

Equity Research

Quintiles Transnational Holdings, Inc.

Q: Q4 2013 Earnings First Look

- **Bottom line.** Quintiles reported a strong quarter, beating both revenue and EPS consensus. The PDEV segment was stronger than expected partially offset by a weaker-than-expected IHS segment. Looking forward, bookings were strong in both segments, driving 2014 guidance that is meaningfully above consensus. As such, we expect the stock to be strong today (2/13).
- **Revenue.** \$1,004MM vs. \$983MM (Wells Fargo est) and \$982MM (consensus).
- **EPS.** \$0.58 vs. \$0.54 (Wells Fargo est) and \$0.55 (consensus).
- **Operating margin.** 12.9% vs. 12.9% (Wells Fargo est) and 13.3% (consensus).
- **Segments.** PDEV revenue of \$775MM vs. \$756MM (Wells Fargo est) and \$744MM (consensus). PDEV operating margin of 19.7% vs. 18.8% (Wells Fargo est). IHS revenue of \$229MM vs. \$227MM (Wells Fargo est) and \$240MM (consensus). IHS operating margin of 5.1% vs. 5.5% (Wells Fargo est). Corporate overhead was significantly higher than expected at 3.5% of revenue versus our expectation of 2.8%.
- **Bookings.** Book-to-bill of 1.29 vs. 1.20 (Wells Fargo est). Net bookings were \$1.3B vs. \$1.2B (Wells Fargo est). PDEV book-to-bill was 1.24, while IHS book-to-bill was 1.47.
- **2014 Guidance.** Issued 2014 EPS guidance of \$2.33-2.46 on revenues of \$4.09-4.15B. Current 2014 consensus stands at EPS of \$2.31 on revenue of \$4.08B.
- **Conference call.** 8:00 a.m. ET. 855.484.7367.

Valuation Range: \$52.00 to \$54.00

Our valuation range is DCF-based (WACC = 8.0%; terminal NOPLAT growth = 2%) and represents 23.5x our 2014 EPS estimate and 10.8x our 2014 EBITDA estimate. Risks include: (1) project cancellations or delays due to client M&A, economic weakness, pipeline reprioritization, or compound failure; (2) a reversal in the trend toward increased outsourcing; (3) lack of improvement in the IHS segment; (4) margin pressure from strategic relationships; (5) foreign exchange volatility; and (6) large insider ownership.

Investment Thesis:

We believe Quintiles is a leader in several capacities (size, operational efficiency, strategic savvy) in a secular growth industry, creating a favorable risk/reward profile for long-term holders.

Outperform / V

Sector: Outsourced Services

Market Weight

Company Note

	2013A	2014E	2015E	
EPS		Curr.	Prior	Curr.
Q1 (Mar.)	\$0.49	\$0.56	NC	NE
Q2 (June)	0.50	0.56	NC	NE
Q3 (Sep.)	0.54	0.57	NC	NE
Q4 (Dec.)	0.58	0.61	NC	NE
FY	\$2.10	\$2.30	NC	NE
CY	\$2.10	\$2.30		NE
FY P/E	23.5x	21.5x		NM
Rev.(MM)	\$3,808	\$4,088		NE

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
 NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
 V = Volatile, * = Company is on the Priority Stock List

Ticker	Q
Price (02/12/2014)	\$49.44
52-Week Range:	\$40-52
Shares Outstanding: (MM)	128.9
Market Cap.: (MM)	\$6,372.8
S&P 500:	1,819.26
Avg. Daily Vol.:	469,008
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$2,046.0
LT Debt/Total Cap.:	NM
ROE:	NM
3-5 Yr. Est. Growth Rate:	11.0%
CY 2014 Est. P/E-to-Growth:	2.0x
Last Reporting Date:	02/13/2014

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Please see page 3 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 02/13/14 unless otherwise stated.

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Together we'll go far



Company Description:

Based in Durham, North Carolina, Quintiles Transnational Holdings, Inc. is the largest contract research organization by revenue, providing both clinical trial management services and contract sales services to pharmaceutical and biotechnology clients. The company operates in two segments: Product Development (PDEV) and Integrated Health Services (IHS). PDEV provides a range of clinical trial services including study design, investigator recruitment, site start-up, patient recruitment, clinical monitoring, project management, phase I, bioanalytical services, biostatistics, central lab, genomics services, strategic planning, and a range of consulting services. The vast majority of the IHS business consists of contract sales and related commercial services, but the segment also contains peri-approval clinical trial services as well as services provided to payers and healthcare providers. In addition to being the industry's largest CRO, Quintiles is differentiated from peers by its exposure to the contract sales business.

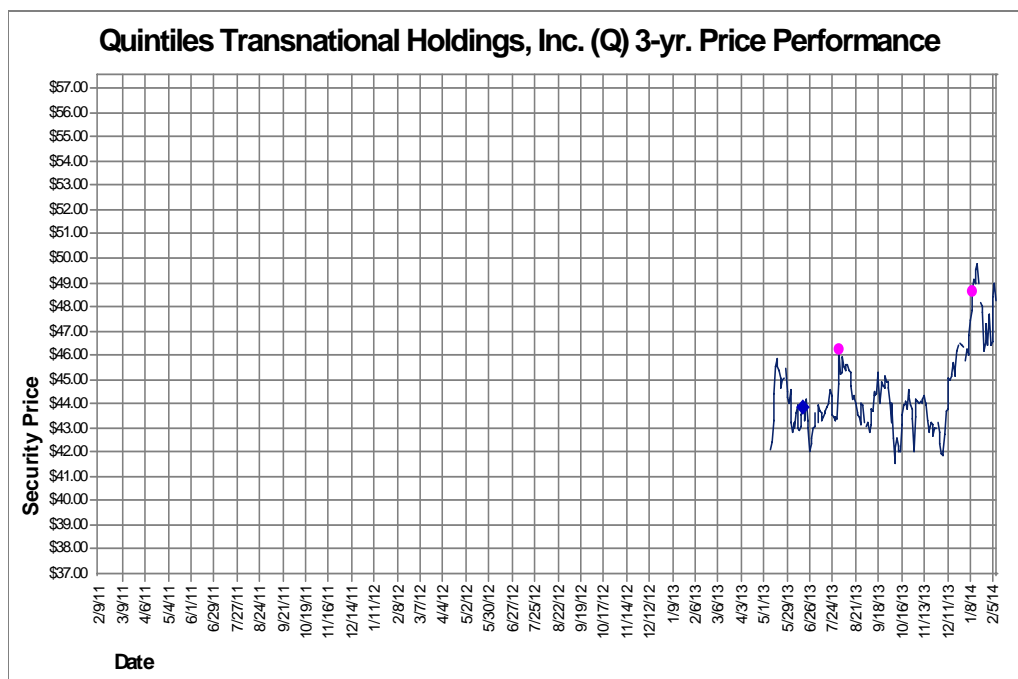
Quintiles Q4 2013 Variance Table

Reported 02/13/2014

FY ending December In millions except EPS	Actual Q4 2012	Actual Q3 2013	Est Q4 2013	Actual Q4 2013	Cons Q4 2013	Yr / Yr change	Seq change
Total revenue	946	\$ 933	\$ 983	\$ 1,004	\$ 982	6.2%	7.6%
Cost of products and services	628	601	633	642		2.1%	6.9%
Gross profit	317	332	350	362		14.1%	9.0%
Selling, general & administrative	203	200	223	233		14.8%	16.6%
Operating income	115	132	127	129		12.8%	(2.5%)
Interest expense (income)	37	28	28	25		(31.6%)	(8.7%)
Other expense (income)	1	3	-	(2)			
Pretax income	76	102	100	106		37.9%	3.8%
Taxes	28	29	28	30		5.3%	0.2%
Income before equity earnings	48	72	71	76		56.9%	5.3%
Equity earnings	(0)	(0)	-	0			
Net income (continuing ops)	48	72	71	76		58.6%	6.5%
Noncont. interests income (loss)	0	0	-	(0)			
NI to common	\$ 48	\$ 72	\$ 71	\$ 76		58.2%	6.3%
Non-GAAP EPS	\$ 0.41	\$0.54	\$0.54	\$ 0.58	\$ 0.55	40.7%	6.6%
Diluted shares outstanding	118	133	132	133		12.5%	(0.3%)
EBITDA	\$ 140	\$ 160	\$ 152	\$ 160		14.0%	(0.0%)
MARGIN ANALYSIS						Yr / Yr	Seq
Cost of sales / net revenue	66.5%	64.4%	64.4%	63.9%		(250) bps	(50) bps
Gross margin	33.5%	35.6%	35.6%	36.1%		250 bps	50 bps
SG&A / net revenue	21.4%	21.4%	22.7%	23.2%		180 bps	180 bps
EBIT margin	12.1%	14.2%	12.9%	12.9%		80 bps	(130) bps
Pretax margin	8.1%	10.9%	10.1%	10.5%		240 bps	(40) bps
Tax rate	36.7%	29.0%	28.6%	28.0%		(870) bps	(100) bps
Net margin from continuing ops	5.1%	7.7%	7.2%	7.6%		250 bps	(10) bps
EBITDA margin	14.8%	17.1%	15.5%	15.9%		110 bps	(120) bps
SEGMENT ANALYSIS						Yr / Yr	Seq
PDEV Segment Revenue	\$ 703	\$ 714	\$ 756	\$ 775	\$ 744	10.2%	8.5%
Growth: core		5.0%	4.5%	7.0%			
Growth: FX		(0.8%)	(0.7%)	(0.5%)			
Growth: acq/div/other		1.3%	3.7%	3.7%			
Revenue growth: total	8.3%	5.5%	7.5%	10.2%			
Gross profit	\$ 272	\$ 288	305	\$ 319		17.4%	10.8%
Gross margin	38.7%	40.3%	40.3%	41.2%		250 bps	80 bps
Operating income	\$ 125	\$ 141	\$ 142	\$ 153		21.9%	8.7%
Operating margin	17.8%	19.7%	18.8%	19.7%		190 bps	0 bps
IHS Segment Revenue	\$ 243	\$ 218	\$ 227	\$ 229	\$ 240	(5.7%)	4.8%
Growth: core		(2.3%)	(2.0%)	(1.1%)			
Growth: FX		(5.2%)	(4.5%)	(4.6%)			
Growth: acq/div/other		0.0%	0.0%	0.0%			
Revenue growth: total	8.8%	(7.6%)	(6.5%)	(5.7%)			
Gross profit	\$ 45	\$ 44	\$ 45	\$ 43		(5.5%)	(2.5%)
Gross margin	18.7%	20.1%	20.0%	18.7%		0 bps	(140) bps
Operating income	\$ 14	\$ 12	\$ 12	\$ 12		(13.8%)	0.4%
Operating margin	5.6%	5.3%	5.5%	5.1%		(50) bps	(20) bps
Consolidated Revenue	\$ 946	\$ 933	\$ 983	\$ 1,004	\$ 982	6.2%	7.6%
Growth: core		3.1%	2.8%	5.0%			
Growth: FX		(1.9%)	(1.7%)	(1.5%)			
Growth: acq/div/other		1.0%	2.7%	2.7%			
Revenue growth: total	8.4%	2.1%	3.9%	6.2%			
Corp. overhead, non-GAAP	\$ (37)	\$ (20)	\$ (28)	\$ (35)		(5.3%)	78.7%
% of total revenue	(4.0%)	(2.1%)	(2.8%)	(3.5%)		(40) bps	140 bps
BOOKINGS & BACKLOG						Yr / Yr	Seq
Ending backlog	\$ 8,704	\$ 9,583	\$ 9,776	\$ 9,900	\$ 9,700	13.7%	3.3%
PDEV net bookings	\$ 1,086	\$ 862	\$ 923	\$ 964		(11.2%)	11.8%
IHS net bookings	\$ 421	\$ 479	\$ 253	\$ 335		(20.5%)	(30.1%)
Total net bookings	\$ 1,507	\$ 1,341	\$ 1,176	\$ 1,299	\$ 1,210	(13.8%)	(3.1%)
PDEV book-to-bill	1.54	1.21	1.22	1.24			
IHS book-to-bill	1.74	2.19	1.11	1.46			
Total net book-to-bill	1.59	1.44	1.20	1.29	1.23		

Source: FactSet (consensus); Company data; Wells Fargo Securities, LLC estimates

Required Disclosures



	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
	6/18/2013		Evans			
◆	6/18/2013	43.53	1	48.00	50.00	43.89
◆	8/1/2013	46.29	1	50.00	52.00	46.29
◆	1/10/2014	47.84	1	52.00	54.00	48.61

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼ Rating Downgrade	◆ Initiation, Resumption, Drop or Suspend
▲ Rating Upgrade	■ Analyst Change
● Valuation Range Change	□ Split Adjustment

Rating Code Key

1 Outperform/Buy	SR Suspended
2 Market Perform/Hold	NR Not Rated
3 Underperform/Sell	NE No Estimate

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M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 13, 2014

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