

COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Pharmaceutical Svcs.

February 13, 2014

Jefferies

Quintiles Inc. (Q) First Quintile: Year 1 Solid, Year 2 Promising

Key Takeaway

The highlight of Q's report was 2014 guidance, which featured solid revenue growth and an EPS range fully above consensus of \$2.32. Bookings were also slightly ahead of expectations. Management continues to point to stable margins YoY, but 2013's performance sets that level above our expectations six months ago. After a 13% move in 20 days, we'll look for a better entry point.

Guidance Stimulus-Tax Rate, Revenue. The low end of Q's guidance cleared the consensus hurdle, and based on performance-to-date, we are thinking about a 2014 outcome at least above the midpoint. We raised our '14 estimate by \$0.12, which was comprised of lower tax rate (6c), higher revenue (>2c), lower share count (2c), lower interest exp (>1c), and barely changed margin (<1c).

Guidance from a Different View: Drivers of Growth. Q is targeting 2014 revenue \$4.09-4.15B and non-GAAP EPS \$2.33-2.46. Prior to the release, the Street mean was \$4.10B and \$2.32, respectively. Revenue growth, at the midpoint, will accelerate about 500 bps. While less than 25% of revenue, IHS' reversal from an 8% decline to mid-single digit growth is the largest contributor. We model 25-30 bps of Adj EBITDA margin improvement.

4Q13 Non-GAAP EPS In Line, Adjusting for Low Tax Rate. The company reported non-GAAP EPS of \$0.58, or \$0.03 better than consensus. We calculate all of the upside was driven by a lower-than-expected tax rate. Revenue was 2.2% better than the Street mean, but offset by 20 bps lower operating margin. Notably, GM grew 50 bps sequentially; EBIT margin pressure came from higher SG&A. *See page 3 for details.*

Strong Clinical Demand Carrying into 2014. Q characterized its current Product Development pipeline as the largest in 12 quarters. Further, management referenced record RFP volumes entering 2014 and noted the strength across all client sizes. We believe the RFP commentary is positive for all of the larger, late-stage vendors, including PRXL, ICLR, and CVD. Southeast Asia was the only geographic region in which management expressed any concern.

Valuation/Risks

Our \$55 PT (was \$49) is based on a 20x multiple of our 2015 EPS estimate. This valuation places it near the high-end of its peer range: Industry leadership offset by slower growth. Risks include: contract cancellations and/or bookings volatility; client consolidation; short IHS visibility; and increasingly competitive pricing.

USD	Prev.	2012A	Prev.	2013A	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	3,692.3	3,772.0	3,808.3	4,080.2	4,120.0	4,442.3	4,485.7
EBITDA (MM)	--	543.7	604.2	611.6	668.9	676.8	742.7	753.5
Cons. EPS	--	--	2.07	2.10	2.30	2.35	2.62	2.68
EPS								
Mar	--	0.44	--	0.49	--	0.53	--	--
Jun	--	0.47	--	0.50	0.55	0.58	--	--
Sep	--	0.45	--	0.54	0.59	0.62	--	--
Dec	--	0.41	0.54	0.58	0.62	0.68	--	--
FY Dec	--	1.77	2.01	2.10	2.30	2.42	2.60	2.75
FY P/E		29.5x		24.9x		21.6x		19.0x

HOLD

Price target \$55.00

(from \$49.00)

Price \$52.20

Financial Summary

Book Value (MM):	(\$667.4)
Net Debt (MM):	\$1,268.0
Long-Term Debt (MM):	\$2,046.0
Cash & ST Invest. (MM):	\$778.1

Market Data

52 Week Range:	\$52.24 - \$40.00
Total Entprs. Value (MM):	\$8,205.4
Market Cap. (MM):	\$6,937.4
Shares Out. (MM):	132.9
Float (MM):	59.0
Avg. Daily Vol.:	496,655

David Windley, CFA, CPA *

Equity Analyst

(615) 963-8313 dwindley@jefferies.com

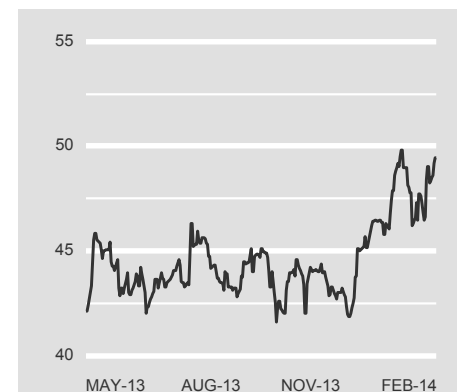
Sean Dodge, CFA *

Equity Analyst

(615) 963-8340 sdodge@jefferies.com

* Jefferies LLC

Price Performance



Quintiles (Q): Market Leader, but Slower Grower

Hold: \$55.00 Price Target**Scenarios****Target Investment Thesis**

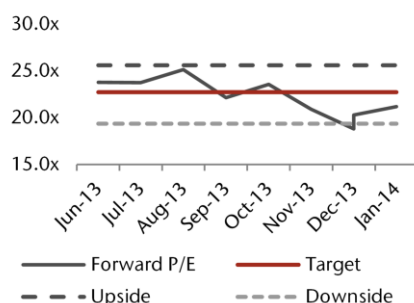
- PDEV revenue growth approximates 9%
- IHS revenue grows 6%
- EBIT margins improve slightly
- Net interest expense declining with debt repayment from IPO proceeds and cash flow
- Cash builds on balance sheet; both share buybacks and debt repayment are modest
- 2015 EPS: \$2.75; Target Multiple: 20x; Target Price \$55.00

Upside Scenario

- Additional 'preferred vendor' deals are signed; PDEV revenue growth exceeds 10%
- IHS revenue growth also accelerates driven by additional Commercial engagements
- EBITDA margin improves to 17%+ on fixed leverage and cost control
- Free cash flow is used for tuck-in acquisitions
- 2015 EPS: \$2.87; Target Multiple: 22.5x; Target Price \$65.00

Downside Scenario

- Pricing pressures intensify; consolidated revenue growth slows to sub-6%
- Few new deals are signed; growth in late-stage clinical flattens
- Soft pricing drives margin deterioration; costs tightly controlled to mitigate impact
- Free cash is used to repurchase shares
- 2015 EPS: \$2.50; Target Multiple: 17x Target Price: \$43.00

Long Term Analysis**1 Year Forward P/E**

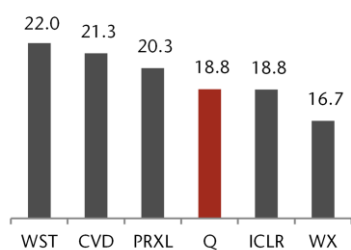
Source: FactSet and Jefferies LLC

Long Term Financial Model Drivers

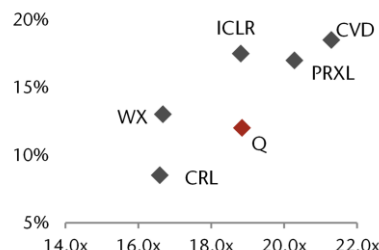
LT EPS CAGR	11-13%
Revenue Growth	7-9%
Operating Margin	12-14%
Effective Tax Rate	32%

Other Considerations

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

Peer Group**Group 2015 P/Es**

Source: FactSet and Jefferies estimates

Earnings Growth vs P/E

Source: FactSet and Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
CRL	BUY	\$64.00
CVD	HOLD	\$115.00
ICLR	BUY	\$46.00
PRXL	HOLD	\$47.00
Q	HOLD	\$55.00
WX	BUY	\$42.00

Catalysts

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

Company Description

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

Chart 1: Summary of Quintiles Results

Quintiles

4Q13 Earnings Summary

Source: Company filings and Jefferies LLC

Reports 2/13/2014 BMO

FY ending December 31 in thousands except EPS	Reported		Estimate	Actual	Consensus	Percentage Change		Difference		
	4Q12	3Q13	4Q13	4Q13		Seq	Y/Y	Seq	Y/Y	Est.
Total Service Revenue	945,761	932,727	967,559	1,003,940	981,900	7.6%	6.2%	71,213	58,179	36,381
Direct costs	628,476	600,694	626,381	641,957		6.9%	2.1%	41,263	13,481	15,576
SG&A	202,728	199,573	207,977	232,797		16.6%	14.8%	33,224	30,069	24,820
Operating income	114,557	132,460	133,200	129,186		(2.5%)	12.8%	(3,274)	14,629	(4,014)
Adjusted EBITDA	140,128	159,784	159,325	159,740		(0.0%)	14.0%	(44)	19,612	415
Interest expense (income)	36,911	27,637	27,946	25,245		(8.7%)	(31.6%)	(2,392)	(11,666)	(2,701)
Other expense, net	1,156	3,224	(9)	(1,563)		(148.5%)	(235.2%)	(4,787)	(2,719)	(1,554)
Pre-tax income	76,490	101,599	105,263	105,504		3.8%	37.9%	3,905	29,014	241
Income taxes	28,074	29,491	33,684	29,559		0.2%	5.3%	68	1,485	(4,125)
Income from unconsolidated affiliates	(236)	(355)	200	450		(226.8%)	(290.7%)	805	686	250
Loss from noncontrolling interest	138	185	273	62		(66.5%)	(55.1%)	(123)	(76)	(211)
Non-GAAP net income	48,318	71,938	72,052	76,457		6.3%	58.2%	4,519	28,139	4,405
Non-GAAP EPS	\$ 0.41	\$ 0.54	\$ 0.54	\$ 0.58	\$ 0.55	6.6%	40.7%	\$ 0.04	\$ 0.17	\$ 0.04
Diluted shares	118,150	133,267	133,892	132,861		(0.3%)	12.5%	(406)	14,711	(1,031)
COMMON SIZE										
Direct costs	<u>66.5%</u>	<u>64.4%</u>	<u>64.7%</u>	<u>63.9%</u>				<u>(50 bps)</u>	<u>(250 bps)</u>	<u>(80 bps)</u>
Gross margin	33.5%	35.6%	35.3%	36.1%				50 bps	250 bps	80 bps
SG&A	<u>21.4%</u>	<u>21.4%</u>	<u>21.5%</u>	<u>23.2%</u>				<u>180 bps</u>	<u>180 bps</u>	<u>170 bps</u>
Operating income	12.1%	14.2%	13.8%	12.9%	13.1%			(130 bps)	80 bps	(90 bps)
Adjusted EBITDA	14.8%	17.1%	16.5%	15.9%				(120 bps)	110 bps	(60 bps)
Interest expense (income)	3.9%	3.0%	2.9%	2.5%				(40 bps)	(140 bps)	(40 bps)
Other expense, net	<u>0.1%</u>	<u>0.3%</u>	<u>(0.0%)</u>	<u>(0.2%)</u>				<u>(50 bps)</u>	<u>(30 bps)</u>	<u>(20 bps)</u>
Pre-tax income	8.1%	10.9%	10.9%	10.5%				(40 bps)	240 bps	(40 bps)
Income taxes	36.7%	29.0%	32.0%	28.0%				(100 bps)	(870 bps)	(400 bps)
Income from unconsolidated affiliates	(0.0%)	(0.0%)	0.0%	0.0%				10 bps	10 bps	0 bps
Loss from noncontrolling interest	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>				<u>0 bps</u>	<u>0 bps</u>	<u>0 bps</u>
Non-GAAP net income	5.1%	7.7%	7.4%	7.6%				(10 bps)	250 bps	20 bps
SEGMENTS										
Product Development										
Revenue	\$ 702,995	\$ 714,244	\$ 738,145	\$ 775,009	\$ 744,000	8.5%	10.2%	\$ 60,765	\$ 72,014	\$ 36,864
% of total	74.3%	76.6%	76.3%	77.2%				60 bps	290 bps	90 bps
Operating profit	125,454	140,616	143,091	152,883		8.7%	21.9%	12,267	27,429	9,792
Margin	17.8%	19.7%	19.4%	19.7%				0 bps	190 bps	30 bps
Integrated Healthcare Services										
Revenue	242,766	218,483	229,414	228,931	\$ 240,000	4.8%	(5.7%)	10,448	(13,835)	(483)
% of total	25.7%	23.4%	23.7%	22.8%				(60 bps)	(290 bps)	(90 bps)
Operating profit	13,579	11,662	13,393	11,710		0.4%	(13.8%)	48	(1,869)	(1,683)
Margin	5.6%	5.3%	5.8%	5.1%				(20 bps)	(50 bps)	(70 bps)
BOOKINGS										
Total net new business w ins	1,507,063	1,341,000	1,268,547	1,300,000	1,210,000	(3.1%)	(13.7%)	(41,000)	(207,063)	31,453
PDEV Book-to-Bill	1.54x	1.21x	1.31x	1.24x						
IHS Book-to-Bill	1.74x	2.19x	1.31x	1.47x						
2014 GUIDANCE										
Service revenue			Prior JEF \$4.08B	Provided \$4.09-4.15B	Prior Cons. \$4.10B					
Adjusted EPS			\$2.30	\$2.33-2.46	\$2.32					

Source: Company data and Jefferies LLC

Quintiles Transnational Holdings, Inc.

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

Jefferies

02/13/14

Non-GAAP Income Statement	1Q12	2Q12	3Q12	4Q12	2012A	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014E	2015E
Total Service Revenue	888,035	944,914	913,588	945,761	3,692,298	927,435	944,238	932,727	1,003,940	3,808,340	992,785	1,017,896	1,012,303	1,097,025	4,120,009	4,485,704
YoY Growth	13.7%	14.9%	11.5%	8.4%	12.1%	4.4%	(0.1%)	2.1%	6.2%	3.1%	7.0%	7.8%	8.5%	9.3%	8.2%	8.9%
Cost of revenue	590,563	628,222	612,106	628,476	2,459,367	611,109	617,666	600,694	641,957	2,471,426	649,146	664,361	650,797	700,585	2,664,889	2,888,564
SG&A	191,118	202,210	191,445	202,728	787,501	197,968	202,478	199,573	232,797	832,816	212,184	217,000	215,768	240,489	885,440	960,305
Operating income	106,354	114,482	110,037	114,557	445,430	118,358	124,094	132,460	129,186	504,098	131,455	136,536	145,738	155,951	569,680	636,834
Adjusted EBITDA	129,625	138,201	135,764	140,128	543,718	142,998	149,080	159,784	159,740	611,602	157,267	163,001	172,058	184,474	676,800	753,463
YoY Growth	21.4%	18.1%	12.5%	(4.0%)	10.9%	10.3%	7.9%	17.7%	14.0%	12.5%	10.0%	9.3%	7.7%	15.5%	10.7%	11.3%
Net interest expense	28,920	32,808	32,665	36,911	131,304	35,590	31,099	27,637	25,245	119,571	27,533	27,368	27,203	27,203	109,307	107,987
Other expense (income), net	(2,419)	(6,159)	3,850	1,156	(3,572)	(2,382)	536	3,224	(1,563)	(185)	-	-	-	-	-	-
Pre-tax income	79,853	87,833	73,522	76,490	317,698	85,150	92,459	101,599	105,504	384,712	103,922	109,168	118,535	128,749	460,373	528,848
Income taxes	29,790	32,486	21,900	28,074	112,250	26,000	30,162	29,491	29,559	115,212	31,235	32,808	35,618	38,681	138,342	158,654
Income from unconsolidated affiliates	1,573	334	896	(236)	2,567	(1,683)	464	(355)	450	(1,124)	200	464	(355)	450	759	759
Loss from noncontrolling interest/minority interest	465	189	123	138	915	153	164	185	62	564	62	62	62	62	248	248
Non-GAAP net income	52,101	55,870	52,641	48,318	208,930	57,620	62,925	71,938	76,457	268,940	72,949	76,886	82,623	90,580	323,038	371,201
Non-GAAP EPS	0.44	0.47	0.45	0.41	1.77	0.49	0.50	0.54	0.58	2.10	0.55	0.58	0.62	0.68	2.42	2.75
YoY Growth	51.5%	34.7%	40.4%	(37.7%)	9.6%	9.5%	4.7%	20.8%	40.7%	18.6%	13.0%	16.1%	14.7%	17.8%	15.2%	13.6%
Diluted shares outstanding	117,551	117,706	117,835	118,150	117,811	118,740	126,578	133,267	132,861	127,862	133,061	133,261	133,461	133,661	133,361	134,911
COMMON SIZE:																
Cost of revenue	66.5%	66.5%	67.0%	66.5%	66.6%	65.9%	65.4%	64.4%	63.9%	64.9%	65.4%	65.3%	64.3%	63.9%	64.7%	64.4%
SG&A	21.5%	21.4%	21.0%	21.4%	21.3%	21.3%	21.4%	21.4%	23.2%	21.9%	21.4%	21.3%	21.3%	21.9%	21.5%	21.4%
Operating income	12.0%	12.1%	12.0%	12.1%	12.1%	12.8%	13.1%	14.2%	12.9%	13.2%	13.2%	13.4%	14.4%	14.2%	13.8%	14.2%
Adjusted EBITDA	14.6%	14.6%	14.9%	14.8%	14.7%	15.4%	15.8%	17.1%	15.9%	16.1%	15.8%	16.0%	17.0%	16.8%	16.4%	16.8%
Net Interest Expense	3.3%	3.5%	3.6%	3.9%	3.6%	3.8%	3.3%	3.0%	2.5%	3.1%	2.8%	2.7%	2.7%	2.5%	2.7%	2.4%
Other Expense (Income), net	(0.3%)	(0.7%)	0.4%	0.1%	(0.1%)	(0.3%)	0.1%	0.3%	(0.2%)	(0.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pre-tax income	9.0%	9.3%	8.0%	8.1%	8.6%	9.2%	9.8%	10.9%	10.5%	10.1%	10.5%	10.7%	11.7%	11.7%	11.2%	11.8%
Income taxes	37.3%	37.0%	29.8%	36.7%	35.3%	30.5%	32.6%	29.0%	28.0%	29.9%	30.1%	30.1%	30.0%	30.0%	30.1%	30.0%
Non-GAAP net income	5.9%	5.9%	5.8%	5.1%	5.7%	6.2%	6.7%	7.7%	7.6%	7.1%	7.3%	7.6%	8.2%	8.3%	7.8%	8.3%
GROWTH (YoY):																
Total Service Revenue	13.7%	14.9%	11.5%	8.4%	12.1%	4.4%	(0.1%)	2.1%	6.2%	3.1%	7.0%	7.8%	8.5%	9.3%	8.2%	8.9%
Cost of revenue	15.1%	16.4%	13.4%	12.1%	14.2%	3.5%	(1.7%)	(1.9%)	2.1%	0.5%	6.2%	7.6%	8.3%	9.1%	7.8%	8.4%
SG&A	4.8%	7.4%	4.9%	6.5%	5.9%	3.6%	0.1%	4.2%	14.8%	5.8%	7.2%	7.2%	8.1%	3.3%	6.3%	8.5%
Operating income	24.4%	21.0%	13.3%	(5.5%)	11.8%	11.3%	8.4%	20.4%	12.8%	13.2%	11.1%	10.0%	10.0%	20.7%	13.0%	11.8%
Adjusted EBITDA	21.4%	18.1%	12.5%	(4.0%)	10.9%	10.3%	7.9%	17.7%	14.0%	12.5%	10.0%	9.3%	7.7%	15.5%	10.7%	11.3%
Net Interest Expense	17.2%	22.7%	21.7%	37.4%	24.9%	23.1%	(5.2%)	(15.4%)	(31.6%)	(8.9%)	(22.6%)	(12.0%)	(1.6%)	7.8%	(8.6%)	(1.2%)
Other Expense (Income), net	(263.3%)	3321.7%	(279.9%)	(167.3%)	39.7%	(1.5%)	(108.7%)	(16.3%)	(235.2%)	(94.8%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	nm
Pre-tax income	34.6%	29.0%	1.5%	(20.4%)	7.4%	6.6%	5.3%	38.2%	37.9%	21.1%	22.0%	18.1%	16.7%	22.0%	19.7%	14.9%
Income taxes	27.4%	32.0%	(33.6%)	32.0%	9.9%	(12.7%)	(7.2%)	34.7%	5.3%	2.6%	20.1%	8.8%	20.8%	30.9%	20.1%	14.7%
Non-GAAP net income	50.6%	34.1%	40.3%	(37.4%)	9.4%	10.6%	12.6%	36.7%	58.2%	28.7%	26.6%	22.2%	14.9%	18.5%	20.1%	14.9%
Non-GAAP EPS	51.5%	34.7%	40.4%	(37.7%)	9.6%	9.5%	4.7%	20.8%	40.7%	18.6%	13.0%	16.1%	14.7%	17.8%	15.2%	13.6%

Sources: Company data and Jefferies LLC

Company Description

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

Analyst Certification

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Jefferies Group LLC makes a market in the securities or ADRs of PAREXEL International Corporation.

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Within the past twelve months, Quintiles Inc. has been a client of Jefferies LLC and investment banking services are being or have been provided.

Jefferies Group LLC, its affiliates or subsidiaries has acted as a manager or co-manager in the underwriting or placement of securities for Quintiles Inc. or one of its affiliates within the past twelve months.

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Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

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Jefferies Franchise Picks include stock selections from among the best stock ideas from our equity analysts over a 12 month period. Stock selection is based on fundamental analysis and may take into account other factors such as analyst conviction, differentiated analysis, a favorable risk/reward ratio and investment themes that Jefferies analysts are recommending. Jefferies Franchise Picks will include only Buy rated stocks and the number can vary depending on analyst recommendations for inclusion. Stocks will be added as new opportunities arise and removed when the reason for inclusion changes, the stock has met its desired return, if it is no longer rated Buy and/or if it underperforms the S&P by 15% or more since inclusion.

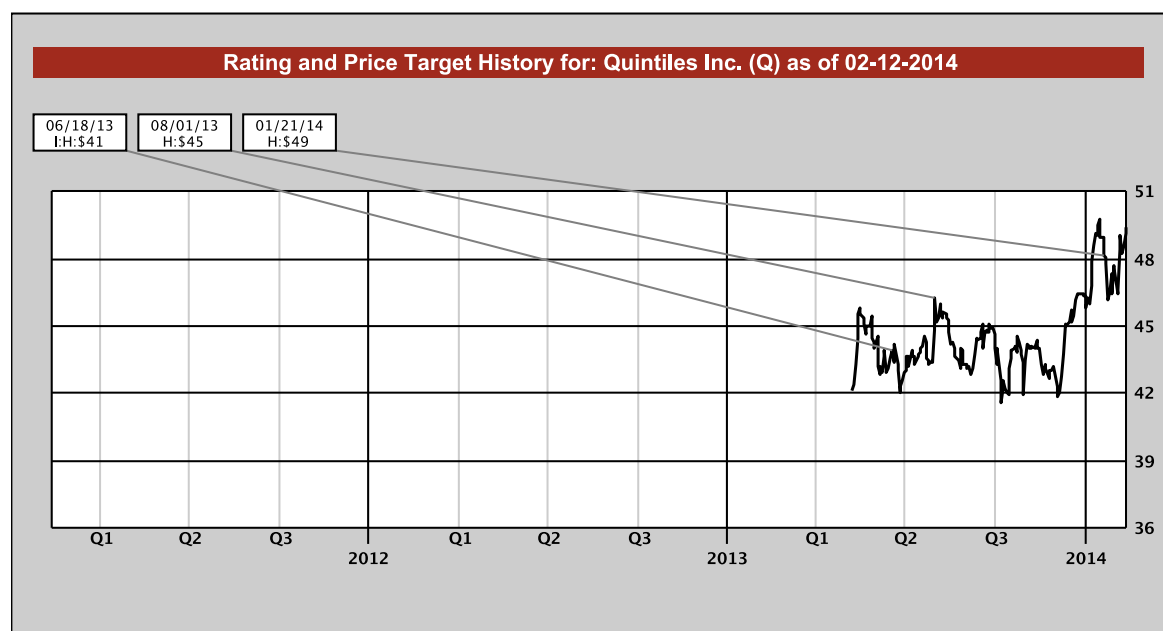
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Other Companies Mentioned in This Report

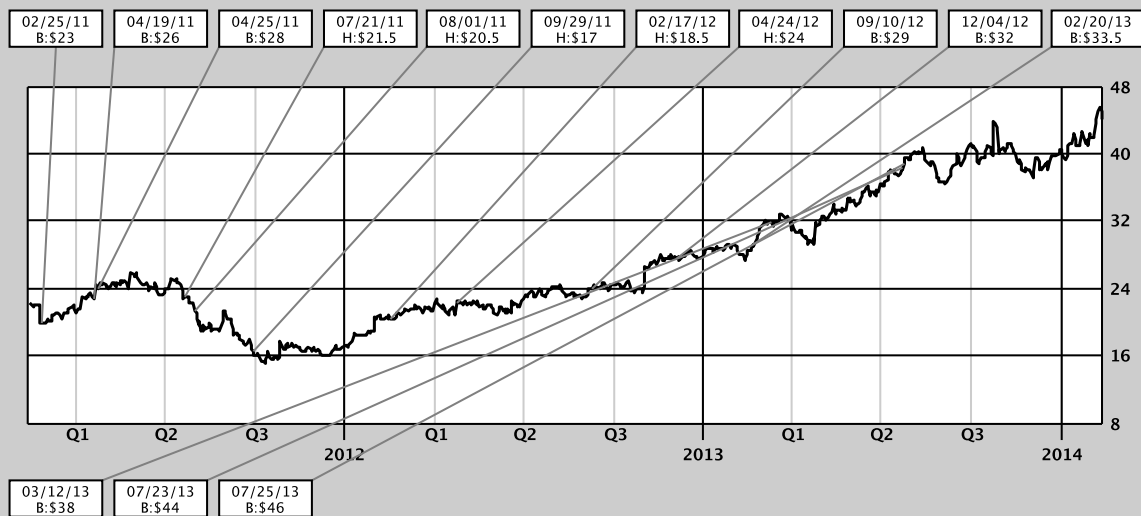
- Covance Inc. (CVD: \$102.35, BUY)
- ICON plc (ICLR: \$44.80, BUY)
- PAREXEL International Corporation (PRXL: \$52.02, HOLD)
- Quintiles Inc. (Q: \$52.20, HOLD)
- WuXi PharmaTech Inc. (WX: \$35.74, BUY)



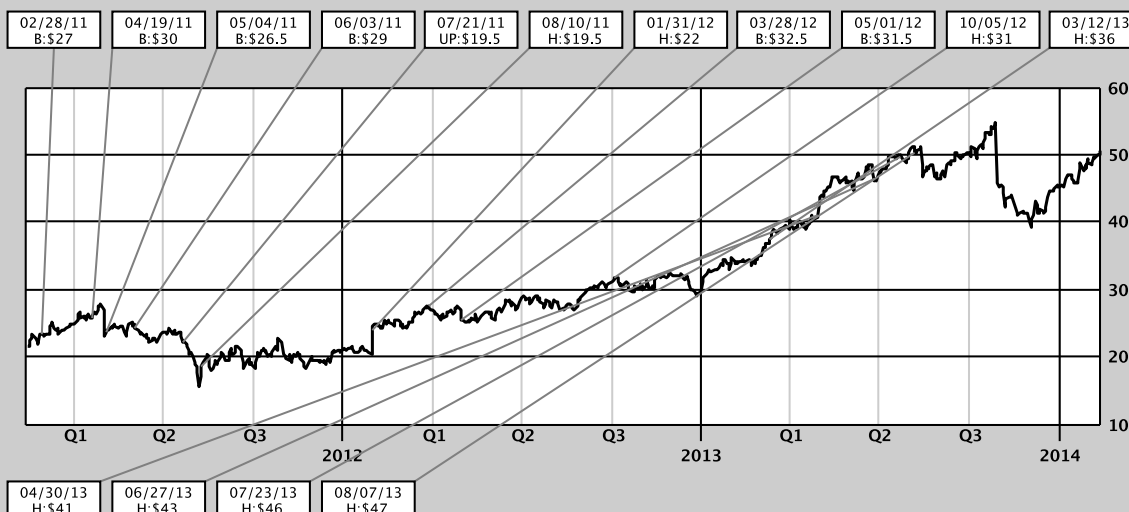
Rating and Price Target History for: Covance Inc. (CVD) as of 02-12-2014



Rating and Price Target History for: ICON plc (ICLR) as of 02-12-2014



Rating and Price Target History for: PAREXEL International Corporation (PRXL) as of 02-12-2014



Rating and Price Target History for: WuXi PharmaTech Inc. (WX) as of 02-12-2014



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	882	49.14%	212	24.04%
HOLD	765	42.62%	125	16.34%
UNDERPERFORM	148	8.25%	4	2.70%

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