



Rating
Hold

North America
United States

Health Care
Contract Research
Organizations

Company Quintiles Transnational Alert

Reuters Q.N Bloomberg Q US Exchange NYS Ticker Q

Date
24 April 2014

Breaking News

Price at 23 Apr 2014	49.47
Price target	53.00
52-week range	54.94 - 0.00

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Biogen Idec Deal Demonstrates Consolidation of Work

Biogen Idec Partnership

Quintiles and Biogen Idec today publicly announced a five year clinical development partnership. The partnership will cover phase II-IV studies and select phase I studies, including the transfer of several ongoing Biogen Idec studies. This was the sole provider agreement Quintiles announced on its Q3 earnings call and the expected contribution from this partnership was included in the 2014 EPS guidance provided in the 4Q13 earnings release. We view the agreement positively and see it as part of the continuing trend for biopharma companies to consolidate the number of CRO vendors with which they are working. Biogen Idec previously used preferred providers for each phase of clinical trial development.

Financial Impact

We view the partnership with Biogen Idec as potentially very positive to Quintiles financially. Biogen Idec is not currently a top 10 Quintiles client, but it is expected to become a top 10 client, meaning the contribution to Quintiles will be over \$100 million, which at the low end should be 3% accretive to 2014E PDEV revenue. Biogen Idec spent a total of \$1.44 billion on research and development in 2013, indicating the potential for the revenue contribution to substantially exceed \$100mm. We note that the partnership does likely include favorable pricing given its scale and that Biogen Idec will get volume discounts based on the total business that it sends to Quintiles. We believe the transfer of ongoing studies was small relative to the total size of the partnership and likely had limited start up expenses and impact to margins, and that any impact is already reflected in guidance.

Maintain Hold

We maintain our Hold rating on Quintiles, but continue to view Q as our most preferred CRO. Today's announcement demonstrates that Quintiles is well positioned to win new business from large pharma and biotech trial sponsors, and we expect these sponsors will continue to trim the number of CROs they are using. Our price target of \$53 is 19x our 2015 EPS estimate of \$2.79. We continue to have a negative view on CRO valuations and assign Quintiles a multiple in-line with the peer group median for 2014E. Positive risks include faster than expected IHS growth, stronger CRO pricing, and new client wins. Negative risks are weaker IHS growth, slower outsourcing from PDEV clients, and client losses or contract revisions.

Stock & option liquidity data

Market cap (USD)	6,614.2
Shares outstanding (m)	133.7
Free float (%)	100
Volume (23 Apr 2014)	62,375
Option volume (und. shrs., 1M avg.)	–

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
EPS (USD)	2.09	2.43	2.79
P/E (x)	20.9	20.4	17.7

Source: Deutsche Bank

* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

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