

COMPANY NOTE

Estimate Change

USA | Healthcare | Pharmaceutical Svcs.

October 31, 2013

Jefferies

Quintiles Inc. (Q) Slow Growth, but Improving

Key Takeaway

Q's risk/reward is growing more compelling. It posted another strong bookings quarter, margin was a little better, and management raised guidance a second time. We raise our estimates slightly for '13-'15. While buyback authorization covers a portion of the lock-up, the overhang likely keeps investors sidelined for now. We are maintaining our Hold rating.

Net New Business Wins Accelerate; RFP Volumes Remain Strong. BtBs were better than expected during the quarter—1.44x consolidated; 1.21x PDEV and 2.19x IHS, helped by spillover from 2Q. Notably, the company did mention signing another sole provider agreement (its second this year) with a mid-tier pharma. This deal had little impact on 3Q PDEV bookings. Similar to comments from peers, management characterized the current RFP volumes as strong. In IHS, the size and nature of the wins there makes 2014 growth more plausible.

Upside to PDEV Margins? To date, Q has taken what appears to be a conservative approach to PDEV margins, characterizing the LT outlook as flat. That said, margins have expanded (~50 bps) in each of the last couple quarters, adjusting for FX. Management is using efficiency gains to compete judiciously for share gains rather than drop those gains to the bottom line. Still, the margin bias seems higher.

Lock-Up Expiration Still a Concern. On November 17, the post-IPO lock-up on roughly 90M shares will expire. The board has authorized \$125M worth of share repurchases to handle expected selling from Q employees. Until a registration statement is filed, selling from any of the large PE holders can only be minimal. That said, registered sales should come relatively soon, if not in November.

3Q Results Mixed, but Respectable Overall. The company reported non-GAAP EPS of \$0.54, ahead of both JEF \$0.48 and consensus \$0.50. Better gross margin (helped by FX) and a slightly lower tax rate drove the upside, partially offset by a wide IHS revenue miss. Despite the revenue shortfall, management narrowed its 2013 revenue guidance (keeping the mid-point unchanged) and raised its non-GAAP EPS target to \$2.03-2.09 (from \$1.95-2.05). See next page for details.

Valuation/Risks

Our \$45 PT is based on a 20x multiple of our 2014 EPS estimate. This valuation places it near the high-end of its peer range. Risks include: contract cancellations and/or bookings volatility; client consolidation; short IHS visibility; and increasingly competitive pricing.

USD	Prev.	2012A	Prev.	2013E	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	3,692.3	3,803.1	3,772.0	4,100.7	4,084.8	4,377.5	4,447.0
EBITDA (MM)	--	543.7	595.0	611.4	655.7	667.6	717.2	741.2
Consensus	--	--	1.88	2.02	2.16	2.25	--	2.55

EPS

Mar	--	0.44	--	0.49A	--	--	--	--
Jun	--	0.47	--	0.50A	--	--	--	--
Sep	--	0.45	0.48	0.54A	--	--	--	--
Dec	--	0.41	--	0.53	--	--	--	--
FY Dec	--	1.77	1.98	2.07	2.23	2.28	2.47	2.58
FY P/E		23.7x		20.3x		18.4x		16.3x

HOLD

Price target \$45.00

Price \$41.99

Financial Summary

Book Value (MM):	(\$712.0)
Net Debt (MM):	\$1,439.7
Long-Term Debt (MM):	\$2,046.1
Cash & ST Invest. (MM):	\$613.0

Market Data

52 Week Range:	\$47.50 - \$40.00
Total Entprs. Value (MM):	\$7,037.0
Market Cap. (MM):	\$5,597.3
Shares Out. (MM):	133.3
Float (MM):	27.4
Avg. Daily Vol.:	316,612

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Price Performance

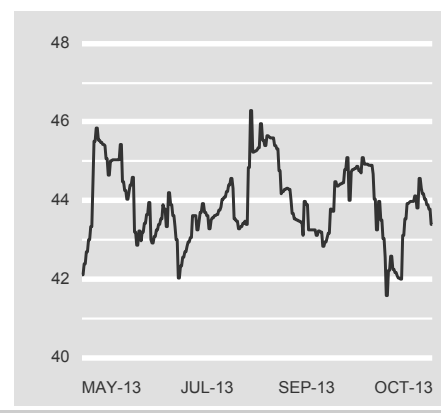


Chart 1: Summary of Quintiles Results

Quintiles

3Q13 Earnings Summary

Source: Company filings and Jefferies LLC

Reports 10/31/2013 BMO

FY ending December 31 in thousands except EPS	Reported		Estimate	Actual	Consensus	Percentage Change		Difference		
	3Q12	2Q13	3Q13	3Q13		Seq	Y/Y	Seq	Y/Y	Est.
Total Service Revenue	913,588	944,238	945,404	932,727	951,000	(1.2%)	2.1%	(11,511)	19,139	(12,677)
Direct costs	612,106	617,666	620,987	600,694		(2.7%)	(1.9%)	(16,972)	(11,412)	(20,293)
SG&A	191,445	202,478	203,349	199,573		(1.4%)	4.2%	(2,905)	8,128	(3,776)
Operating income	110,037	124,094	121,068	132,460		6.7%	20.4%	8,366	22,423	11,392
Adjusted EBITDA	135,764	149,080	146,594	159,784	149,000	7.2%	17.7%	10,704	24,020	13,190
Interest expense (income)	32,665	31,099	27,977	27,637		(11.1%)	(15.4%)	(3,462)	(5,028)	(340)
Other expense, net	3,850	536	(24)	3,224		501.5%	(16.3%)	2,688	(626)	3,248
Pre-tax income	73,522	92,459	93,115	101,599		9.9%	38.2%	9,140	28,077	8,484
Income taxes	21,900	30,162	29,797	29,491		(2.2%)	34.7%	(671)	7,591	(306)
Income from unconsolidated affiliates	896	464	200	(355)		(176.5%)	(139.6%)	(819)	(1,251)	(555)
Loss from noncontrolling interest	123	164	273	185		12.8%	50.4%	21	62	(88)
Non-GAAP net income	52,641	62,925	63,791	71,938		14.3%	36.7%	9,013	19,297	8,147
Non-GAAP EPS	\$ 0.45	\$ 0.50	\$ 0.48	\$ 0.54	\$ 0.50	8.6%	20.8%	\$ 0.04	\$ 0.09	\$ 0.06
Diluted shares	117,835	126,578	132,965	133,267		5.3%	13.1%	6,689	15,432	302
COMMON SIZE										
Direct costs	67.0%	65.4%	65.7%	64.4%				(100 bps)	(260 bps)	(130 bps)
Gross margin	33.0%	34.6%	34.3%	35.6%				100 bps	260 bps	130 bps
SG&A	21.0%	21.4%	21.5%	21.4%				0 bps	40 bps	(10 bps)
Operating income	12.0%	13.1%	12.8%	14.2%				110 bps	220 bps	140 bps
Adjusted EBITDA	14.9%	15.8%	15.5%	17.1%				130 bps	230 bps	160 bps
Interest expense (income)	3.6%	3.3%	3.0%	3.0%				(30 bps)	(60 bps)	0 bps
Other expense, net	0.4%	0.1%	(0.0%)	0.3%				30 bps	(10 bps)	30 bps
Pre-tax income	8.0%	9.8%	9.8%	10.9%				110 bps	280 bps	100 bps
Income taxes	29.8%	32.6%	32.0%	29.0%				(360 bps)	(80 bps)	(300 bps)
Income from unconsolidated affiliates	0.1%	0.0%	0.0%	(0.0%)				(10 bps)	(10 bps)	(10 bps)
Loss from noncontrolling interest	0.0%	0.0%	0.0%	0.0%				0 bps	0 bps	0 bps
Non-GAAP net income	5.8%	6.7%	6.7%	7.7%				100 bps	200 bps	100 bps
SEGMENTS										
Product Development										
Revenue	\$ 677,215	\$ 724,170	\$ 704,304	\$ 714,244	\$ 721,000	(1.4%)	5.5%	\$ (9,926)	\$ 37,029	\$ 9,940
% of total	74.1%	76.7%	74.5%	76.6%				(10 bps)	240 bps	210 bps
Operating profit	121,232	136,070	129,034	140,616		3.3%	16.0%	4,546	19,384	11,582
Margin	17.9%	18.8%	18.3%	19.7%				90 bps	180 bps	140 bps
Integrated Healthcare Services										
Revenue	236,373	220,068	241,100	218,483	\$ 231,000	(0.7%)	(7.6%)	(1,585)	(17,890)	(22,617)
% of total	25.9%	23.3%	25.5%	23.4%				10 bps	(240 bps)	(210 bps)
Operating profit	12,374	12,568	15,939	11,662		(7.2%)	(5.8%)	(906)	(712)	(4,277)
Margin	5.2%	5.7%	6.6%	5.3%				(40 bps)	10 bps	(130 bps)
BOOKINGS										
Total net new business wins	1,042,405	1,014,000	1,152,251	1,340,000		32.1%	28.5%	326,000	297,595	187,749
PDEV Book-to-Bill	1.17x	1.20x	1.25x	1.21x						
IHS Book-to-Bill	1.07x	0.65x	1.12x	2.19x						
GUIDANCE										
Service revenue		Previous	Prior JEF	Revised	Prior Cons.					
Adjusted EPS		\$3.76-3.81B	\$3.8B	\$3.77-3.80B	\$3.8B					
		\$1.95-2.05	\$1.98	\$2.03-2.09	\$2.01					

Source: Company data and Jefferies LLC

Quintiles

Income Statement
December Fiscal Year
(\$ in Millions, except for EPS)

Jefferies

10/31/13

Non-GAAP Income Statement	2011A	1Q12	2Q12	3Q12	4Q12	2012A	1Q13	2Q13	3Q13	4Q13	2013E	2014E	2015E
Total Service Revenue	3,294,966	888,035	944,914	913,588	945,761	3,692,298	927,435	944,238	932,727	967,559	3,771,959	4,084,764	4,446,958
YoY Growth	10.0%	13.7%	14.9%	11.5%	8.4%	12.1%	4.4%	(0.1%)	2.1%	2.3%	2.2%	8.3%	8.9%
Cost of revenue	2,153,005	590,563	628,222	612,106	628,476	2,459,367	611,109	617,666	600,694	626,381	2,455,675	2,650,271	2,874,610
<u>SG&A</u>	<u>743,541</u>	<u>191,118</u>	<u>202,210</u>	<u>191,445</u>	<u>202,728</u>	<u>787,501</u>	<u>197,968</u>	<u>202,478</u>	<u>199,573</u>	<u>207,977</u>	<u>807,996</u>	<u>873,100</u>	<u>946,737</u>
Operating income	398,420	106,354	114,482	110,037	114,557	445,430	118,358	124,094	132,460	133,200	508,287	561,393	625,611
Adjusted EBITDA	490,424	129,625	138,201	135,764	140,128	543,718	142,998	149,080	159,784	159,325	611,362	667,597	741,232
YoY Growth	6.0%	21.4%	18.1%	12.5%	(4.0%)	10.9%	10.3%	7.9%	17.7%	13.7%	12.4%	9.2%	11.0%
Net interest expense	105,126	28,920	32,808	32,665	36,911	131,304	35,590	31,099	27,637	27,946	122,272	111,323	110,498
<u>Other expense (income), net</u>	<u>(2,557)</u>	<u>(2,419)</u>	<u>(6,159)</u>	<u>3,850</u>	<u>1,156</u>	<u>(3,572)</u>	<u>(2,382)</u>	<u>536</u>	<u>3,224</u>	<u>(9)</u>	<u>1,369</u>	-	-
Pre-tax income	295,851	79,853	87,833	73,522	76,490	317,698	85,150	92,459	101,599	105,263	384,646	450,069	515,113
Income taxes	102,168	29,790	32,486	21,900	28,074	112,250	26,000	30,162	29,491	33,684	119,337	144,132	164,836
Income from unconsolidated affiliates	(4,123)	1,573	334	896	(236)	2,567	(1,683)	464	(355)	200	(1,374)	509	509
<u>Loss from noncontrolling interest/minority interest</u>	<u>1,445</u>	<u>465</u>	<u>189</u>	<u>123</u>	<u>138</u>	<u>915</u>	<u>153</u>	<u>164</u>	<u>185</u>	<u>273</u>	<u>775</u>	<u>1,092</u>	<u>1,092</u>
Non-GAAP net income	191,005	52,101	55,870	52,641	48,318	208,930	57,620	62,925	71,938	72,052	264,710	307,538	351,878
Non-GAAP EPS	1.62	0.44	0.47	0.45	0.41	1.77	0.49	0.50	0.54	0.54	2.07	2.28	2.58
YoY Growth	18.1%	51.5%	34.7%	40.4%	(37.7%)	9.6%	9.5%	4.7%	20.8%	31.6%	16.5%	10.6%	13.0%
Diluted shares outstanding	117,993	117,551	117,706	117,835	118,150	117,811	118,740	126,578	133,267	133,892	128,119	134,642	136,342
COMMON SIZE:													
Cost of revenue	65.3%	66.5%	66.5%	67.0%	66.5%	66.6%	65.9%	65.4%	64.4%	64.7%	65.1%	64.9%	64.6%
<u>SG&A</u>	<u>22.6%</u>	<u>21.5%</u>	<u>21.4%</u>	<u>21.0%</u>	<u>21.4%</u>	<u>21.3%</u>	<u>21.3%</u>	<u>21.4%</u>	<u>21.4%</u>	<u>21.5%</u>	<u>21.4%</u>	<u>21.4%</u>	<u>21.3%</u>
Operating income	12.1%	12.0%	12.1%	12.0%	12.1%	12.1%	12.8%	13.1%	14.2%	13.8%	13.5%	13.7%	14.1%
Adjusted EBITDA	14.9%	14.6%	14.6%	14.9%	14.8%	14.7%	15.4%	15.8%	17.1%	16.5%	16.2%	16.3%	16.7%
Net Interest Expense	3.2%	3.3%	3.5%	3.6%	3.9%	3.6%	3.8%	3.3%	3.0%	2.9%	3.2%	2.7%	2.5%
<u>Other Expense (Income), net</u>	<u>(0.1%)</u>	<u>(0.3%)</u>	<u>(0.7%)</u>	<u>0.4%</u>	<u>0.1%</u>	<u>(0.1%)</u>	<u>(0.3%)</u>	<u>0.1%</u>	<u>0.3%</u>	<u>(0.0%)</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Pre-tax income	9.0%	9.0%	9.3%	8.0%	8.1%	8.6%	9.2%	9.8%	10.9%	10.9%	10.2%	11.0%	11.6%
<u>Income taxes</u>	<u>34.5%</u>	<u>37.3%</u>	<u>37.0%</u>	<u>29.8%</u>	<u>36.7%</u>	<u>35.3%</u>	<u>30.5%</u>	<u>32.6%</u>	<u>29.0%</u>	<u>32.0%</u>	<u>31.0%</u>	<u>32.0%</u>	<u>32.0%</u>
Non-GAAP net income	5.8%	5.9%	5.9%	5.8%	5.1%	5.7%	6.2%	6.7%	7.7%	7.4%	7.0%	7.5%	7.9%

Company Description

Quintiles Transnational provides biopharmaceutical development and commercial outsourcing services in the Americas, Europe and Africa, and the Asia-Pacific. The company operates in two segments—Product Development and Integrated Healthcare Services—and primarily serves biopharmaceutical companies, as well as other healthcare companies. It was founded in 1982 and is based in Durham, North Carolina.

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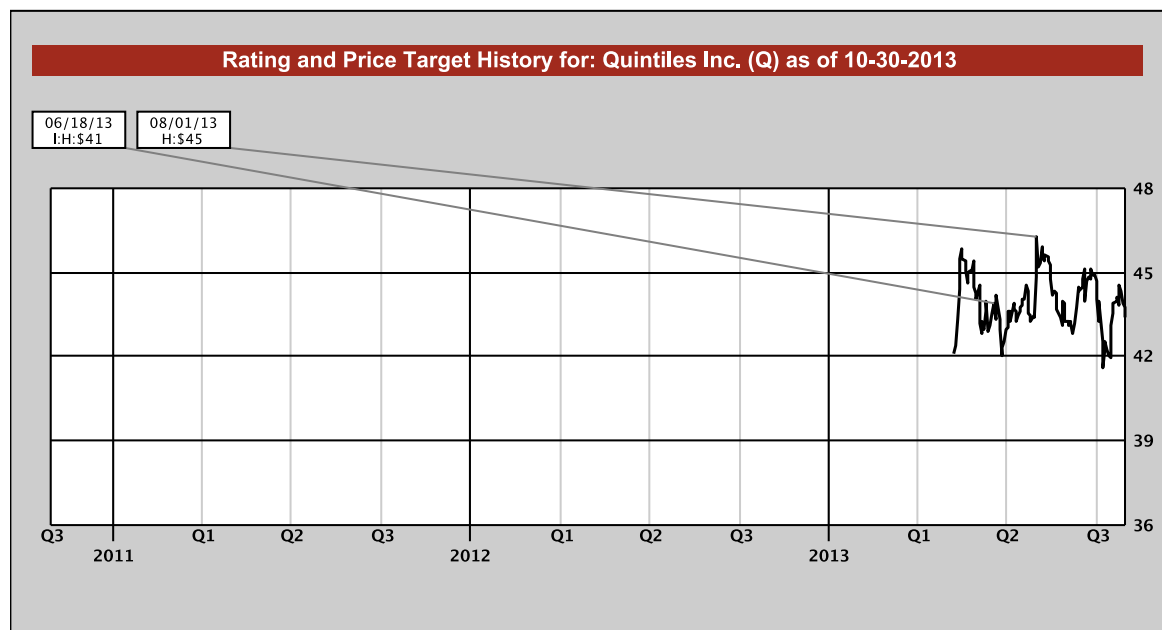
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4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative

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6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
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9. Transaction fees are not included.
10. All corporate actions are taken into account.

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			Count	Percent
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