	$106	$113	$120
Change in operating assets and liabilities	$100.0	($226.7)	$26.5	($114.0)	($40.4)	($6.9)	($6.7)	($168.0)	($16)	($0)	($10)
Other operating items	$35.3	$55.3	$34.2	$19.7	$7.9	$7.9	$7.9	$43.3	$43	$31	$31
Net operating cash flow	**$378.2**	**$160.9**	**$338.7**	**($21.5)**	**$21**	**$86**	**$87**	**$252.3**	**$401.4**	**$453.6**	**$499.4**
% of Net Income		*84%*	*162%*	*-43%*	*36%*	*140%*	*136%*	*108%*	*147%*	*144%*	*137%*
Y/Y Growth			*110%*	*-550%*	*-82%*	*-28%*	*-15%*	*-26%*	*59%*	*13%*	*10%*
Cash flow from investing activities:											
Investment in PP&E (CAPEX)	($80.2)	($75.7)	($71.3)	($30.8)	($23.2)	($23.4)	($23.4)	($100.9)	($102)	($112)	($123)
Acquisition/sale of business	$0.0	($232.1)	($43.4)	$0.0	$0.0	$0.0	$0.0	$0.0	$0	$0	$0
Other	($61.2)	$19.2	$0.2	($1.1)	$1.1	$0.0	$0.0	$0.0	$0	$0	$0
Net cash used in investing activities	**($141.4)**	**($288.6)**	**($114.5)**	**($31.9)**	**($22.1)**	**($23.4)**	**($23.4)**	**($100.8)**	**($102)**	**($112)**	**($123)**
Net sale (purchase) of investments	$0.0	$63.8	($17.8)	($4.3)	($6.9)	($6.9)	($6.9)	($25.0)	$0	$0	$0
GAAP net cash used in investing activities	**($141.4)**	**($224.8)**	**($132.3)**	**($36.2)**	**($29.0)**	**($30.3)**	**($30.3)**	**($125.8)**	**($102)**	**($112)**	**($123)**
Cash flow from financing activities:											
Issuance of debt	($85.6)	$0.0	$430.9	($34.3)	($349.5)	($10.0)	($10.0)	($404)	($40)	($40)	($40)
Proceeds from issuance of stock	$0.0	$0.0	($9.9)	$0.1	$490.6	$0.0	$0.0	$491	$0	$0	$0
Other (including dividends)	($67.5)	($288.3)	($567.9)	$0.2	$0.0	$0.0	$0.0	$0	$0	$0	$0
Net cash generated in financing activities	**($153.1)**	**($59.3)**	**($146.9)**	**($34.0)**	**$141**	**($10)**	**($10)**	**$87**	**($40)**	**($40)**	**($40)**
FX Impact		($7.2)	($5.2)	($22)							
Net increase (decrease) in cash and equiv.	**$84**	**($194)**	**$72**	**($109)**	**$140**	**$53**	**$54**	**$239**	**$260**	**$302**	**$336**
GAAP Net increase (decrease) in cash and equiv.	**$84**	**($130)**	**$54**	**($113)**	**$133**	**$46**	**$47**	**$214**	**$260**	**$302**	**$336**
Beginning cash (including short-term investments)	$563	$647	$516	$570	$457	$590	$636	$570	$784	$1,044	$1,345
Net sale (purchase) of investments	$0	$64	($18)	($4)	($7)	($7)	($7)	($25)	$0	$0	$0
Change in short-term investments	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Ending cash (including short-term investments)	$647	$516	$570	$457	$590	$636	$682	$784	$1,044	$1,345	$1,682
Free cash flow (=op. cash fl. - capex)	**$298.0**	**$85.3**	**$267**	**($52)**	**($3)**	**$63**	**$64**	**$151**	**$300**	**$342**	**$376**
% of Net income	*184%*	*45%*	*128%*	*-104%*	*-4%*	*102%*	*99%*	*65%*	*110%*	*108%*	*103%*
Y/Y Growth			*214%*	*856%*	*-103%*	*-37%*	*-22%*	*-43%*	*98%*	*14%*	*10%*
Free Cash Flow per Share	**$2.53**	**$0.72**	**$2.27**	**($0.44)**	**($0.02)**	**$0.46**	**$0.47**	**$1.17**	**$2.19**	**$2.48**	**$2.71**

Sources: Company reports and William Blair & Company, L.L.C.

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Current Rating Distribution (as of 05/31/13)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	63	Outperform (Buy)	9
Market Perform (Hold)	33	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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