PiperJaffray

Quintiles Transnational Holdings (Q) — Overweight

Leading CRO with Superior Data Capabilities: Initiate with OW, $52 Price Target

PRICE: US$43.53
TARGET: US$52.00
23.7x PE (CY14E), 20% premium to the peer median

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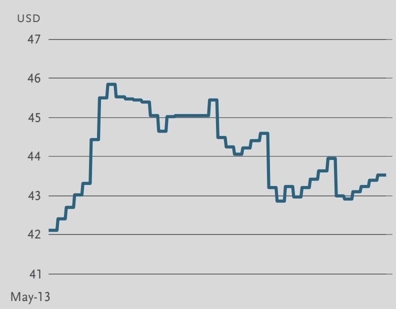
Changes	Previous	Current
Rating		Overweight
Price Tgt		US$52.00
FY13E Rev (mil)	—	US$3,788.0
FY14E Rev (mil)	—	US$4,089.0
FY13E EPS	—	US$1.90
FY14E EPS	—	US$2.19

52-Week High / Low	US$46.50 / US$40.00
Shares Out (mil)	126.0
Market Cap. (mil)	US$5,484.8
Net Cash Per Share	US$4.75
Debt to Total Capital	83%
Yield	0.00%
Fiscal Year End	Dec

Price Performance - 1 Year



Source: Bloomberg

CONCLUSION

Quintiles is the largest CRO by a long shot, offering investors better operating leverage and growth potential as demand is skewed increasingly toward the larger CROs. Investments in disruptive technology (such as Infosario) present a unique opportunity to create a data-driven clinical research process, which will further lower their customers' cost and time to market, and create a competitive advantage for Quintiles. We are initiating with an Overweight rating and a $52 price target based on a 20% premium P/E multiple to the CRO median.

- **Size, scale, and scope deliver market-leading growth and operating leverage.** Quintiles is the largest Contract Research Organization (CRO) by a long shot, with global operations in 100 countries, deep expertise across all major therapeutic areas, and existing relationships with most of the large pharmaceutical companies. These traits afford the company an advantage in competing for new trials and should deliver superior growth rates and margin profile, however CY13 revenue and EPS growth will see temporary deceleration due to a 1x contract roll-off and foreign currency exchange impacts.

- **The Infosario platform provides Quintiles with an information advantage.** Quintiles is validating our thesis that data is driving a convergence across clinical research and medical practice. Infosario is a web-based platform that delivers to clients 30 years of clinical trial knowledge to create and manage a new trial. Infosario integrates trial data and real-world encounter data gathered from electronic health records to better recruit trial participants, improve the trial design, and manage an adaptive trial on an ongoing basis. Rigorous process control around comparative effectiveness research also affords the company new growth opportunities. Infosario and other investments in disruptive technology is becoming a competitive advantage that is beginning to drive deal flow and differentiates Quintiles from the market.

- **We are initiating coverage with an Overweight rating and $52 price target.** We believe Q's greater scale, operating efficiencies and analytic capabilities will deliver earnings growth in excess of the peer group median. As such, we believe a 20% premium to the peer group median P/E multiple of 19.7x is warranted. Our $52 price target is based on 23.7x (a 20% premium to the peer group) our 2014 EPS estimate of $2.19.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Changes in the pharma industry impacting R&D spending in drug research, reversal to the current increasing R&D outsourcing trend by pharma, and above industry average leverage in the balance sheet impacting opportunities.

COMPANY DESCRIPTION

Quintiles is the largest CRO in the industry with expertise across all major therapeutics and with operations in about 100 countries.

YEAR	REVENUE (US$ m)						EARNINGS PER SHARE (US$)					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2012A	888.0	945.0	914.0	946.0	3,692.0	1.5x	0.44	0.47	0.45	0.41	1.77	24.6x
2013E	927.0A	935.0	951.0	974.0	3,788.0	1.4x	0.43A	0.47	0.50	0.51	1.90	22.9x
2014E	999.0	1,008.0	1,025.0	1,057.0	4,089.0	1.3x	0.52	0.54	0.56	0.57	2.19	19.9x

Adjusted EPS

INVESTMENT THESIS

Quintiles is the largest contract research organization (CRO) in the world with operations in ~100 countries and revenues nearly as big as the next two largest CROs combined. The company has expertise across all major therapeutic areas and has enviable relationships with the majority of the pharmaceutical and biotech companies. Quintiles had involvement in 72% all drugs approved since 2004 and has worked with the top 20 largest pharmaceutical companies in the world. This level of breadth in expertise and footprint has given Quintiles an edge in winning trials that are increasingly becoming global. We believe the single most significant competitive advantage for Quintiles is its Infosario platform (a web-based platform), which gives the sponsor complete control in planning, designing and executing a trial with comprehensive views real time of all the trial elements. This platform also incorporates Quintiles' 30 years of institutional knowledge in a proprietary knowledge engine giving sponsors all the tools and expertise to manage the trial. While some CROs and pure-play software vendors are trying to catch up with Quintiles in the analytics and information technology platform, we believe that Infosario gives the company an edge in data-driven clinical research.

The increasing stability in pharma after years of consolidation, recovering small bio-pharma and the increasing R&D outsourcing trend offers a strong tailwind for CRO industry growth. We expect the CRO industry to grow in the mid- to high-single-digits, and we believe Quintiles will also be in that range long term. But near term (in CY13), negative scope changes, a large contract roll-off and heavy FX headwinds are likely to slow Quintiles' revenue growth to the low single-digits, with our estimates calling for a reacceleration in 2014 to high single-digits, with earnings growth accelerating in 2014 to the mid-teens. We believe the company's strong backlog level, continued strong book-to-bill, and its unique position as a more data-driven research platform will re-accelerate growth in CY13.

Valuation

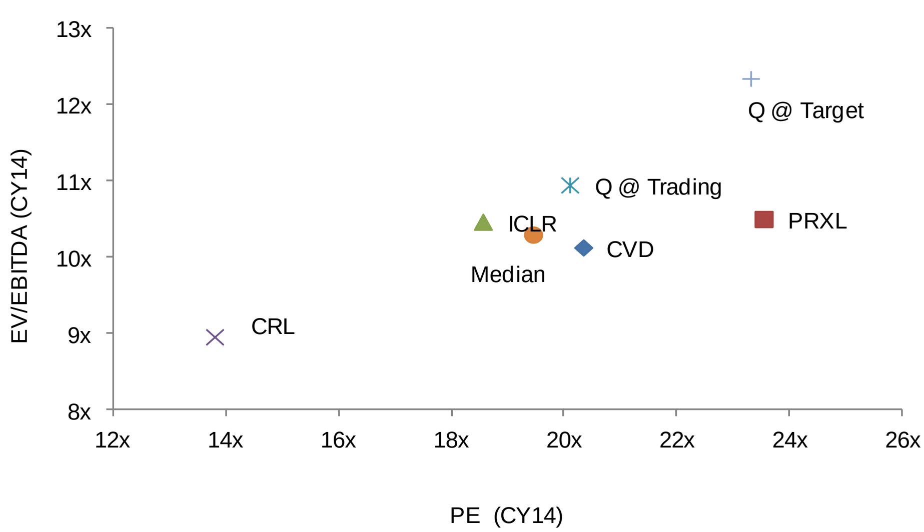
Given Quintiles' scale, profitability performance vs. the peer group and the company's investments in its Infosario data platform, we believe a 20% premium to the peer group is warranted. A 20% premium on the comp group median of 19.7x equates to a 23.7x forward P/E multiple, resulting in a 12-month price target of $52.

Our peer group for Quintiles is Covance (CVD), Parexel (PRXL), Icon (ICLR) and Charles River (CRL); this group is trading at a median earnings multiple of 19.7x on CY14 consensus estimates vs. Quintiles at 19.9x our CY14 estimate.

Exhibit 1

COMPS TABLE

		Mkt		EV/Rev			EV/EBITDA			EPS			PE			EV/
Ticker	Price	Cap	EV	CY12	CY13	CY14	CY12	CY13	CY14	CY12	CY13	CY14	CY12	CY13	CY14	Backlog
CVD	78.43	4,323	4,218	1.9	1.7	1.6	12.8	11.8	10.2	2.70	3.13	3.68	27.9	25.1	21.3	0.68
PRXL	46.74	2,657	2,765	1.8	1.4	1.4	14.8	11.9	10.3	1.37	1.80	2.01	33.8	26.0	23.3	0.60
ICLR	35.94	2,176	1,979	1.8	1.5	1.4	16.8	12.6	10.7	0.99	1.56	1.87	35.9	23.0	19.2	0.71
CRL	43.21	2,122	2,664	2.3	2.2	2.2	9.4	9.5	9.0	2.74	2.82	3.07	15.6	15.3	14.1	
Median				**1.8**	**1.6**	**1.5**	**13.8**	**11.8**	**10.2**				**30.8**	**23.4**	**19.7**	**0.68**
At Trading																
Q	**$43.53**	**5,506**	**6,951**	**1.9**	**1.8**	**1.7**	**12.7**	**11.8**	**10.8**	**1.77**	**1.90**	**2.19**	**24.6**	**23.0**	**19.9**	**0.79**
At Our Target																
Q	**$52**	**6,446**	**7,892**	**2.1**	**2.1**	**1.9**	**14.5**	**13.5**	**12.4**	**1.77**	**1.90**	**2.19**	**28.8**	**26.9**	**23.7**	**0.91**



Source: Piper Jaffray Research, Company SEC Filings, Thomson

STRENGTHS

Stabilizing pharma R&D spending and accelerating outsourcing should sustain CRO growth: After multiple years of consolidation in pharma and subdued small-medium bio-pharma industry, we are seeing renewed life in R&D spending due to the improved drug approval rate in recent years and also due to the patent cliff, which is leaving a big void by the expiring blockbuster drug patents. Pharma is increasingly turning toward CROs to do more with a smaller R&D budget and to change a legacy high fixed cost structure to a more variable cost structure. This shift gives pharma the flexibility to prioritize their pipeline dynamically and attack the most promising compounds first. Due to these factors, we believe outsourcing trends will likely accelerate supporting CRO growth. Quintiles estimates that the current outsourcing penetration is more than a third of the total R&D spend (33% in 2011) and that the current trend will support an overall CRO revenue growth of 5%-8% over the next three years.

Breadth of the therapeutic expertise and deep customer relationships matter in signing large deals: Quintiles had involvement in 72% of all the drugs approved since 2004, has provided services to the top 50 best selling biopharmaceutical products and has worked with the top 20 largest biopharmaceutical companies – all of this gives the company enormous breadth of expertise and relationships across the pharma industry. Of all the new biologic applications and the new molecular entities through 2011, Quintiles was part of 85% of all the Central Nervous system drugs (CNS), 76% of all oncology drugs and 72% of all the cardiovascular drugs, according to the company. And the company has operations in approximately 100 countries across the globe, which provides the global footprint needed to run a modern clinical trial. We strongly believe that these relationships, broad therapeutic expertise and global footprint are critical in winning deals in this market.

Infosario Is a Game Changer: Beginning in 2005, Quintiles embarked on a rigorous effort to transform its Information Technology unit from a service and support organization to more of an innovation and revenue-driven organization. The unit grew from a small department of in-house programmers and testers to more than 300 programmers and testers by 2012. And the total IT organization has grown to more than 1,000 associates developing and supporting the company's proprietary analytics platform named Infosario. This transformation is showing positive results: in CY12 alone, IT products generated more than $40m in revenues, just about 1% of revenues, and about $400m (11% of CY12 revenues) in business wins were directly attributed to the products developed by the IT organization. And the CTO noted that the RFP win rate has doubled due to the game-changer IT products the company has developed.

Partnership with Archimedes is a unique offering that exemplifies Quintiles' commitment to delivering disruptive technology to the market. Archimedes is a healthcare modeling organization that has developed a SaaS-based mathematical model of human physiology, diseases, and interventions. The model creates clinically realistic virtual trials that help sponsors make better decisions around the allocation of resources. Sponsors are able to build virtual populations, eligibility criteria, interventions, and care processes. The model simulates each member of the population individually and delivers a complete simulated trial within 24 hours. The model currently works with cardio-metabolic risk, including coronary artery disease, congestive heart failure, stroke, diabetes, obesity, hypertension, dyslipidemia, and smoking, with plans in place to add additional diseases. The model enables Quintiles to provide clients with better estimates on the impact of interventions, and has significant implications in the areas of clinical trial design, product development, commercialization, and patient engagement. Quintiles formed a partnership with Archimedes in April 2012 to co-promote the Archimedes Model, ARCHeS. In our view, this is an example of how Quintiles embraces a disruptive technology rather than eschewing the technology over concerns of disrupting the status quo.

Quintiles relationships with EHRs provide unique opportunity: Quintiles has partnered with multiple Electronic Health Record (EHR) vendors to increase the pace and outcomes in clinical trials process. For example, Quintiles is using Greenways' (GWAY) EHR to recruit patients for clinical trials faster, which has decreased recruitment time from months to few weeks. And the company also has announced partnership with Allscripts (MDRX) to build software to tap EHR data to help drug research. And we expect the company to add more relationships to increase opportunities to provide late stage studies, including post-approval studies such as real-world effectiveness studies and observational research. For example, Quintiles received a research award recently (June'13) from Patient-Centered Outcomes Research (PCORI) to do a real world effectiveness, quality and value study on uterine fibroids treatments. Quintiles expects to use real world clinical and claims data on more than 33,000 patients derived from various EHRs to run the study. Such innovative studies will be game-changers, and we expect the company to find more opportunities such as above to demonstrate its strength in the latest technologies to influence clinical outcomes.

WEAKNESSES/RISKS

Growth is dependent on Pharma recovery: Similar to others in the CRO industry, Quintiles' growth is heavily dependent on Pharma recovery and improvements in the outsourcing trend. As with the recent years, any changes in Pharma or tightening biopharma budgets could impact the company's ability to grow revenues.

Consolidation in Pharma and Large Strategic deals lend more power to customers: Pharma industry has gone through a transformation in the last few years with consolidation in the industry and the consolidated players rationalizing their drug development pipeline to narrow down the CROs to work with. Along with this, more and more sponsors are looking to form long term strategic relationships with one or two CROs to outsource their work. Since these strategic deals tend to be large in dollar value and span multiple years, CROs have to compete aggressively both in offerings and price to win new deals, which gives significant bargaining power to the clients. And ironically, even though strategic deals come with long term visibility in revenues, they increase near term revenue uncertainty because the sponsors have the flexibility in starting and stopping trials as they see fit vs. sticking to a predefined plan with change-order penalties in standalone trial deals.

Competition waking up to the IT Strategy: While we continue to believe that Quintiles' Infosario platform is a game-changer, we are starting to see competition waking up to the tremendous power such IT platforms bring to the table. For example, Covance (CVD) recently announced a $100m investment in consolidating its IT strategy. And pure-play vendors such as Medidata (MDSO) are gaining tremendous traction with a single consolidated platform. As the competition catches up to Infosario/Semio, the risk is that Quintiles may lose one of its key competitive advantages.

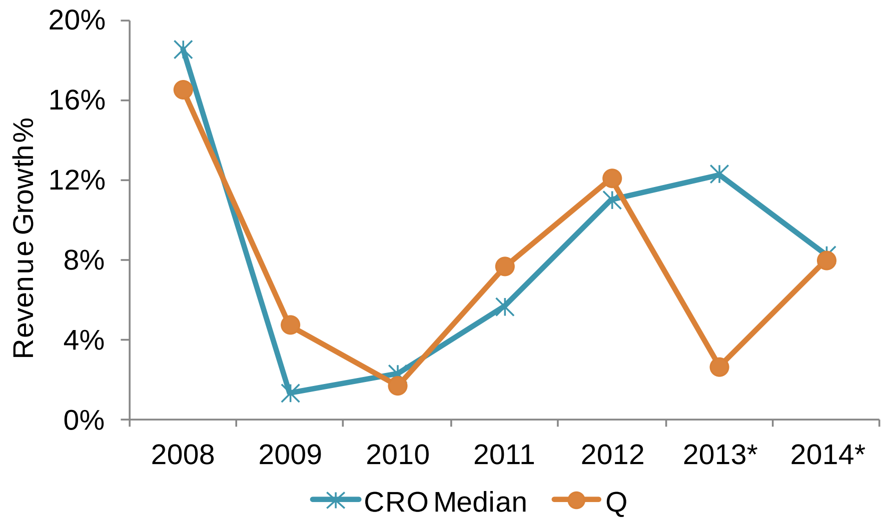
Early stage struggles may impact late stage pipeline: In the past few years, we have seen almost all CROs struggle in the early stage segment as pharma started focusing on drugs in their late stage pipeline. And we don't see any quick turnaround in the early stage segment in the near term, which may impact the late stage pipeline. Without a significant ramp-up in early stage trials, we might see late stage pipeline growth slow over time, limiting growth for CROs across the board.

Drop in CY13 growth could make investors concerned: While Quintiles has been growing almost on par with the industry, we are modeling growth deceleration to low-mid single digits for CY13 from teens in CY12 vs. growth acceleration among the competition, as shown in the exhibit below. We believe scope reduction in the current projects, a large contract roll-off and significant negative FX impact due to strengthening of USD against some key currencies to force the growth down to low single digits. Although we expect the growth rate to recover into CY14, this dramatic deceleration in growth may be of concern.

Exhibit 2

REVENUE GROWTH TREND

CRO Median includes revenue growth projected by consensus



Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

High leverage could limit opportunities: Post IPO, we expect the company to have $2 billion in long term debt and $594 million in cash. This level of debt is well above the industry average. We estimate debt/EBITDA ratio to be at 3.4x (based on post IPO debt and CY13 EBTIDA) vs. the industry average at 1.2x. The primary source of the debt is due to the company's privatization (LBO) transaction back in 2003. While we believe Quintiles can service the debt from generated cash flows, we are hesitant about the well-above-industry leverage levels, which might limit opportunities for the company in terms of financing additional acquisitions, but a debt paydown would provide an added tailwind to earnings growth.

Exhibit 3

PRE AND POST IPO BALANCE SHEET

Primary IPO Proceeds	
Primary S/O	13,125
Price per share	$40
Proceeds	$525,000
Underwriting Charges etc	$35,200
Total Primary Proceeds	$489,800
Pre IPO Balance Sheet	
Cash	$454,300
Debt	$2,389,500
Debt Reduction	$350,000
Post IPO Cash	**$594,100**
Post IPO Debt	**$2,039,500**

Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

SWOT ANALYSIS

Exhibit 4

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT)

Strengths	Weaknesses
• Size Matters – Q is as big as the next 2 largest CROs combined with revenues of $3.7B. • Prominent presence in drug development – Q has been involved in 72% of all new drug approvals since 2004 • Better margin profile than competitors – 15% EBITDA • Strong IT platform (Infosario/Semio)	• Dependence on pharma outsourcing for growth • FX fluctuations could have drastic impact on numbers • High level of debt ($2 billion post IPO) • Growth deceleration in CY13
Opportunities	**Threats/Risks**
• Utilize EHR integrations to speed up clinical trial recruiting. • Infosario/Semio is a game-changer and could give the company an edge.	• Negative changes in Pharma outsourcing trends could severely impact Q's ability to grow. • Other CROs and stand-alone technology platform companies could pose threat to Quintiles Infosario platform. • High level of debt ($2 billion) compared with industry peers inherently poses risks. • Current weakness in early stage segment could limit long term supply of late stage trials.

Source: Piper Jaffray Research

COMPANY OVERVIEW

Dr. Dennis Gillings founded Quintiles in 1982 and took it public in 1994 after expanding internationally and growing it to more than $90m in annual revenues. The company went private in 2003 with Dr. Gillings, Bain Capital and TPG as the key shareholders. The company has expanded significantly with expertise spanning across all major therapeutics and with a global footprint (100 countries). The global presence and working relationships with almost all major pharmaceutical companies make Quintiles one of the top CROs in the industry.

Quintiles operates in two segments: Product Development (PD) and Integrated Health Services (IHS). While the product development segment provides the traditional contract research services in drug development, IHS provides services for approved drugs such as commercialization, contract sales force etc. For the past year (CY12), PD segment contributed about two thirds (74%) of the total revenues while IHS contributed the rest.

Product Development (PD) Segment: PD provides contract research services in Phase II –IV trials, including the required laboratory and clinical work. The target customer base for this segment consists of bio-pharma companies including medical device and diagnostics companies. It is by far the biggest CRO in the industry with more than $2.7 billion in annual revenues.

Integrated Health Services (IHS): IHS provides a broad array of non-research services including commercialization services and a contract sales force for Pharma. This segment essentially concentrates on services related to approved pharmaceutical products such as recruiting, training and managing dedicated or shared sales force, channel management, patient engagement services, and medical education. Apart from these services which are targeted at Pharma with approved products, IHS segment also offers services such as observational studies, effectiveness studies to payers, providers and non-profit organizations.

Mergers & Acquisitions

The company has made several acquisitions to enhance the capabilities of the firm. Following are the list of the acquisitions made since 2011.

- **Outcome Sciences**: In October 2011, Quintiles acquired Outcome Sciences for $177 million in cash to increase late stage segment services.
- **VCG**: The company acquired VCG&A and its subsidiary (VCG BIO) for $8.7 million to enhance the company's capabilities in commercial services in October 2011.
- **Advion BioServices**: Acquired in November 2011, Advion BioServices increased Quintiles' biomarker and other advanced testing capabilities. Quintiles paid $54.9 million for Advion.
- **Expression Analysis:** Quintiles paid $39.7 million for Expression Analysis in August 2012. Expression Analysis brought advanced genetic sequencing and bioinformatics expertise to Quintiles.

INFOSARIO

Infosario is a proprietary web based platform that provides a single integrated platform for various products needed by the sponsor (Pharma) and the clinical trial managers. It includes Electronic Data Capture (EDC), Clinical Trial Management (CTMS), labs, financial information and can also integrate data from diverse data sources into a single platform. It can also load data from sponsors' previous clinical trials, even if those trials were not run by Quintiles. This platform is enhanced by a proprietary knowledge engine that incorporates more than 30 years of Quintiles' institutional knowledge on running clinical trials. We believe this platform is a game-changer in the industry and can be used right from clinical planning and designing through all phases of clinical trial execution. More recently, Quintiles has been working with its key customer, Eli Lilly, to enhance this platform (Semio). The company's stated goal for this platform is to enable a sponsor to do the trial in half the time and at half the cost. While other competitors appear to have some type of in-house or partnered IT solution, Quintiles' concentrated efforts in this area makes us believe that this will be a significant differentiator for the company in winning deals.

Sponsors and clinical trial managers can use the Infosario platform to transform the way they design, plan and run the clinical trials. The following scenarios provide a brief view of Infosario's capabilities and how they can be used at various stages of the trial.

- **Trial Planning & Design:** Using the existing clinical trial data and appropriate criteria loaded into Infosario, the sponsor can manage its entire drug portfolio and trial planning. The platform allows sponsors to plan and design any particular clinical trial with a clear path to the clinical outcomes they are looking for.

- **Study Start-up:** Clients can use Infosario to analyze the best available sites and pick the right sites based on trial design and protocol thus improving the chances of the trial success.

- **Trial Execution**: By utilizing the live, up-to-date data from the clinical trial sites, the sponsor can manage risk continuously during the clinical trial. The clinical trial manager can detect protocol deviations and take corrective measures before they become bigger issues and impact the trial outcomes. For example, in one case study of a global clinical trial, Infosario was able to detect above normal protocol deviations coming in from two particular sites, France and Canada, especially in Montreal. Further drill-down by an expert revealed that the medication refrigeration instructions were not properly translated into French, which was the main source of the deviation. With the translation corrected, the clinical trial was back on schedule almost in hours rather than weeks or months. Without a holistic system like Infosario, this level of deviation would have put the entire clinical trial at risk and probably not even be detected until it was too late.

- **Reporting & Oversight:** Since the sponsor can access live, up-to-date results at real time, the sponsor can be better prepared for regulatory and other reporting requirements continuously, instead of waiting for batch data normally available through other CTMS and EDC products.

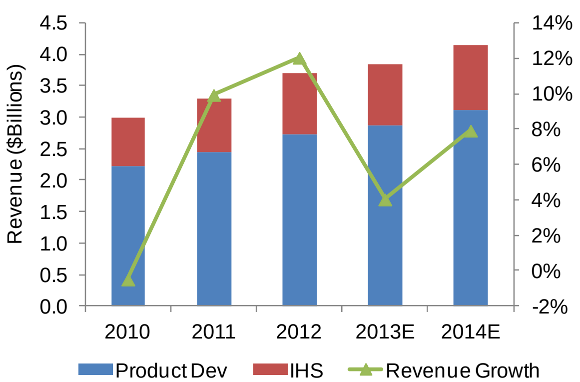
FINANCIAL DISCUSSION

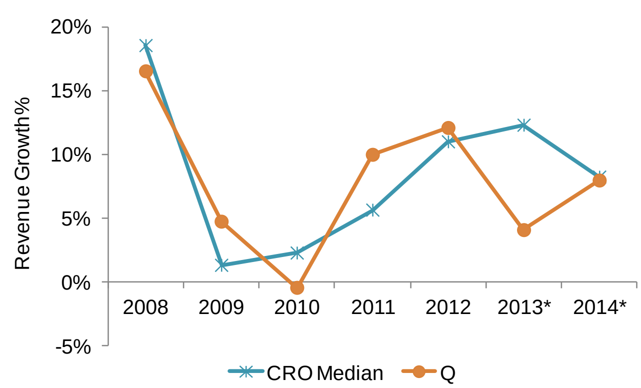
Quintiles derives revenues from two segments: Product Development and Integrated Healthcare Services. PD provides a significant portion of the revenues (74% in CY12) with a better margin profile (39% GM in CY12) while IHS provides the remaining 26% with 20% gross margins.

Overall revenue growth recovered in the past two years into the mid-teens after several years of declining growth, in line with industry trends. The declining growth in prior years was due to overall challenges in the pharma industry, which was going through a phase of consolidation and pipeline reprioritization and digesting the patent cliff. As shown in the exhibit below, overall revenue growth is in line with the comp median growth but we expect 2013 growth to be below the median growth due to a large contract that is rolling off, FX headwinds and negative scope changes in existing contracts. After 2013, we expect growth profile to return to industry median levels. We used reported revenues and consensus projections from CLR, CVD, ICLR and PRXL to build our comp median.

Exhibit 5

REVENUE PROFILE



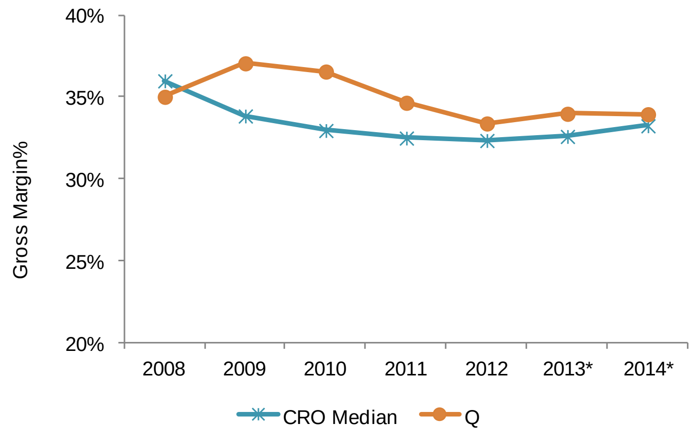


Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

Quintiles' gross margins are slightly better than the comp median in the mid 30s. In the past two years, the company saw gross margins decline mainly due to increases in headcount, compensation increases (merit and cost adjustments) and a reduction in R&D grants from various agencies. We expect gross margins to stabilize in the mid 30s and stay marginally higher than the comp median.

Exhibit 6

GROSS MARGINS VS. CRO COMPS

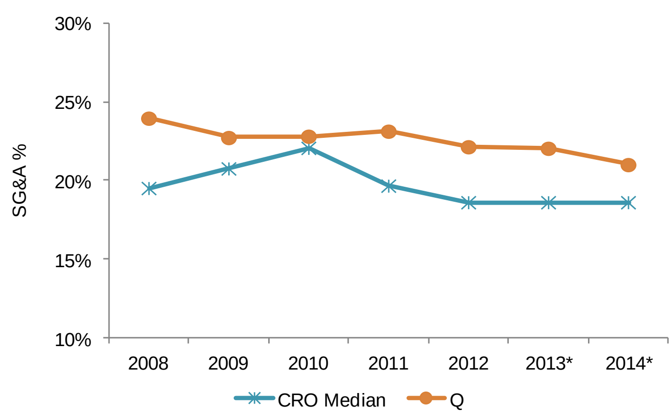


Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

While SG&A expense as a percentage of revenue is slightly higher than the comps, it has been decreasing and is almost catching up with the median. Quintiles SG&A is in low 20%s while the comp median is at high teens. We believe that the major restructuring efforts taken up by the competing CROs in general were the biggest source of the improvement in SG&A expenses. At Quintiles, the decline in the SG&A expense, as a percentage of revenue, is mainly due to a combination of raising revenues and consolidation of operations in Europe. The company expects a 25bp improvement per year in SG&A.

Exhibit 7

SG&A EXPENSES VS. CRO COMPS

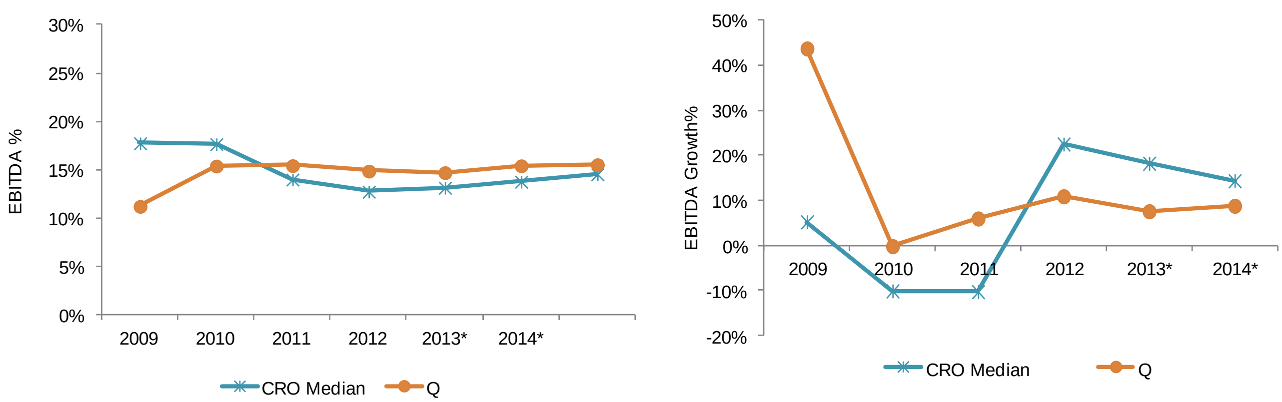


Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

In recent years when the CRO industry was dealing with the declining margins, Quintiles was successful in maintaining its EBITDA margins in the mid teens – slightly better than the comp median. We don't expect EBITDA margins to fluctuate too much one way or the other and we expect it to stay slightly ahead of the comp median. Quintiles' EBTIDA has been growing steadily in the high single digits and we expect that to continue, as shown in the exhibit below. The decline in EB ITDA growth in 2010 is due to the industry-wide slowdown and pipeline reprioritization across the pharmaceutical and biotech industries.

Exhibit 8

EBITDA MARGINS AND GROWTH



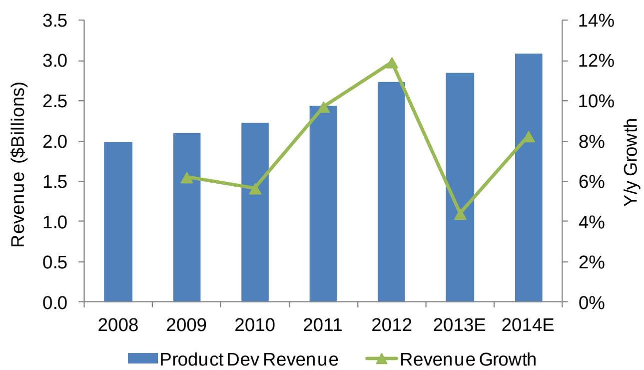
Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

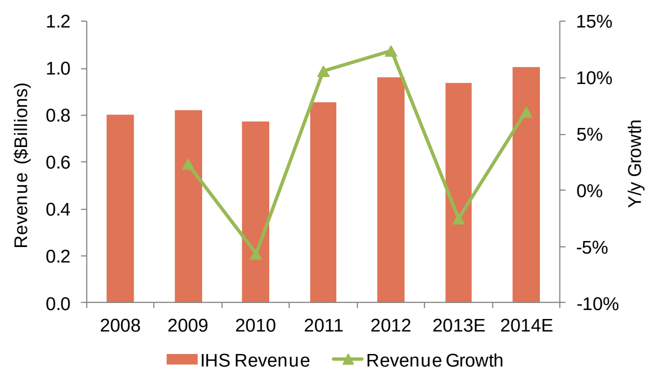
Segment Review

The PD and IHS segments grew at a similar pace the past few years but into 2013, IHS is expected to dip to negative growth, much lower than PD growth due to a large contract roll off. We expect IHS to recover back to high single digits starting 2014, on par with PD.

Exhibit 9

PRODUCT DEV AND IHS SEGMENT PROFILE





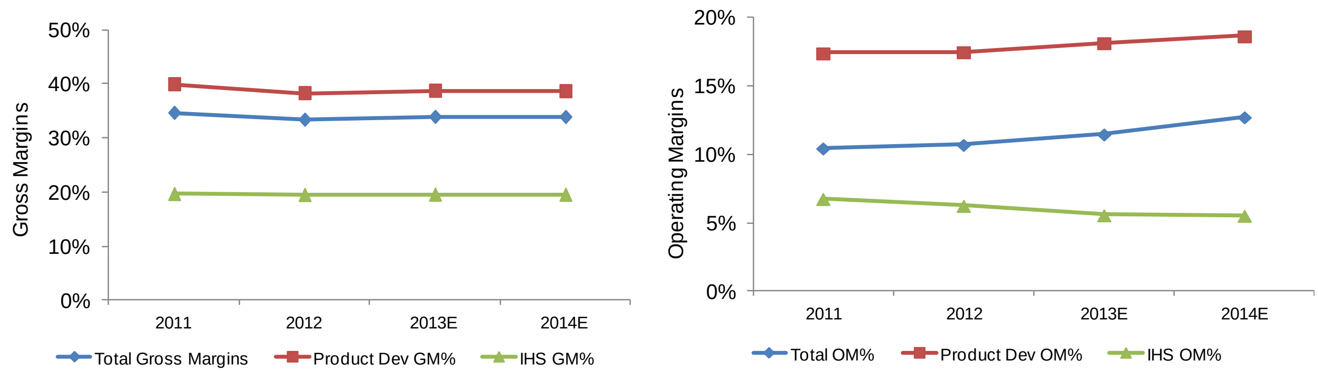
Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

Due to the nature of the resource-intensive services provided by IHS, its gross margins are substantially lower compared to the PD segment. For the past year (CY12), IHS gross margins were at 19% vs. the PD segment's gross margins of 38%. This disparity in the gross margins is reflected in overall operating margins for each the segment as well with IHS usually operating around mid-single-digits (6.3% OM in CY12) and PD operating at high teens operating margins (18% in CY12).

Exhibit 10

GROSS MARGINS AND OPERATING MARGIN PROFILE

By Segment and Total



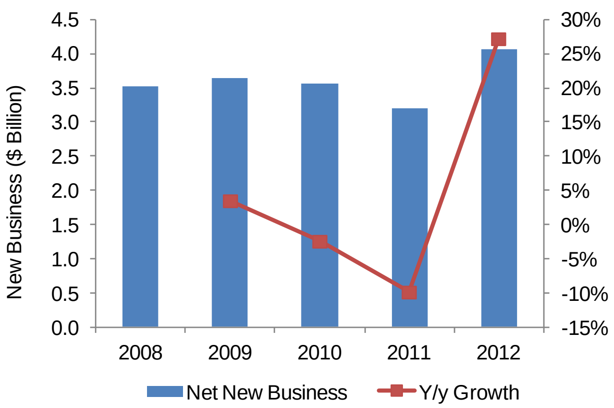
Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

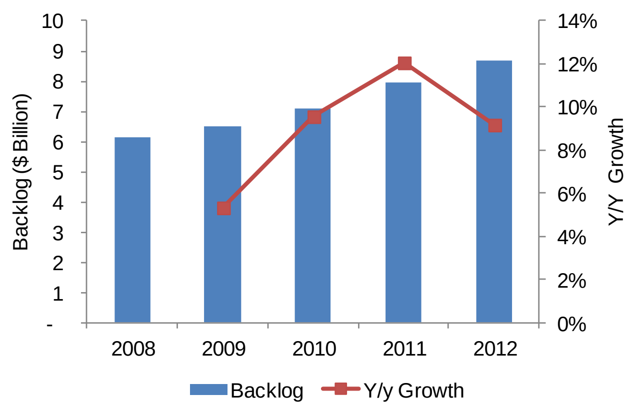
Bookings and Backlog

After a few years of declining net new business wins, Quintiles recovered with solid growth in 2012 at 27% y/y. We believe the decline in growth in the previous years was due to the changes in the pharma industry, pipeline prioritizations and heightened cancellations. But backlog continued to grow steadily in the teens in the past few years with backlog to revenue conversion tightening. Quintiles' backlog to revenue conversion dropped from high 40%s to mid 40%s in the last few years, and we attribute this trend directly to the strategic deals, which has decreased the conversion rate. We expect the backlog growth to be steady in low double digits/high single digits as the conversion of strategic deals' backlog conversion stabilizes.

Exhibit 11

NEW BUSINESS WINS AND BACKLOG TREND





Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

Balance Sheet and Cash Flows

On May 9, the company issued 23.7m shares at the high end ($40/share) of the previously set range of $36-$40. The company issued 13.13m shares (primary) while the selling shareholders issued 10.56m shares. Primary proceeds to the company, excluding underwriting charges, were $489m.We believe the company reduced debt by $350m using the proceeds, which leaves post IPO cash at $594m and debt at $2,040m, as shown in the exhibit below.

The company has been running at a positive cash flow for several years and we expect it to continue at that rate. Capital expenditure needs are well within Quintiles' operating cash flow capacity and we further believe that the current cash in the balance sheet in combination with the free cash flows generated will be sufficient to service the debt on the balance sheet.

Exhibit 12

PRE AND POST IPO BALANCE SHEET

All Numbers in 000's, except for per share data

Primary IPO Proceeds	
Primary S/O	13,125
Price per share	$40
Proceeds	$525,000
Underwriting Charges etc	$35,200
Total Primary Proceeds	$489,800
Pre IPO Balance Sheet	
Cash	$454,300
Debt	$2,389,500
Debt Reduction	$350,000
Post IPO Cash	**$594,100**
Post IPO Debt	**$2,039,500**

Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

Our Estimates

We are projecting top-line growth of 3% for CY13, down from 12% growth in CY12 mainly due to a large contract roll-off expected in 2013 and negative foreign currency exchange impact from the strengthening USD compared to some key currencies such as the Japanese yen. For instance, FX impacts from the weakening yen is expected to impact revenues by as much as $18m per quarter in 2013 since the company has about $500m in yen-denominated revenues. We are modeling a 2.5% y/y decline in IHS segment for CY13 and cutting product development segment revenue growth to 4.4% (down from 12% in CY12). We expect the natural hedge due to the costs in foreign currency to limit the downside in earnings despite the decline in revenue growth. With slightly improving gross margins (60bp y/y) and EBITDA margins (70bp y/y), we are projecting EBITDA of $585m, 8% y/y growth, and adjusted EPS of $1.90, 7% y/y growth. We expect CY14 to show improved growth profile at high single digits growth and double-digit earnings growth. We estimate $4.1 billion and $2.19 for CY14 as reflected in the exhibit below.

Exhibit 13

OUR ESTIMATES

All Numbers in $ millions, except per share data

	2012A	2013E	2014E
Revenue	3,692	3,788	4,089
y/y	12%	3%	8%
EBITDA	544	585	636
y/y	11%	8%	9%
Adj. EPS	1.77	1.90	2.19
y/y	9%	7%	15%

Source: Piper Jaffray Research, Company Filings. Presentations and Conference Call Transcripts

Risks

- If Pharma R&D budgets get pressured further in the wake of the patent cliff, growth among CROs will be constrained.
- Negative changes to the current trend of increasing R&D outsourcing by Pharma will limit the company’s ability to grow.
- Leveraged balance sheet: The leverage ratio (post IPO Gross debt/EBITDA) is at 3.4x well above the industry average of 1.2x.
- Any slowdown in Pharma spending will directly impact the company's ability to grow.
- Strategic partnerships with big pharma gives significant negotiating power to the Pharma client, which could pressure pricing and margins.
- Strategic deals could make the backlog to revenue conversion unpredictable resulting in inconsistent earnings.
- Global nature of the operations exposes the company to significant FX impacts.

MANAGEMENT

Dennis B. Gillings, CBE, Ph.D., has served as the Executive Chairman and as a director since he founded the company in 1982. He also served as the CEO from 1982 to December 2012. Dr. Gillings serves on several other boards and councils. He formerly served as the founding Chairman of the Association of Clinical Research Organizations, a Washington-based trade group formed in 2002. Dr. Gillings received a diploma in Mathematical Statistics from Cambridge University in 1967 and a Ph.D. in Mathematics from the University of Exeter, England, in 1972. Dr. Gillings owns 24m shares, or 18.5% of the outstanding shares of the company.

Thomas H. Pike has served as CEO of Quintiles Transnational since April 2012, as a director since August 2012. Mr. Pike served as CEO of Accelion, Inc., a healthcare outsourcing firm, from January 2010 to November 2010. Mr. Pike previously spent 22 years with Accenture, including serving as Chief Risk Officer from September 2009 to January 2010, Managing Director—North America Health and Products Industries from December 2006 to August 2009, COO —Global Resources Industries from March 2002 to December 2006 and Managing Partner—Growth & Strategy from 1999 until March 2002. Mr. Pike received his Bachelor of Science in Accounting from the University of Delaware. Mr. Pike owns 38.6k shares, or 0.03% of the outstanding shares of the company.

John D. Ratliff has served as a director since May 2006, as the COO since November 2006 and as President since August 2010. Previously, he served as the CFO from June 2004 to October 2006. Prior to joining Quintiles, he worked for Acterna Corporation since June 2000 and served as its Corporate VP and CFO from January 2002 through October 2003. Prior to joining Acterna, Mr. Ratliff held several senior executive positions over 19 years at IBM. Mr. Ratliff received his Bachelor of Industrial and Systems Engineering from the Georgia Institute of Technology and MBA from Duke University. Mr. Ratliff owns 280k shares, or 0.22% of the outstanding shares of the company.

Kevin K. Gordon has served as the EVP and CFO since July 2010. Prior to joining Quintiles, he spent 13 years with Teleflex, serving as CFO from March 2007 to January 2010, during which time he was responsible for all of Teleflex's financial, tax, risk management, corporate development and investor relations activities and led a strategic migration from a diversified industrial company to a higher-margin health care products company. Prior to serving at Teleflex, Mr. Gordon spent 12 years in senior finance positions with Package Machinery Company and KPMG. Mr. Gordon received his Bachelor's degree in Accounting from the University of Connecticut.

Michael I. Mortimer has served as the company's EVP and CAO since December 2007. Previously, he served as the company's EVP, Global Human Resources beginning in July 2003. Mr. Mortimer's previous experience includes 10 years at Charles Schwab Corp., where he was SVP of Human Resources for the company's international and United States domestic retail organizations. Prior to joining Charles Schwab, Mr. Mortimer began his human resources career in 1986 with Sprint Corporation. Mr. Mortimer received a Bachelor's degree in Behavioral Sciences from The Ohio State University. Mr. Mortimer owns 275k shares or 0.2% of the outstanding shares of the company.

Source: Company SEC Filings, Reuters

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Quintiles
Historical and Projected Income State

($ Millions, Except per Share Data)	FYE 2009	FYE 2010	FYA 2011	Q1A Mar-12A	Q2A Jun-12A	Q3A Sep-12A	Q4A Dec-12A	FYA 2012	Q1A Mar-13A	Q2E Jun-13E	Q3E Sep-13E	Q4E Dec-13E	FYE 2013E	FYE 2014E
Last update:6/14/13														
Revenues:														
Product Dev	2,103	2,222	2,438	656	692	677	703	2,729	706	713	712	717	2,849	3,084
Integrated Healthcare Services (IHS	821	775	857	232	253	236	243	964	221	222	239	257	940	1,005
Total Service Revenues	**3,011**	**3,061**	**3,295**	**888**	**945**	**914**	**946**	**3,692**	**927**	**935**	**951**	**974**	**3,788**	**4,089**
Total COGS	1,895	1,942	2,153	591	628	612	628	2,459	611	617	626	647	2,501	2,701
Gross Profit														
Product Dev			974	252	263	258	272	1,045	277	275	276	276	1,104	1,193
Integrated Healthcare Services (IHS)			168	45	54	43	45	188	39	43	50	51	183	196
Total Gross Profit	**1,116**	**1,119**	**1,142**	**297**	**317**	**301**	**317**	**1,233**	**316**	**318**	**326**	**327**	**1,287**	**1,389**
Expenses														
Total SG&A	685	698	762	206	204	193	216	818	199	228	204	204	835	859
Restructuring Expense	(0.1)	23	22	(0)	12	(0)	7	19	2	3	3	7	15	6
Impairment Charge	16	3	12	-	-	-	-	-	-	-	-	-	-	-
Income from operations	**416**	**395**	**345**	**92**	**101**	**109**	**94**	**396**	**115**	**87**	**118**	**117**	**437**	**523**
EBITDA (Non-GAAP)	**464**	**463**	**490**	**130**	**138**	**136**	**140**	**544**	**144**	**142**	**148**	**150**	**585**	**636**
Loss on extinguishment of debt and other income			46				1	1	(0.5)	16	-	-	15	-
Net Interest expense	106	138	105	29	33	33	37	131	36	35	25	25	122	100
Other Expense (Income), net	10	16	9	(2)	(6)	4	1	(4)	(2)	(0)	(0)	(0)	(3)	-
Gain on sale of business														
Income before taxes	301	242	185	65	74	73	55	267	82	36	93	92	303	423
Taxes on income	88	78	15	24	28	22	20	93	32	7	30	29	98	135
Net Income	212	164	170	41	47	51	35	174	50	29	63	62	204	288
Income from unconsolidated Affiliate	(3)	1	71	1.6	0.3	0.9	(0.2)	3	(1.7)	0.5	0.5	0.5	(0)	-
GAAP Net Income	**210**	**165**	**240**	**43**	**47**	**52**	**35**	**177**	**48**	**29**	**63**	**63**	**204**	**288**
GAAP EPS	**1.79**	**1.40**	**2.04**	**0.36**	**0.40**	**0.44**	**0.29**	**1.50**	**0.41**	**0.23**	**0.48**	**0.47**	**1.59**	**2.15**
Gain from sale of dicontinued Ops														
Loss(Income) from non-controlling i	1	(5)	1.4	0.5	0.2	0.1	0.1	1	0.2	0.3	0.3	0.3	1	1
Net Income attributable to QTHI	**210**	**161**	**242**	**43**	**47**	**52**	**35**	**178**	**48**	**30**	**64**	**63**	**205**	**289**
Non GAAP Net Income			191	52.1	55.9	52.6	48.3	209	50.7	58.9	65.8	67.2	243	293
Non GAAP EPS	**1.79**	**1.36**	**1.62**	**0.44**	**0.47**	**0.45**	**0.41**	**1.77**	**0.43**	**0.47**	**0.50**	**0.51**	**1.90**	**2.19**
Diluted SO	118	118	118	118	118	118	118	118	119	126	133	133	128	134
% of Revenue														
y/y Growth:														
Product Dev	6.2%	5.7%	9.7%	14.1%	13.4%	12.2%	8.3%	11.9%	8%	3%	5%	2%	4.4%	8.3%
IHS	2.4%	-5.6%	10.6%	12.6%	19.0%	9.5%	8.8%	12.4%	-5%	-12%	1%	6%	-2.5%	7.0%
Total Revenues	5%	2%	8%	13.7%	15%	11%	8%	12%	4%	-1%	4%	3%	3%	8%
SG&A	-1%	2%	9%	12%	1%	3%	13%	7%	-3%	12%	6%	-6%	2%	3%
Income from Operations	66%	-5%	-13%	11%	22%	48%	-11%	15%	25%	-14%	8%	24%	10%	20%
EBITDA	44%	0%	6%	21%	18%	13%	-4%	11%	11%	3%	9%	7%	8%	9%
Net Income (Non GAAP)				51%	34%	41%	-37%	9%	-3%	5%	25%	39%	16%	21%
EPS (NON GAAP)			**19%**	**51%**	**35%**	**41%**	**-38%**	**9%**	**-4%**	**-2%**	**11%**	**24%**	**7%**	**15%**

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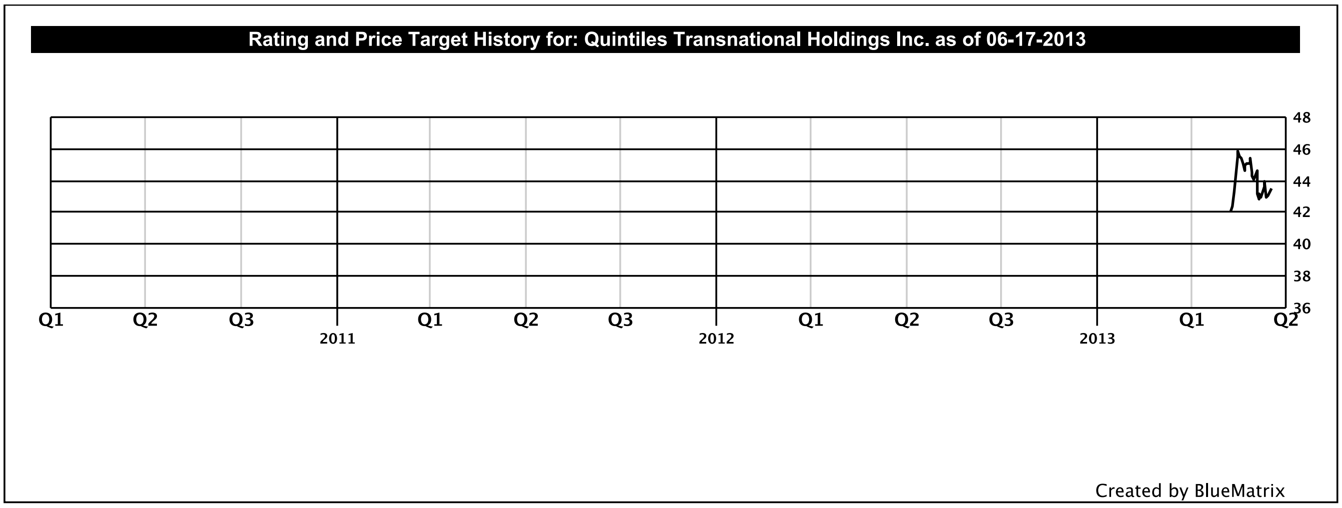
Balance Sheet FY Ends in December ($000s)	**Q4A Dec-11A**	**Q4A Dec-12A**	**Q1A Mar-13A**	**Q4E Dec-13E**	**Q4E Dec-14E**
Assets					
Cash and Cash Equivalents	516	568	454	801	1,048
Restricted Cash	3	3	4	3	3
Accounts Receivable	691	745	779	810	898
Prepaid Expenses and Other Current Assets	155	33	41		
Deferred income taxes		69	67		
Income taxes receivable		18	21		
Other current assets and receivables		74	73	194	193
Total Current Assets	1,365	1,510	1,440	1,809	2,142
PP&E	186	194	190	221	251
Deferred Income Taxes	78	37	32	57	57
Investments	34	55	58	80	102
Goodwill and Other Intangible Assets	547	302	298	544	510
Other Identifiable intangibles		273	274		
Deposits and Other Assets	112	128	136	112	103
Total Assets	**2,323**	**2,499**	**2,427**	**2,822**	**3,164**
Liabilities and Stockholders' Equity (Deficiency)					
Current Liabilities					
Accounts payable and accrued expenses	687	752	672	745	750
Income taxes payable (& other)	87	10	17	54	54
Unearned Income	398	457	454	433	468
Current portion of LT debt and capital lease obligations		56	35		
Other Current liabilities		44	45		
Total Current Liabilities	1,172	1,318	1,222	1,232	1,271
LT debt and capital lease obligations		2,366	2,355		
HoldCo Term Loan	-			-	-
Term Loan B	1,972			1,936	1,903
Incremental Term B-1 Loan	-			125	125
Other Notes Payable	-			-	-
Unamortized Discount	-			(14)	(11)
Capital Leases	-			0	0
Deferred Tax Liabilities	10	12	16	25	47
Other Liabilities	139	162	156	160	157
Total Liabilities	**3,293**	**3,858**	**3,749**	**3,464**	**3,493**
Common Stock and additional paid-in capital		5	9		
Accumulated other comprehensive income		8	(8)		
Total Stockholders' Equity (Deficiency)	(970)	(1,359)	(1,323)	(642)	(329)
Total Liabilities and Stockholders' Equity	**2,323**	**2,499**	**2,426**	**2,822**	**3,164**

IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

Legend:
I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services
Piper Jaffray

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	340	57.53	67	19.71
HOLD [N]	221	37.39	12	5.43
SELL [UW]	30	5.08	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — Sean W. Wieland, Sr Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

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