

Quintiles Transnational Holdings, Inc. (Q)

Rating	OUTPERFORM* [V]
Price (12 Feb 14, US\$)	49.44
Target price (US\$)	52.00 ¹
52-week price range	49.78 - 41.58
Market cap. (US\$ m)	6,374.23
Enterprise value (US\$ m)	7,689.11

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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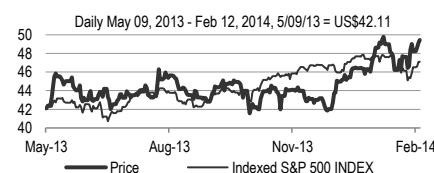
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EARNINGS

F4Q13 Beat & Better Initial F14 Guidance Should Garner Positive Reaction

■ **Bottom Line:** Q reported adjusted 4Q13 EPS of \$0.58 vs. IBES consensus of \$0.55, with revenues nicely above expectations, partially offset by margins modestly below expectations (impacted by higher corporate expenses). More importantly, the company provided initial F14 guidance with both revenues and adjusted EPS targets above IBES consensus. Targeted EPS of \$2.33-\$2.46 compares to consensus of \$2.31, with cc revenue growth targets of 7.4%-9% underscoring the health of end markets. The company reported core CRO net book-to-bill of 1.24, along with a second straight quarter of strong Integrated Healthcare Services bookings suggesting improving revenue trends for that segment in F14. Given that shares have lagged CRO peers YTD, we believe that these results and above-consensus guidance will be viewed positively and help drive shares higher. While we acknowledge that questions around potential secondary activity from financial sponsor owners might represent a modest overhang, we would point to the company's strong execution and competitive positioning as supportive of long-term outperformance. We will look to today's 8:00 am ET conference call for further details on the following: 1) key operating and financial assumptions embedded in F14 guidance; 2) drivers of continued strength in underlying Product Development margins; 3) outlook for the Integrated Healthcare Services segment's topline and profitability in F14 and beyond; 4) update on end market trends; and 5) ongoing capital deployment priorities.

Share price performance



On 02/12/14 the S&P 500 INDEX closed at 1819.26

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.44	0.47	0.45	0.56
2013E	0.49	0.50	0.54	0.55
2014E	0.54	0.57	0.60	0.61

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US\$)	1.77	2.07	2.32	2.63
Prev. EPS (US\$)	—	—	—	—
P/E (x)	27.9	23.9	21.3	18.8
P/E rel. (%)	158.6	143.8	141.1	137.9
Revenue (US\$ m)	3,692.3	3,772.2	4,074.3	4,441.9
EBITDA (US\$ m)	543.7	604.5	663.2	726.2
OCFPS (US\$)	2.85	2.16	3.17	3.44
P/OCF (x)	—	22.8	15.6	14.4
EV/EBITDA (current)	15.1	12.7	11.2	9.8
Net debt (US\$ m)	1,851	1,315	1,031	716
ROIC (%)	58.50	49.55	54.00	58.13
Number of shares (m)	128.93	IC (current, US\$ m)		492.38
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

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Other Considerations

- **Initial F14 Guidance Above Consensus:** The company provided initial F14 revenue guidance above expectations, targeting revenues of \$4.09B-\$4.15B (vs. IBES consensus of 4.08B), representing 7.4%-9% constant currency growth. Additionally, management provided its adjusted EPS guidance of \$2.33-\$2.46 vs. IBES consensus of \$2.31, which represents 11.0%-17.1% year growth. Management noted it is *"well positioned entering 2014 with the largest backlog in the industry...which will fuel...constant currency service revenue and earnings growth."* We would highlight that the company assumes a 30% tax rate and 1/1/14 FX rates. We would note that the F14 guidance does not reflect the potential impact of future equity repurchases (\$59.5M remaining under its authorization).
- **Details on the Quarter:** Q's adjusted EPS was \$0.58 vs. consensus of \$0.55, driven by constant currency revenue growth of 7.7% also nicely ahead of expectations. Growth was paced by Product Development (PD), which posted healthy cc revenue growth of 10.2% (aided by the Novella acquisition). Reported adjusted operating margin for the segment expanded 190 bps, and would have still expanded nicely even stripping out FX tailwinds. Encouragingly, net new business trends remained strong, with new business wins of \$964M translating into a book-to-bill ratio of 1.24x in 4Q13 and 1.29x for C13. Integrated Healthcare Services results remain somewhat challenged as cc revenues declined 1.1% y/y, but looking forward we were somewhat encouraged by another strong quarter of bookings, with a net book-to-bill of 1.47x for 4Q13 and 1.27 for the year. Consolidated operating margins of 12.9% expanded y/y, but were modestly below our forecasts as SG&A (led by general corporate and unallocated expenses) came in higher than modeled. Additionally the company repurchased 153.2k shares and 2M vested in-the-money employee stock options under its repurchase program for \$65.5M.
- **Stock Reaction - Expect Positive Reaction From Results:** Given that shares of Q have somewhat lagged its CRO peers (both clinical and preclinical) YTD, we believe the quarterly results and above-consensus guidance will be viewed as "good enough" and should help shares grind higher. While valuations across the group remain elevated and expectations are high, we believe Q's continued execution in its first several quarters as a public company and the strong new business trends should support confidence in the company's outlook. We are encouraged to see the company beginning to establish a "beat and raise" track record, although we acknowledge that management commentary on the premarket conference call will likely impact the magnitude and direction of today's trading.

Companies Mentioned (Price as of 12-Feb-2014)

Quintiles Transnational Holdings, Inc. (Q.N, \$49.44, OUTPERFORM[V], TP \$52.0)

Disclosure Appendix

Important Global Disclosures

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3-Year Price and Rating History for Quintiles Transnational Holdings, Inc. (Q.N)

Q.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
23-Sep-13	44.86	52.00	O *

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Quintiles Transnational Holdings, Inc. (Q.N)

Method: Our \$52 target price for Q is based on an equal weighting of two valuation methodologies. Our price to earnings valuation yields a price of around \$54, applying a roughly 20-22x multiple on our C15 EPS estimate of \$2.63. Our EV/EBITDA analysis yields a price of around \$50, applying a roughly 11x multiple on our C15 EBITDA estimate of \$726.2M. A blend of these two valuation methodologies yields our target price of \$52. We believe that a multiple in line with leading clinical peers is consistent with the company's market-leading scale and scope of clinical services. In valuing the contract research organizations (CROs) and Quintiles, we primarily utilize price-to-earnings (P/E) and EV/EBITDA multiples to assess the risk/reward profile of the individual stocks and the group as a whole since P/E and EV/EBITDA provide both a historical and relative perspective. We look at multiples relative to historical averages to ensure that the stocks are trading in-line with our assessment of how current fundamentals fit into historical context. P/E and EV/EBITDA relative to a benchmark or to other industry peers sheds light on competitive positioning and performance.

Risk: Risks to Q's achievement of our \$52 target price are: 1) softer R&D trends; 2) already have peak margins; 3) controlled company status; and 4) balance sheet leverage. Softer R&D trends or any pricing pressure to the company's premium margins could lead to EPS growth lower than expectations. Additionally, Q has higher leverage compared to industry peers which could limit the company's ability to accretively deploy capital.

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