

## Quintiles Transnational

# A strong close to the first year

**Quintiles finished its first year as a public company with its best quarter since its May IPO and offered a strong outlook for 2014:** Q has delivered on everything it said it would since rejoining the public ranks, and we expect this will continue. Certainly, the CRO group is enjoying both fundamental tailwinds as well as bullish investor sentiment, but we believe Q stands out for its ability to perform well regardless of whether the macro environment is blowing headwinds or tailwinds. We attribute this to Q's scale, customer franchise, and geographic breadth. We raise our price target to \$55 from \$53, based on 20x our new FY15 EPS estimate of \$2.74 (previously based on 23.5x \$2.27).

Q's 2014 EPS outlook of \$2.33-\$2.46 cleared consensus at \$2.31 and our previous estimate of \$2.27. In our view the strength in 4Q, across both PDEV and IHS, provides a good starting point for FY14.

**4Q shows strength across the board:** Q reported revenues and EPS ahead of Street expectations. Some of the top-line beat can be attributed to the Novella acquisition, but even adjusting for that, Q demonstrated solid sequential growth across both segments. While it's still obviously early, we were also encouraged to see IHS show another quarter of very strong new business wins, with the book-to-bill coming in at 1.46. PDEV bookings were also strong with book-to-bill again above 1.24. While we appreciate Q still working past significant contract wind-downs, we suspect bookings strength will drive better revenue growth than implied in Q's guidance for 2014, especially given the likely contribution from acquisitions. Q still sees growing demand as well as continued opportunities for new "strategic" relationships.

**Margin trends continue to look strong.** One of the bear arguments on Q has been that it offered less operating margin expansion than peers. While there's some truth to that point, noting Q's margins are the best in the industry, we believe the company can continue to drive incremental gains as Q capitalizes on its scale, sees improved performance by IHS, and expands its book of "high-value" service offerings.

### Q: Quarterly and Annual EPS (USD)

	2013		2014		2015		Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	2014	2015
Q1	0.49A	0.53E	0.56E	0.54E	N/A	0.66E	14%	18%
Q2	0.50A	0.58E	0.60E	0.57E	N/A	0.67E	20%	12%
Q3	0.54A	0.57E	0.62E	0.58E	N/A	0.69E	15%	11%
Q4	0.58A	0.59E	0.64E	0.60E	N/A	0.73E	10%	14%
Year	2.10A	2.27E	2.41E	2.31E	N/A	2.74E	15%	14%
P/E	23.5		20.5			18.0		

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

Stock Rating **OVERWEIGHT**  
Unchanged

Industry View **NEUTRAL**  
Unchanged

Price Target **USD 55.00**  
raised 4% from USD 53.00

Price (12-Feb-2014) USD 49.44  
Potential Upside/Downside +11%  
Tickers Q

Market Cap (USD mn) 6374  
Shares Outstanding (mn) 128.93  
Free Float (%) 80.72  
52 Wk Avg Daily Volume (mn) 0.6  
Dividend Yield (%) N/A  
Return on Equity TTM (%) N/A  
Current BVPS (USD) -5.52

Source: Thomson Reuters

Price Performance Exchange-NYSE  
52 Week range USD 52.00-40.10



[Link to Barclays Live for interactive charting](#)

### U.S. Specialty Pharmaceuticals

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## U.S. Specialty Pharmaceuticals

Industry View: NEUTRAL

## Quintiles Transnational Holdings Inc. (Q)

Stock Rating: OVERWEIGHT

Income statement (\$mn)	2013A	2014E	2015E	2016E	CAGR
Revenue	3,808	4,106	4,423	4,774	7.8%
EBITDA (adj)	608	658	724	796	9.4%
EBIT (adj)	476	555	614	677	12.4%
Pre-tax income (adj)	N/A	N/A	N/A	N/A	N/A
Net income (adj)	269	323	370	425	16.5%
EPS (adj) (\$)	2.10	2.41	2.74	3.12	14.1%
Diluted shares (mn)	127.9	134.0	135.0	136.0	2.1%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	16.0	16.0	16.4	16.7	16.3
EBIT (adj) margin (%)	N/A	N/A	N/A	N/A	N/A
Pre-tax (adj) margin (%)	N/A	N/A	N/A	N/A	N/A
Net (adj) margin (%)	7.1	7.9	8.4	8.9	8.1
ROIC (%)	57.3	52.3	57.3	64.1	57.8
ROA (%)	11.2	10.6	11.0	11.6	11.1
ROE (%)	-39.0	225.4	76.3	49.1	78.0

Balance sheet and cash flow (\$mn)	CAGR				
Tangible fixed assets	205	229	253	276	10.5%
Intangible fixed assets	714	686	664	651	-3.0%
Cash and equivalents	1,296	1,568	1,617	1,708	9.6%
Total assets	3,487	3,838	3,980	4,184	6.3%
Short and long-term debt	2,061	2,028	1,703	1,378	-12.5%
Other long-term liabilities	172	193	211	231	10.3%
Total liabilities	3,508	3,529	3,318	3,115	-3.9%
Net debt/(funds)	762	457	83	-333	N/A
Shareholders' equity	-22	308	662	1,069	N/A
Change in working capital	850	302	34	77	-55.0%
Cash flow from operations	332	426	479	530	16.9%
Capital expenditure	-101	-101	-105	-114	N/A
Free cash flow	231	325	373	416	21.7%

Valuation and leverage metrics	Average				
P/E (adj) (x)	23.5	20.5	18.0	15.8	19.4
EV/sales (x)	1.8	1.6	1.4	1.2	1.5
EV/EBITDA (adj) (x)	11.5	10.2	8.8	7.4	9.5
P/BV (x)	-294.0	21.5	10.1	6.3	-64.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Total debt/capital (%)	101.7	83.6	71.0	61.6	79.5

Selected operating metrics	Average				
SG&A/sales (%)	22.6	21.3	21.1	21.1	21.5
R&D/sales (%)	N/A	N/A	N/A	N/A	N/A
R&D growth (%)	N/A	N/A	N/A	N/A	N/A
SG&A growth (%)	5.2	1.8	6.7	7.8	5.4

Price (12-Feb-2014) USD 49.44  
Price Target USD 55.00

**Why Overweight?** We see Quintiles as the "best of class" CRO that is positioned to extend its market leadership as the CRO industry enters a new era of growth. We believe Quintiles' advantages in scientific expertise and global scale will allow the company to grow faster than the underlying CRO industry's 8% growth with operational leverage pushing EPS growth into mid-teens.

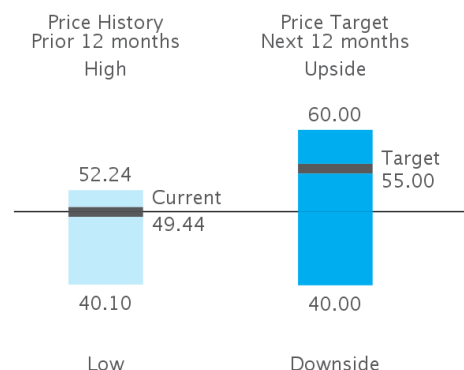
**Upside case** USD 60.00

Our upside case of \$60 is predicated on Quintiles succeeding in winning significant strategic deals with major customers, which would drive acceleration in revenue and earnings growth. This would drive further multiple expansion.

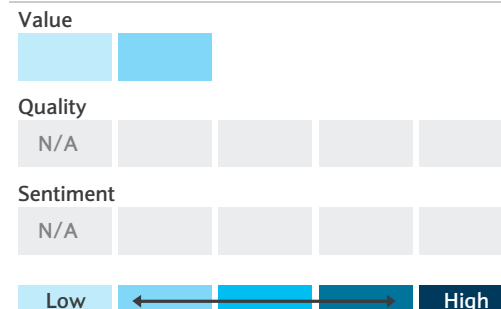
**Downside case** USD 40.00

We see risk from continued pressure on R&D spending from major drug companies. This would result in contract delays and cancellations, reducing visibility on earnings growth, and result in EPS valuation compression.

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research  
Note: FY End Dec



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Quintiles Transnational (Q, 12-Feb-2014, USD 49.44), Overweight/Neutral, A/C/D/I/K/L/M/O

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**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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ICON plc (ICLR)	Jazz Pharmaceuticals PLC (JAZZ)	Mallinckrodt (MNK)
Mylan Inc. (MYL)	Pacira Pharmaceuticals Inc. (PCRX)	PAREXEL International (PRXL)
Quintiles Transnational (Q)	Teva Pharmaceutical Industries (TEVA)	Zoetis Inc. (ZTS)

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## Quintiles Transnational (Q)

USD 49.44 (12-Feb-2014)

Stock Rating

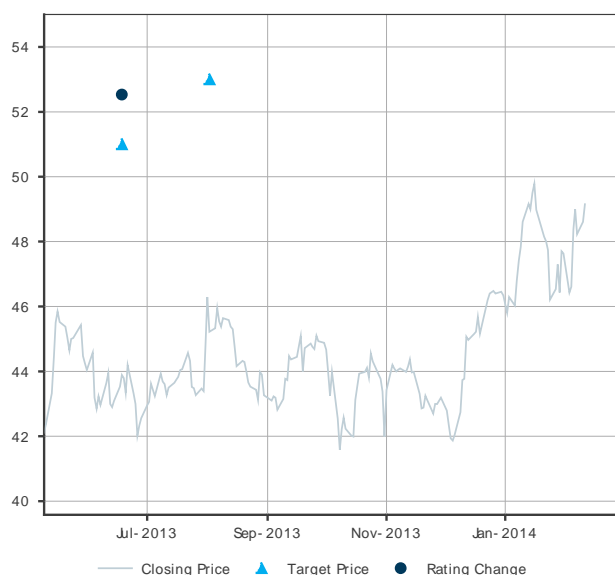
**OVERWEIGHT**

Industry View

**NEUTRAL**

## Rating and Price Target Chart - USD (as of 12-Feb-2014)

Currency=USD



Date	Closing Price	Rating	Adjusted Price Target
02-Aug-2013	45.22		53.00
18-Jun-2013	43.89	Overweight	51.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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**Valuation Methodology:** We derive our \$55 price target using a 20x PE multiple on our FY15 EPS estimate of \$2.74. We think this is appropriate since Quintiles currently trades at roughly 21x FY14 EPS estimates.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Our valuation and earnings estimates are predicated on certain assumptions. If the competitive dynamics of the pharmaceutical market changes; if interest rates rise or if the manufacturers change outsourcing practices, this would have a negative impact on earnings at our covered companies. In that event, we would revisit our investment thesis.

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