

# Quintiles Transnational Holdings Inc.

## First Look at Strong First-Quarter Results; IHS Returns to Growth and 2014 Guidance Raised

### Conclusion.

- Quintiles reported better-than-expected first quarter results on Thursday morning, May 1, with non-GAAP earnings per share of \$0.68 (up 41% from a year ago) coming in 12 cents above our target and consensus. First-quarter results were driven by better-than-expected revenue relative to our model (about 1 cent EPS contributor), better margin (~3 cents), and items below the line (about 8 cents). We believe the majority of the 8 cents is related to investment gains. Management also increased 2014 guidance calling for revenue growth between 8.4% and 10.0% (up from 7.4% to 9.0% previously) and an EPS range of \$2.45 to \$2.58 (up 17%-23% and up from \$2.33 to \$2.45 previously), which is roughly equal to the outperformance this quarter. Net bookings were also strong with a 1.27 book-to-bill ratio versus our 1.12 times target. We expect to increase our 2014 EPS target by 12 cents following today's 7:00 a.m. CT conference call. We are encouraged by another quarter of strong results and guidance—particularly the return of growth within IHS—and reiterate our Outperform rating on Quintiles.

### Key Points

- Strong Revenue.** Revenue of \$1.0 billion was \$11.8 million above our expectations (0.8 cent EPS tailwind), with product development coming in \$4.7 million above our estimate and IHS revenue coming in an encouraging \$7.1 million above our target. Product development was up 9.1% versus our 8.5% target, while IHS was up 6.0% versus our 2.8% target. We look for more detail on the contribution of the recently announced Biogen (BIIB \$287.12; Outperform) partnership on today's call. We note that this deal was already included in 2014 guidance.
- Margin improvement was above our expectations.** Operating margin of 14.2% was 64 basis points (3.4 cent tailwind) above our model, and up 140 basis points from a year ago. Gross margin came in 57 basis points above our target and SG&A expense was 23 basis points below our model. Product development operating margin of 20.8% was well above our 19.6% estimate thanks in part to favorable currency movement, while IHS was 70 basis points below our 4.5% target. Corporate expenses were \$1 million above our estimate.
- Bookings Solid.** Quarterly bookings of \$1.27 billion yielded an impressive 1.27 book-to-bill ratio. This was \$161 million above our target (we had modeled a book-to-bill of 1.12 times, assuming IHS awards would decline due to seasonal factors). We believe this performance, along with Parexel (PRXL \$45.35; Market Perform) and Icon (ICLR \$38.77; Outperform) results, suggests the environment for late-stage outsourcing remains robust and should bode well for Covance's results later today.

*Quintiles is the largest pharmaceutical outsourcing company in the world, with an annual revenue base approaching \$4 billion. Founded in 1982, the company is now a leader in both outsourced drug development and commercialization services. It operates in 100 countries, employs roughly 27,000 employees, and has generated double-digit revenue and EBITDA growth, on average, over the past decade.*

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May 01, 2014

Stock Rating: **Outperform**  
Company Profile: **Established Growth**

Symbol: Q (NYSE)  
Price: \$47.13 (52-Wk.: \$40-\$55)  
Market Value (mil.): \$6,129  
Fiscal Year End: December  
Long-Term EPS Growth Rate: 12%  
Dividend/Yield: None

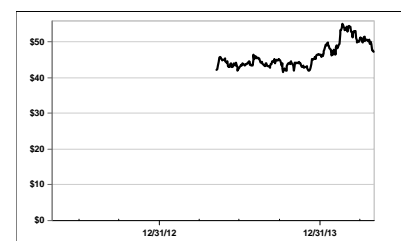
	2013A	2014E	2015E
<b>Estimates</b>			
EPS Q1	\$0.49	\$0.56	NA
Q2	\$0.50	\$0.58	NA
Q3	\$0.54	\$0.62	NA
Q4	\$0.58	\$0.63	NA
FY	\$2.10	\$2.40	\$2.72
CY		\$2.40	\$2.72

<b>Valuation</b>			
FY P/E	22.4x	19.6x	17.3x
CY P/E		19.6x	17.3x

<b>Trading Data (FactSet)</b>	
Shares Outstanding (mil.)	129
Float (mil.)	58
Average Daily Volume	749,819

<b>Financial Data (FactSet)</b>	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	-5.1
Return on Equity (TTM)	0.0

### Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

# Exhibit 1. Initial 2014 Guidance Relative to William Blair Estimates and Consensus

	2014 Guidance	2014 Guidance	Previous 2014 Estimates	
	Current	Previous	WB	Consensus
Revenue Growth (constant currency)	8.4% to 10.0%	7.4% to 9.0%	7.8%	8.1%
EPS	\$2.45 to \$2.58	\$2.33 to \$2.46	\$2.40	\$2.42
Growth	16.7% to 22.9%	11.0% to 17.1%	14.2%	15.2%

Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

- Valuation and stock thoughts.** As of Wednesday's close, Quintiles trades at 17.3 times our current 2015 EPS estimate of \$2.72 (which will likely increase by about 10 cents), compared with its peer group of 16.8 times (17.3 times excluding Charles River [CRL \$53.72; Market Perform]). Given the strong results this quarter, we expect the stock to react favorably, particularly following the correction the CROs have had over the past few weeks. We maintain our Outperform rating on Quintiles as we believe that its industry-leading position should allow for more-predictable revenue and better visibility to double-digit earnings growth potential relative to its peers. See exhibits 1 through 3 for additional detail regarding quarterly results.

# Exhibit 2. First Quarter EPS Performance Relative to William Blair Estimates

Revenues	\$ 0.008
Gross Profit	\$ 0.030
SG&A	\$ 0.012
D&A	\$ (0.008)
Interest & Other	\$ 0.034
Taxes	\$ (0.004)
Equity in affiliate	\$ 0.049
Share Count	\$ (0.001)
<b>Total</b>	<b>\$ 0.121</b>

Sources: Company reports and William Blair & Company, L.L.C. estimates

### Exhibit 3. First Quarter 2014 Variance Analysis

May 1, 2014	<b>1Q 2014 (Actual)</b>	<b>1Q 2013 (Actual)</b>	<b>Year/Year % Change</b>	<b>1Q 2014 (Estimate)</b>	<b>Year/Year % Change</b>	<b>Act.-Est. Difference</b>
Total Net Revenue	1,005.3	927.4	8.4%	\$993.5	7.1%	\$11.8
Direct Costs	643.7	611.1	5.3%	641.8	5.0%	\$1.9
Selling, general, and administrative (incl options)	190.2	173.3	9.7%	190.2	9.8%	(\$0.0)
Total operating expenses	834	784.4	6.3%	832.0	6.1%	\$1.9
EBITDA	171.412	143.0	19.9%	161.5	12.9%	\$9.9
D&A	29.1	24.6	18.2%	27.2	10.6%	\$1.9
Operating income (incl options)	142.324	118.4	20.2%	134.3	13.4%	\$8.0
Interest and other income (net)	(18.604)	(33.2)	-44.0%	(25.0)	-24.7%	\$6.4
Earnings before tax	123.7	85.2	45.2%	109.3	28.3%	\$14.4
Income taxes	37.636	26.0	44.8%	32.8	26.1%	\$4.9
Equity investee earnings	(4.9)	1.7		1.7	0.0%	(\$6.6)
Net loss attributable to noncontrolling interests	(0.0)	0.2				
<b>Net income (excl. extraord., incl. options)</b>	<b>\$90.944</b>	<b>\$57.7</b>	<b>57.6%</b>	<b>74.8</b>	<b>29.7%</b>	<b>\$16</b>
Extraordinary item	(0.73)	(\$9.5)		(\$2.5)	-73.7%	2
Net income (incl. extraord. and options)	\$90.214	\$48.2	87.2%	\$72.3	50.0%	\$18
<b>Net loss attributable to noncontrolling interes</b>	<b>(0.03)</b>			#DIV/0!		<b>(\$0)</b>
<b>Net Income Attributable to Quintiles</b>	<b>90.183</b>	<b>48.2</b>	<b>87.1%</b>	<b>72.3</b>	<b>50.0%</b>	<b>\$18</b>
Shares outstanding	133.0	118.7	12.1%	132.8	11.9%	0
<b>EPS (excl. extraord., incl. options)</b>	<b>\$0.68</b>	<b>\$0.49</b>	<b>40.6%</b>	<b>\$0.56</b>	<b>15.9%</b>	<b>\$0.12</b>
EPS (incl. extraord. and options)	\$0.68	\$0.41	67.0%	\$0.54	34.1%	\$0.13
% of Net Revenue:			<u>Change</u>		<u>Difference</u>	
Direct costs	64.034	65.9	(1.86)	64.6	(1.29)	(0.57)
Gross profit	35.966	34.1	1.86	35.4	1.29	0.57
Selling, general and administrative	18.915	18.7	0.23	19.1	0.46	(0.23)
EBITDA	17.051	15.4	1.63	16.3	0.84	0.80
Depreciation and amortization	2.893	2.7	0.24	2.7	0.09	0.16
Operating income	14.158	12.8	1.39	13.5	0.75	0.64
Net income	9.047	6.2	2.82	7.5	1.31	1.52
Effective tax rate (incl options)	30.4203	30.5	(0.10)	30.0	(0.53)	0.43
<b>Segment Data</b>						
<b>Product Development:</b>						
Revenue	770.8	706.3	9.1%	766.1	8.5%	4.73
Operating Income (incl. options)	160.7	132.7	21.1%	150.2	13.2%	10
Operating Margin	20.8	18.8	2.1	19.6	1.2	1.2
<b>IHS:</b>						
Revenue	234.5	221.1	6.0%	227.4	2.8%	7.1
Operating Income	8.9	6.2	43.2%	10.2	63.3%	(1)
Operating Margin	3.8	2.8	1.0	4.5	(0.7)	(0.7)
<b>Corporate Expenses:</b>						
	27.3	20.6	32%	26.1	26.7%	1
<b>New Business Awards</b>						
Net New Business Awards	\$1,274	1,245.4	2.3%	1,112.6	-10.7%	\$161
Net Book-to-Bill Ratio	1.27	1.34		1.12		

Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

William Blair & Company, L.L.C.

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William Blair intends to seek investment banking compensation in the next three months from Quintiles Transnational Holdings Inc.

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DOW JONES: 16,580.84

S&P 500: 1,883.95

NASDAQ: 4,114.56



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Coverage Universe	Percent	Inv. Banking Relationships*	Percent
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Market Perform (Hold)	31	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

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