

Pharmaceutical Svcs. R&D Higher, Biotechs Richer, CROs Happier; Upgrading Q to Buy

Key Takeaway

We remain positively biased toward CROs ahead of 1Q earnings, which are set to begin Monday, April 27. Robust biotech funding continues to push global R&D spending higher, with growth rates for '15-'16 looking to be ~250 bps better than our previous forecast. Recent checks also indicate strategic deal activity continues, increasing outsourcing penetration and pulling share to top players. PRAH, Q (upgrade to Buy) are our favorites for 2015.

Upgrading Quintiles to Buy, \$79 PT. Our thesis is based on: (1) an improving macro outlook for global R&D spending; (2) declining risk/less acute exposure to big pharma M&A; (3) continued fundamental margin expansion, principally in IHS; (4) a larger-than-expected FX benefit to PDEV margin; (5) industry leading 2H14 bookings that lead to accelerating 2H15 revenue growth; and (6) share underperformance of 780 bps YTD relative to peer average.

Improving Outlook for '15 Global R&D Spending. Our bottoms-up CRO market model forecasts 2015 global R&D spending growth of 4.5-5.0%, on a local-currency basis. This compares to the 2.2% growth forecasted in last year's update. We believe the improving outlook is primarily attributable to continued robust biotech funding (which we cover in detail inside), and improving macroeconomic conditions in both Europe and the Americas.

Stronger U.S. Dollar Benefits Margins. Since 4Q14 earnings were reported in mid/late-February, the USD has strengthened further vs. both EUR and GBP. The weaker European currencies mean revenue headwinds across the group have stiffened, introducing the risk of downward adjustments to *revenue* guidance. On the bright side though, many of the late-stage CROs with revenue/cost mismatches, experience an offsetting (or better) EBIT benefit. PRAH should see the biggest lift, followed by ICLR, PRXL and Q.

Pfizer Confirms Third Alliance Partner. An industry website confirmed on Wednesday the addition of a third vendor to Pfizer's Alliance Partnership. We wrote about this in January (<http://bit.ly/1lie5vU>) and provide further explanation in this report. We continue to expect ICLR's PFE revenue to be flat or slightly down in 2015. Importantly, ICLR's #6-25 clients grew >30% in 4Q.

Raising PTs on Improving Global R&D Outlook. On the higher R&D outlook, we are adjusting price targets on two more players, in addition to Q. For PRXL, the better industry trends may not be enough to clear the high 4Q revenue hurdle. Further, its lower quality growth (tax rate) warrants a discount. Our \$62 is 8% below the stock. CRL's prospects are augmented by biotech funding and, we believe, an accelerating recovery in early development. FX could be an EPS headwind. PT to \$90.

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Company Name	Ticker	Mkt. Cap (MM)	Rating	Price	Price Target	Cons. Next FY	Current EPS Estimates			Previous Est.	
							2014	2015	2016	2015	2016
Catalent, Inc.	CTLT	\$3,915.4	BUY	\$31.05	\$32.00	1.70	1.74	1.72	1.96	1.72	1.96
Charles River Laboratories	CRL	\$3,653.0	BUY	\$77.89	\$90.00 ▲	\$3.60	\$3.46	\$3.65	\$4.19	\$3.65	\$4.19
ICON plc	ICLR	\$4,296.5	BUY	\$69.41	\$80.00	\$3.51	\$2.85	\$3.60	\$4.13	\$3.60	\$4.13
PAREXEL Int'l	PRXL	\$3,757.6	HOLD	\$67.22	\$62.00 ▲	\$2.76	\$2.17	\$2.74	\$3.16	\$2.74	\$3.16
PRA Health Sciences	PRAH	\$1,727.9	BUY	\$28.28	\$31.00	\$1.41	\$1.29	\$1.39	\$1.69	\$1.39	\$1.69
Quintiles Inc.	Q	\$8,704.9	BUY ▲	\$67.69	\$79.00 ▲	3.09	\$2.70	\$3.11	\$3.58	\$3.11	\$3.43
West Pharmaceutical	WST	\$4,143.1	HOLD	\$56.60	\$55.00	\$1.84	\$1.78	\$1.80	\$2.23	\$1.80	\$2.23
WuXi PharmaTech	WX	\$2,837.9	HOLD	\$39.36	\$38.00	\$1.76	\$1.88	\$1.74	\$2.16	\$1.74	\$2.16

Portfolio Manager Snapshot:

Analysis Points to Higher R&D Spending, Bigger Pie for CROs: Our compilation and analysis of R&D spending for 2014 and forecasts for 2015 and 2016 show higher growth forecasts by 100-150 bps (or about 50% higher than previously expected).

Biotech Funding Growth Continues to Areas that Matter to CROs. Venture (+30%), IPOs (+46%), partnering (+23%), and – to a lesser extent – follow-ons support R&D activity from these young therapeutics companies. All these buckets increased in 2014. Activity in 2015 is also plenty solid.

FX will Hurt Revenue, but Help Margin for Most CROs. Most companies captured the already significant strengthening of the USD when they gave guidance on 4Q earnings call. Yet, the USD has strengthened more against most currencies. While lower quality and less fundamental to the underlying businesses, we think the positive impact to EBIT and EPS could be quite large for some. We'd highlight PRAH as gaining the largest benefit. We also think Q is underplaying the FX benefit in commentary YTD. ICLR and PRXL should get a little lift as well.

Upgrading Q to Buy from Hold; PT to \$79 from \$65. Why Now?

We would offer five reasons:

- Q is coming off a year of solid top-line growth, but even stronger bookings growth. Yes, management has cautioned that the year will get off to a somewhat slow start (we'll revisit this in a minute) because of the gating of cancellations and new business in PDEV, but growth should be well-supported by backlog.
- FX is not going to meaningfully reverse. We are in a strong dollar environment. With the US Federal Reserve considering rate lift-off, a relatively stronger US economy, and (perhaps most importantly) the ECB initiating quantitative easing, the dollar strength against the EURO (and Yen) is likely to continue for some time. Management has downplayed the FX benefit to margin in public commentary year-to-date, but it has filled enough sandbags to protect the Outer Banks from a Category 5 storm surge.
- Fundamental margin expansion can continue, principally in the Integrated Health Services business. That segments growth is driving operating leverage on overhead costs. Management is driving productivity improvements. The shift is mix toward "real-world, late-phase" research and mega-registry studies is also favorable to margin.
- Six analysts have cut numbers in the last three weeks, reducing mean expectations by about a penny and, more importantly, depressed sentiment ahead of 1Q15 earnings results on April 29.
- Finally, Q has underperformed each member of the comp group and underperformed the average by 37%. We think 1Q will actually be better than the now diminished expectations, and we expect the stock to appreciate on the results.

Initial Signs Point to Healthy '15 for CROs

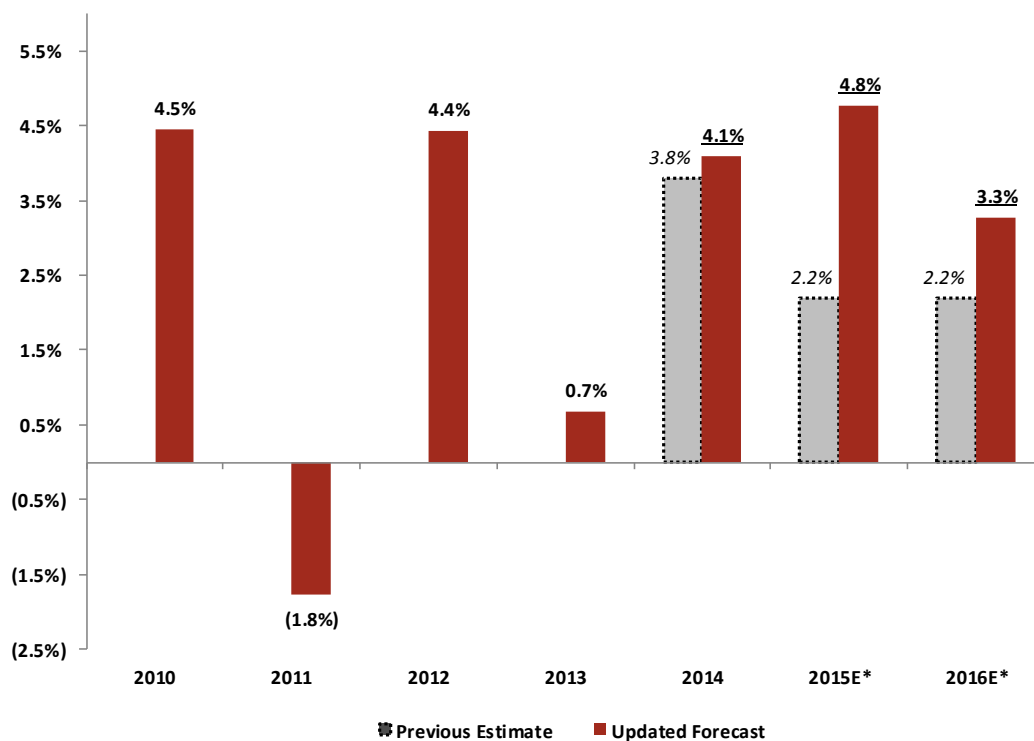
Our “three levers” framework is one we have used (quite successfully, we might add...) for the past several years to assess the health of the macro environment for both early- and late-stage CROs. In this year’s first installment, we present initial findings from our bottoms-up CRO market model. More specifically, we update our forecast for global R&D spending growth, Lever I. In subsequent editions, we will include findings from our annual R&D Decision-Maker survey and provide updates for Levers II (outsourcing penetration) and III (market-share consolidation). Look for those in mid-May.

Improving Outlook for '15 R&D Spending, On a Constant-Dollar Basis

Based on findings from our proprietary CRO market model, we believe the '15 outlook for CROs' end market is improving. Our model projects global biopharma R&D spending will grow 4.5-5.0% in 2015 on a constant-Dollar basis. The previous version of our model (published May '14) projected 2.2% growth in R&D spending for this year. *See Chart 1.* Since the previous edition was published well before the USD began to make its move higher, we believe the estimates established at that time likely approximate growth expectations on a constant-currency basis. Said differently, **global biopharma R&D spending growth in the 4.5-5.0% range for '15 is a 230-280 bps better than our previous expectations.**

We derive our forecasts by compiling management guidance and sell-side consensus estimates for over 300 companies, including some large private pharmaceutical companies with meaningful budgets. We believe our data captures or represents at least 90% of total global spending.

Chart 1: Jefferies Global Biopharma R&D Spending Growth Forecasts



*2015 and 2016 Forecasts are shown on a constant-Dollar basis

Source: FactSet, Company filings and Jefferies LLC estimates

Growth in Budgets of SMid Biopharmas Will Outpace that of Larger Sponsors

By segment, we believe growth in the R&D spending of small- to mid-sized biopharmas will run significantly faster than the top-end of our forecasted range (i.e. faster than 5.0%), while growth in spending by large biopharma will approximate the low-end. We believe much of the growth expected to come out of the SMid channel is directly attributable to the level of funding we have seen flow into those companies over the past two years. We discuss this in more detail below.

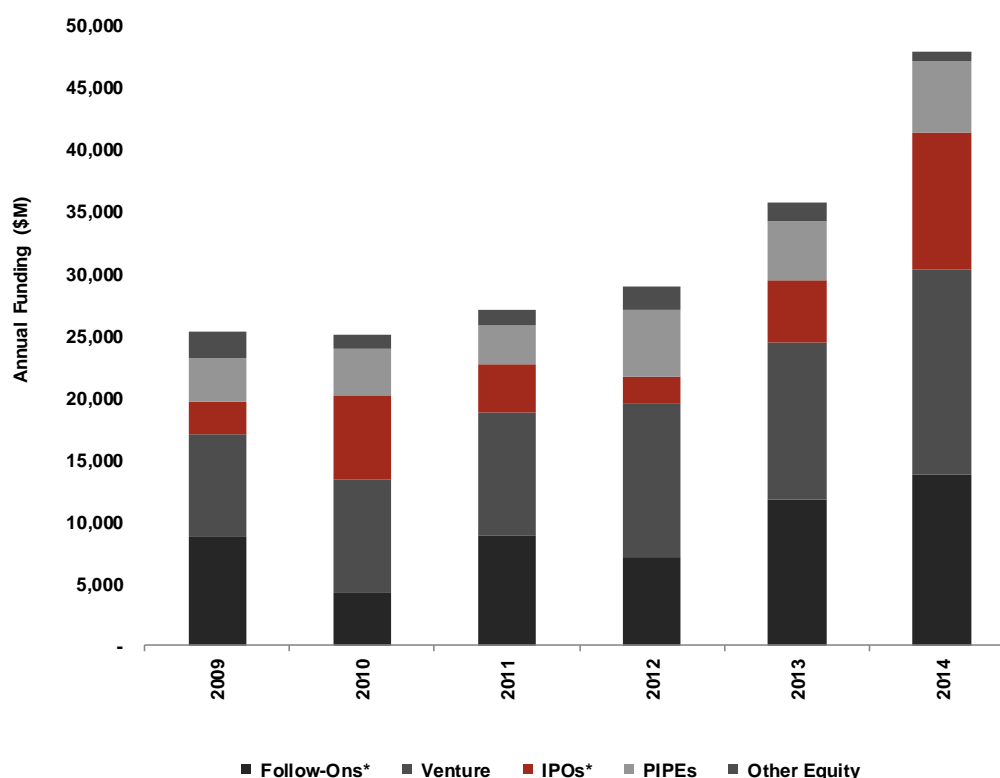
Biotech Funding Update

We believe one of the primary contributors to the growth acceleration is the continuation of the rapid biotech funding. Prior to publishing last year's estimates, there had been some disruption in the biotech market relating to protests over Gilead's pricing of Sovaldi. This likely caused some conservatism in 2015 & 2016 R&D spending forecasts that were developed at that time. Since then, funding activity has snapped back and R&D spending growth for '15 appears to be more robust than we had previously thought.

Inversions Drove Record M&A in 2014

M&A activity nearly tripled in 2014, driven primarily by either outright inversions, or the purchase of assets by previously inverted companies—see Chart 4. The largest deal of the year was an example of the latter—Actavis \$66B purchase of Allergan. Actavis became an Ireland-based company following its 2013 purchase of Warner-Chilcott. The U.S. Treasury department has introduced new rules seeking to limit these types of transactions, meaning 2014 M&A activity levels will be tough to duplicate going forward.

Chart 2: Public and Private Global Biotech Funding (\$M)



* IPO data adjusted to exclude the January 2013 \$2.56B spin out of Pfizer's animal health unit, Zoetis

* Follow-Ons adjusted to exclude Thermo Fisher's \$2.53B equity offering in June 2013

Source: Burrill & Co. and Jefferies LLC

IPO Markets Remain Hot

A total of 133 IPOs were completed in 2014, which compares to 68 in 2013. These transactions raised a total of \$11.0B globally, which was 46% more than 2013 and over 5x the amount raised in 2012—see *Charts 2 and 3*.

Private Financing and Partnering Also Remain Strong

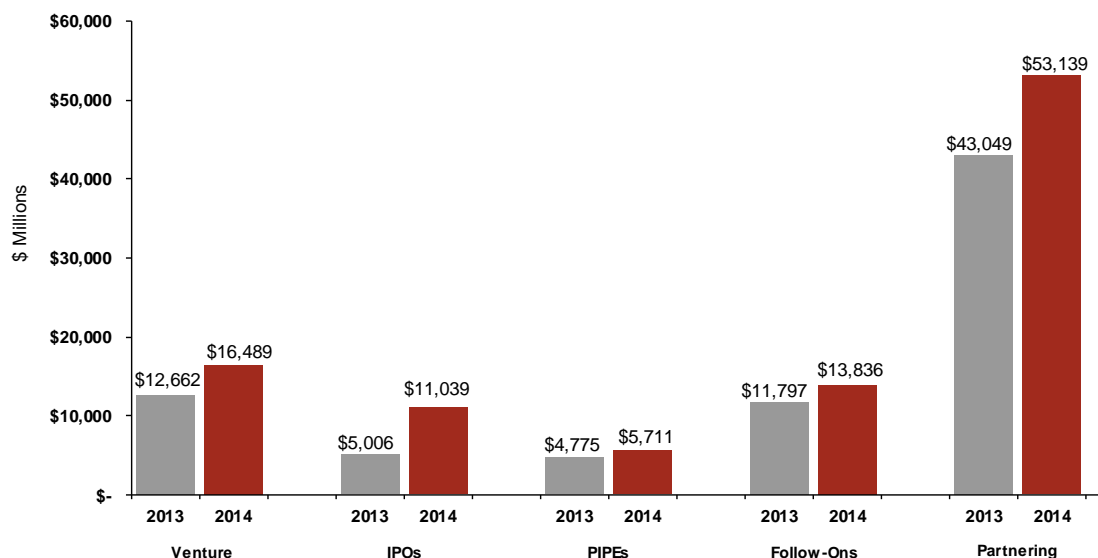
Global venture funding totaled \$16.5B in 2014 compared to \$12.7B in 2013—see *Chart 3*. Partnering activity also remained a bright spot with deals up 23% YoY to \$53.1B last year—see *Chart 5*.

What Does Pharma/Biotech Funding Data Tell Us?

Tracking this data provides us with three different leading indicators of future demand for CRO services:

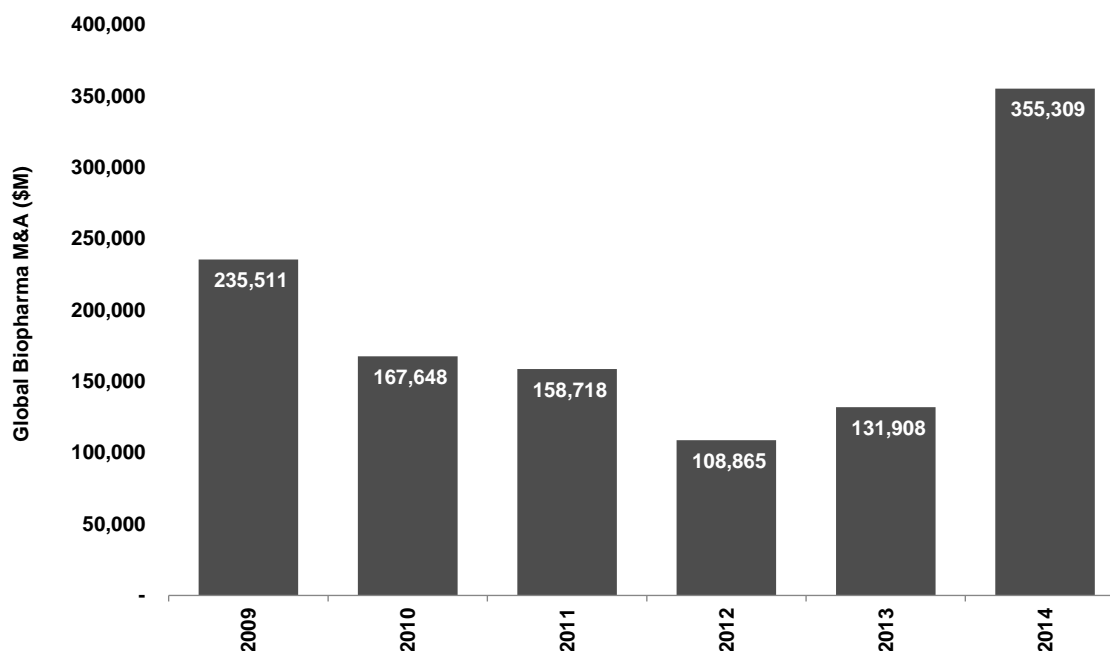
- (1) -- Venture funding, IPOs and follow-ons provide an indication of the amount of 'new' money in the system available to fund development projects. Usually small- to mid-sized drug companies (i.e. SMids) fund their work in this manner. Companies of this size typically lack the internal resources necessary to manage clinical trials, and therefore, tend to lean on the CROs for help.
- (2) -- Partnering is also a popular way for smaller drug companies to fund research and development work. In these arrangements the company developing the compound grants a portion of future drug sales and/or equity ownership in exchange for an upfront cash payment and the promise of milestone-based payments. It is best to think of these arrangements as an indirect R&D expenditure for larger pharma companies.
- (3) -- Since R&D generally serves as a reliable (and potentially large) source of M&A synergies, M&A activity serves as an indicator of future drug pipeline rationalizations or R&D reorganizations. In the near-term, these rationalizations tend to be a negative for CROs because they can result in in-process project terminations, holds, or stalling of new awards; however, over the long-term, the combined entity usually outsources a greater percentage and dollar value of work (which is a positive for CROs).

Chart 3: Public and Private Global Biotech Funding (\$M)



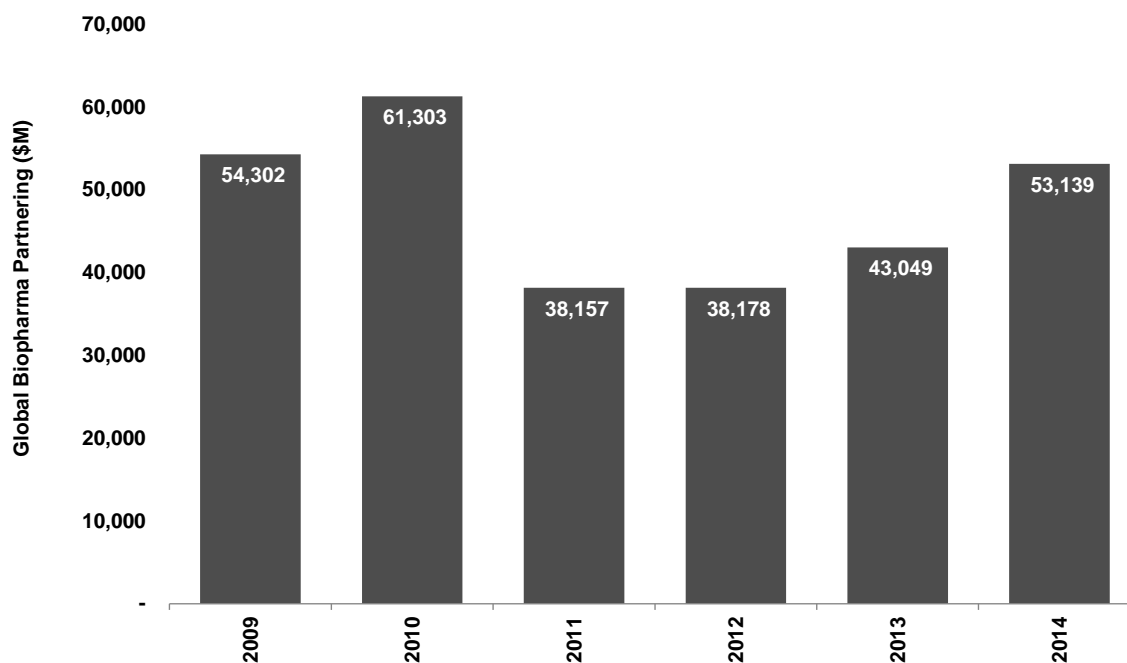
Source: Burrill & Co. and Jefferies LLC

Chart 4: Life Sciences Global M&A (\$M)



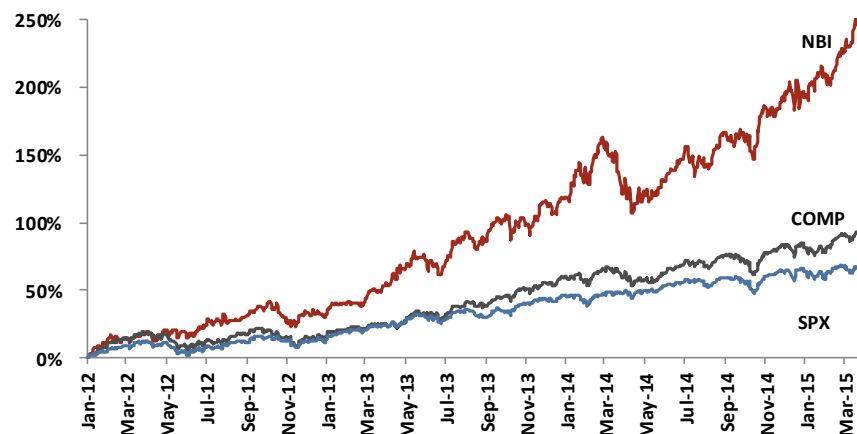
Source: Burrill & Co. and Jefferies LLC

Chart 5: Life Sciences Global Partnering (\$M)



Source: Burrill & Co. and Jefferies LLC

Chart 6: NASDAQ Biotechnology Index (NBI) vs. NASDAQ Index (COMP) and S&P 500 (SPX)



Returns calculated using January 1, 2012 as the base

Source: Factset and Jefferies LLC

Foreign Exchange Update: U.S. Dollar Continues to Strengthen Against Primary Foreign Currencies

Issues surrounding the FOREX impacts remain front and center for CROs. The progression of the European QE program and an eventual US rate liftoff likely keep the USD strong for the foreseeable future. This will keep FOREX topical for CROs until at least 4Q15 when we begin lapping last year's inflection in USD.

Since CROs reported 4Q14 earnings (mid- to late-February), the USD has strengthened further against both EUR and GBP. The lone exception is CNY, which sharply reversed course and began strengthening vs. USD in mid-March. The weaker European currencies mean revenue headwinds across much of the group have stiffened, creating a risk for downward revenue guidance adjustments. On the flip side though, those that have a mismatch between revenue and costs (primarily the late-stage CROs), should experience even stronger EBIT tailwinds.

FOREX Movements and CRO Impact: A Quick Recap

The strengthening of the USD that began last May accelerated in late-'14/early-'15 and only recently began showing signs of stabilizing. Consequently, the YoY differences in the primary European currencies (EUR and GBP) and the JPY will act as a significant headwind to CRO revenue growth for the next several quarters (through 3Q15, at least).

Chart 7: Change in Foreign Exchange Rates

A positive change means the U.S. Dollar strengthened vs. that particular currency – e.g. the 21.6% YoY move in EUR during 1Q15 means a EUR is worth ~22% less USD this year vs. last.

Currency	1Q15 Seq. Change	1Q15 YoY Change	2Q15E YoY Change
CHF	(1.2%)	6.7%	9.5%
CNY	0.0%	0.3%	(0.7%)
EUR	10.8%	21.6%	26.9%
GBP	4.4%	9.2%	12.7%
JPY	4.1%	15.9%	17.5%

Source: ONADA - <http://www.oanda.com/>
Exchange rates as of April 20, 2015

The resulting impact on EBIT is not as obvious though. For CROs, a large and/or growing percentage of revenue from foreign activities is denominated in USD. Over the last 5+ years, global programs and strategic relationships have moved toward contracting in USD, even when work is being executed and operating costs incurred in foreign currencies. As a result, many CROs have some mismatch when translating revenue and costs back to USD for reporting purposes. In a strong dollar environment, as we have seen recently, revenue and expenses are reduced on translation. FX movements compress the related operating expenses to a greater degree than revenue, such that EBIT could see an absolute benefit when revenue experiences an FX headwind and vice versa.

Because of the many currencies involved, particularly on the cost side, (and incomplete disclosure) calculating the net impact to EBIT is proving more difficult. Thus, we are hesitant to make aggressive trading calls on this factor because:

- Foreign exchange related gains/losses should receive less credit or deduction anyway, relative to changes in demand or underlying profitability
- We can be fairly confident about the revenue impact, but less confident about the EBIT impact.

FOREX Exposures and Disclosures Vary By Company

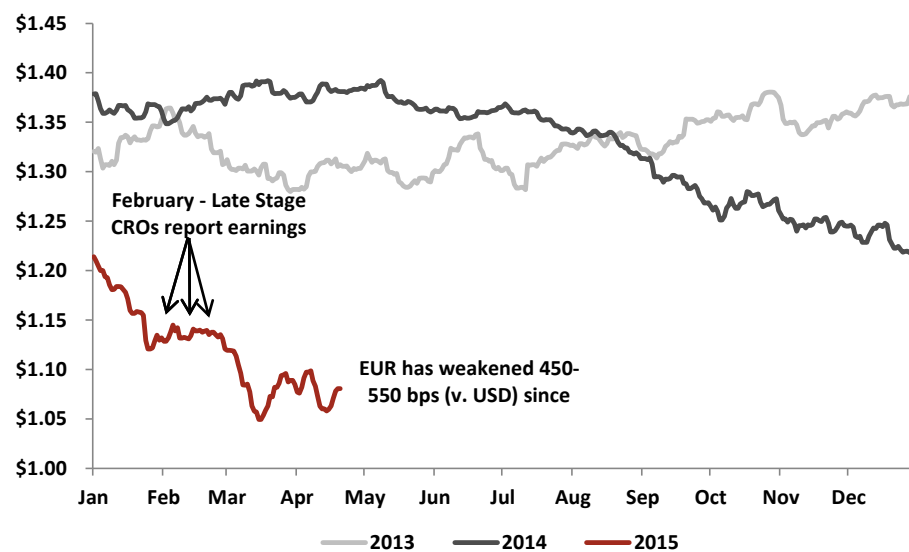
A key point to remember when analyzing FX exposure by CRO is that 'revenue mix by geography' and 'revenue mix by currency' is not synonymous. Despite the large CROs becoming increasingly global, a greater proportion of their revenue tends to be denominated in USD. This is primarily attributable to the large, strategic deals they have signed with pharma during the past several years. A common contracting convention is that despite where the work is being performed, and even where the sponsor is domiciled, CROs are paid in USD. To illustrate, despite 36.6% of PRXL's FY14 revenue being derived from Europe, Middle East and Asia, its largest foreign currency exposures were EUR (13.7% of revenue) and GBP (2.9% of revenue). Thus, using 'revenue by geography' which is commonly disclosed in SEC filings, almost always overstates a CRO's revenue exposure to that particular currency. We outline the difference by company in *Chart 8*.

Chart 8: FOREX Exposure By Company

Revenue Mix By...					
Ticker	Geographic Region		Currency		Comments / Guidance
CRL	United States	45.4%	USD	53%	- Guidance assumes FOREX is a 500 bps headwind to revenue and a \$0.12 headwind to EPS - Headwind will be most acute in RMS and Manufacturing; less so in DSA - More than half of DSA revenue is denominated in USD, but "most" of its costs are in CAD; expecting EBIT margin benefit in that segment as a result
	Canada	12.6%	CAD	5%	
	Europe	34.4%	EUR	19%	
	Japan	3.8%	GBP	15%	
	Other	3.8%	JPY	4%	
			CNY	3%	
			Other	1%	
ICLR	United States	40.3%	USD	???	- Have assumed a 200 bps revenue headwind in guidance - Not expected to have much impact on EBIT/EPS
	Europe	48.8%			
	Rest of World	10.9%			
PRAH	United States	64.9%	USD	83%	- Guidance assumes "very little" FOREX benefit to margin - Costs by currency: 56% USD; 18% EUR; 7% GBP; and 19% Other
	Canada/Mexico	2.3%	EUR	12%	
	United Kingdom	24.8%	GBP	2%	
	Netherlands	5.3%	Other	3%	
	Other	2.7%			
PRXL	United States	47.0%	EUR	13.7%	- Guidance assumes FOREX is a 190 bps headwind - Impact on EBIT/EPS is minimal owing to "natural hedges"
	Canada/Mexico	3.1%	GBP	2.9%	
	EMEA	36.6%			
	Asia/Pacific	13.3%			
Q	United States	29.1%	USD	63%	- Guidance assumes FOREX is a 420 bps headwind to revenue - Expects FOREX benefit to EBIT margin to be smaller than was experienced in '14 (i.e. less than \$22.6M) - Guidance is based on rates as of Jan 1, 2015
	Canada/Mexico	3.6%	EUR	16%	
	United Kingdom	7.4%	GBP	8%	
	Europe, ex U.K.	20.5%	JPY	10%	
	Japan	8.6%	Other	3%	
	Asia, ex Japan	7.1%			
	Reimbursed Svcs	23.7%			
WX	United States	61.9%	USD	90%	- More than 2/3rds of total expenses are denominated in CNY - Guidance assumes 6.25 CNY for entire year
	Europe	14.1%			
	Asia	20.9%			
	Other	3.0%			

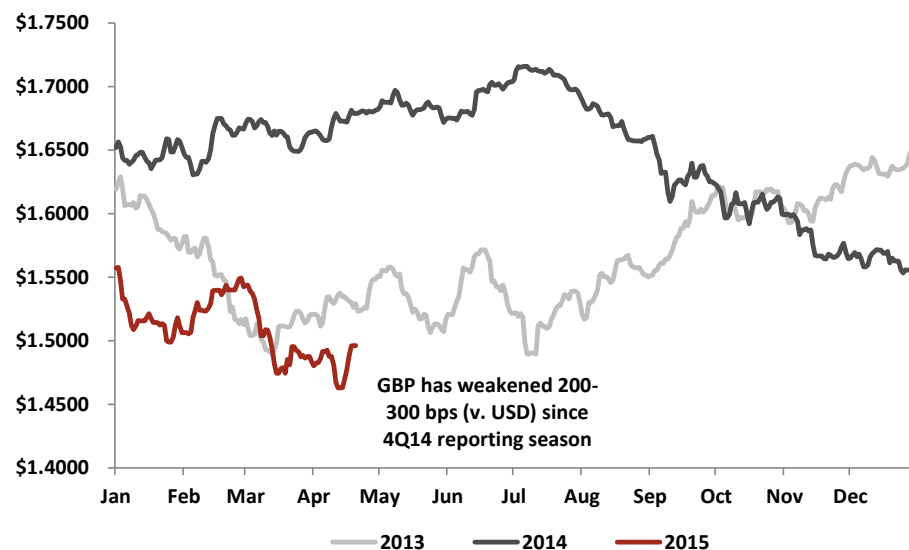
Source: FactSet and Jefferies LLC

Chart 9: EUR vs. USD



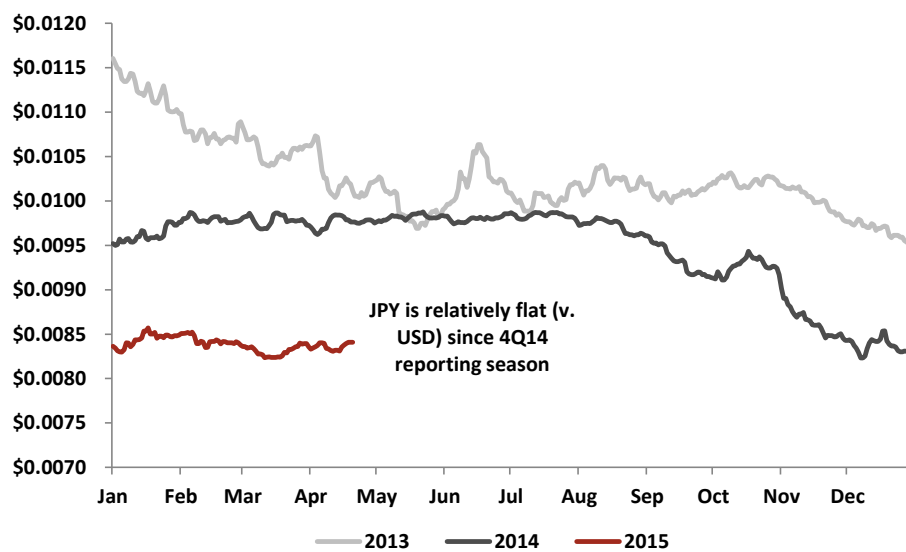
Source: OANDA.com and Jefferies LLC

Chart 10: GBP vs. USD



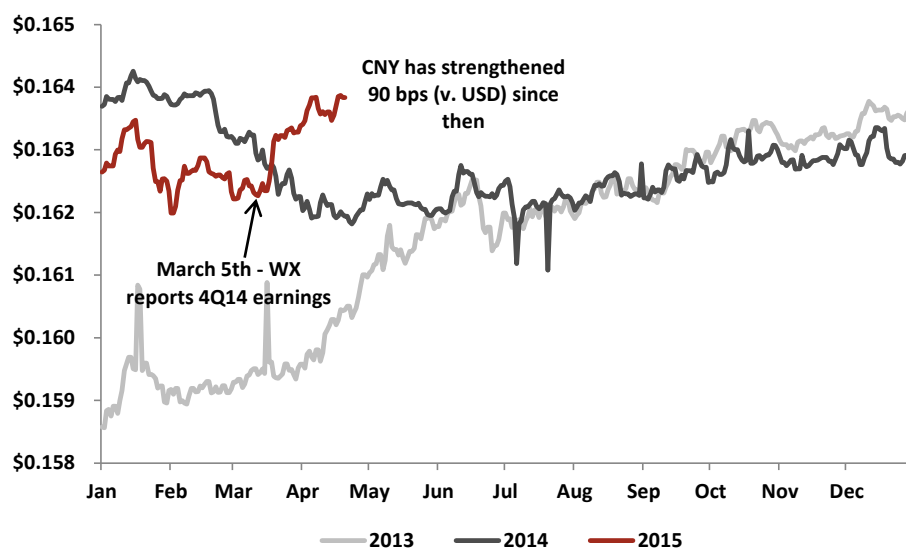
Source: OANDA.com and Jefferies LLC

Chart 11: JPY vs. USD



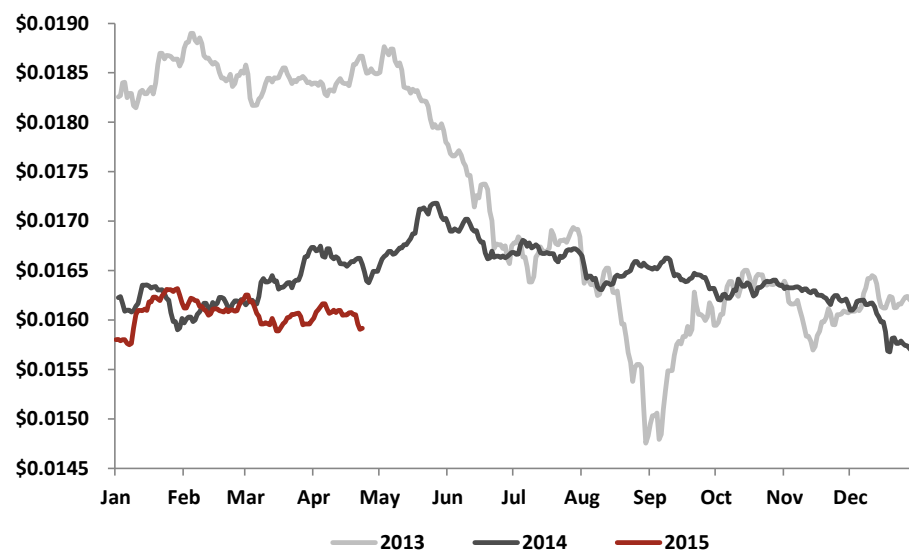
Source: OANDA.com and Jefferies LLC

Chart 12: CNY vs. USD



Source: OANDA.com and Jefferies LLC

Chart 13: INR vs. USD



Source: OANDA.com and Jefferies LLC

Chart 14: Jefferies Estimates vs. Consensus

		1Q15			2015E			2016E		
		JEF	Consensus	High/Low	JEF	Consensus	High/Low	JEF	Consensus	High/Low
CRL	Non-GAAP EPS	\$ 0.82	\$ 0.83	\$ 0.87 \$ 0.81	\$ 3.65	\$ 3.60	\$ 3.76 \$ 3.49	\$ 4.19	\$ 3.95	\$ 4.19 \$ 3.75
		-0.3%			1.2%			6.2%		
	Revenue	\$ 323.1	\$ 323.9		\$ 1,334.7	\$ 1,330.9		\$ 1,424.1	\$ 1,401.1	
		-0.3%			0.3%			1.6%		
CTLT	Non-GAAP EPS	\$ 0.36	\$ 0.44	\$ 0.49 \$ 0.36	\$ 1.85	\$ 1.78	\$ 1.88 \$ 1.71	\$ 1.94	\$ 1.85	\$ 2.03 \$ 1.55
		-17.8%			3.7%			4.9%		
	Revenue	\$ 453.0	\$ 451.3		\$ 1,920.0	\$ 1,885.5		\$ 2,048.8	\$ 1,984.5	
		0.4%			1.8%			3.2%		
ICLR	Non-GAAP EPS	\$ 0.83	\$ 0.81	\$ 0.84 \$ 0.76	\$ 3.60	\$ 3.51	\$ 3.60 \$ 3.21	\$ 4.13	\$ 3.99	\$ 4.20 \$ 3.47
		1.5%			2.5%			3.5%		
	Revenue	\$ 391.9	\$ 391.2		\$ 1,665.8	\$ 1,651.3		\$ 1,825.2	\$ 1,795.6	
		0.2%			0.9%			1.6%		
PRAH	Non-GAAP EPS	\$ 0.29	\$ 0.31	\$ 0.34 \$ 0.28	\$ 1.38	\$ 1.41	\$ 1.48 \$ 1.35	\$ 1.67	\$ 1.71	\$ 1.79 \$ 1.64
		-6.6%			-2.2%			-2.5%		
	Revenue	\$ 325.8	\$ 329.8		\$ 1,355.7	\$ 1,359.3		\$ 1,477.2	\$ 1,475.4	
		-1.2%			-0.3%			0.1%		
PRXL	Non-GAAP EPS	\$ 0.65	\$ 0.66	\$ 0.68 \$ 0.65	\$ 2.92	\$ 2.98	\$ 3.09 \$ 2.79	\$ 3.42	\$ 3.49	\$ 3.70 \$ 3.20
		-1.0%			-2.0%			-2.0%		
	Revenue	\$ 512.4	\$ 514.1		\$ 2,133.3	\$ 2,141.6		\$ 2,280.0	\$ 2,320.7	
		-0.3%			-0.4%			-1.8%		
Q	Non-GAAP EPS	\$ 0.71	\$ 0.72	\$ 0.74 \$ 0.67	\$ 3.11	\$ 3.09	\$ 3.12 \$ 3.07	\$ 3.58	\$ 3.50	\$ 3.75 \$ 3.40
		-1.2%			0.7%			2.3%		
	Revenue	\$ 1,012.8	\$ 1,038.8		\$ 4,335.0	\$ 4,361.1		\$ 4,636.4	\$ 4,730.0	
		-2.5%			-0.6%			-2.0%		
WST	Non-GAAP EPS	\$ 0.41	\$ 0.40	\$ 0.42 \$ 0.36	\$ 1.80	\$ 1.84	\$ 1.90 \$ 1.80	\$ 2.23	\$ 2.27	\$ 2.30 \$ 2.23
		4.2%			-2.1%			-1.5%		
	Revenue	\$ 352.0	\$ 346.6		\$ 1,447.9	\$ 1,442.4		\$ 1,556.2	\$ 1,558.4	
		1.5%			0.4%			-0.1%		
WX	Non-GAAP EPS	\$ 0.33	\$ 0.32	\$ 0.33 \$ 0.31	\$ 1.74	\$ 1.76	\$ 1.80 \$ 1.74	\$ 2.16	\$ 2.03	\$ 2.20 \$ 1.87
		3.5%			-1.4%			6.4%		
	Revenue	\$ 174.1	\$ 174.2		\$ 794.6	\$ 793.4		\$ 927.4	\$ 921.9	
		0.0%			0.2%			0.6%		

* CTLT and PRXL estimates have been calendarized

Source: FactSet and Jefferies LLC estimates

Upgrading Quintiles (Q) to BUY: Leading Player, Stable Performer

Upgrading Quintiles for Both Longer-term and Short-term Tactical Reasons

Quintiles long-term prospects are enhanced by three dynamics:

- Industry R&D spending growth is rising toward mid-single digits, whereas we had expected a moderation back toward 2-2.5% in 2015 and 2016
- Quintiles broad client base (11 customers > \$100M in bookings, and typically more mid/large pharma) means less exposure to biotech M&A volatility
- The quickening pace of new product approvals and the higher percentage of those with large post-approval study commitments increases growth opportunities for Quintiles' IHS business.

In the short-term, we are availing ourselves of a tactical window created by:

- Share price underperformance relative to the CRO peer group. 23% for peers vs. 14.5% for Q.
- Persistent, and actually increasing, strength in the US dollar in 2015 vs. 2014. We think the margin benefit should be much larger than 2014, though management guidance suggests a smaller benefit.
- Six analysts have cut 1Q15 numbers, taking a penny out of consensus and contributing to the underperformance in the stock. Primarily because of the likely FX benefit, we think that caution is overdone.

What makes the Stock Rise?

If we are correct, \$0.72 should be fine for 1Q, which will be reported on Wednesday, April 29. Consensus has now dropped to \$0.71. Moreover, guidance for 2015 should move higher. As 2H14 bookings begin to convert to revenue, growth should reaccelerate into 2H15 and 2016. Finally, Q's strong operating cash flow is building idle cash on its balance sheet. Acquisitions (probably smaller ones, but hard to rule out something larger) are management's first choice. We could also envision expanded repurchase activity to further reduce the private equity overhang and share count.

Right Out of the IPO Playbook

Quintiles' management has executed very well since its May 2013 IPO. Revenue growth has accelerated in 2014 to 9.4% (6.8% CDO, which is right in the expected range) from 3.1% in 2013. Despite the large numbers Q's sales team must post each quarter, net bookings actually grew faster than revenue at ~14% to \$5.6B with a particularly strong 1.41 book to bill in the Product Development segment.

While not completely apples-to-apples, that PDEV book-to-bill tops the peers group, which is no small feat. Certainly, the other public peers (CVD, ICLR, PRXL) were mustering their standard competition, but two new IPOs probably were also trying to pretty up their backlogs for a positive reception by investors. Across the enterprise, Quintiles has 11-12 clients generating north of \$100M in revenue, where the next closest peer has less than 5 (probably 3 or less). Bookings backed that up with 11 clients that awarded more than \$100M in net new business last year.

Margin also has steadily improved to drive upside surprises in each of its 7 public quarters. A portion of that (about half in 2014) has come from productivity advancements and operating leverage, slightly outpacing management's guidance. FX movements, primarily a strong USD, contributed additional meaningful margin benefit (60 bps for all 2014, and 90 bps for 4Q). That brings us to why now.

Why Not Before?

We had shied away from recommending the stock post-IPO on margin concerns. Channel checks had suggested more aggressive pricing driving Q's steep book-to-bills pre-IPO. It would not have been the first time a company bought a little makeup before a sale. As the quarters have progressed, margins instead have outperformed. Yet, valuation quickly expanded and had seemed to us a little ahead of the growth curve. The market seemed to give the stock credit for margin expansion greater than management was guiding and driven, in part, by FX.

Not inconsequential was our concern that the margin advancement could reverse for one, or both, of two reasons:

- Management continued to insist that margin expansion would be modest (more in IHS, less in PDEV), even on the heels of PDEV outperformance.
- The currency benefits historically have been hard to predict and often short-lived.

Clearly, those concerns have proven overblown.

Our awareness of the private equity overhang was also part of the mix. Q's PE investors had owned since early-2008 or longer and likely weren't hanging around for long. To be honest, we still are mystified by the stock beginning to perform after those insiders began to sell those shares (with 5x as much still to sell). In the broader sense, management and the Board have supervised the overhang well, pulling out a "trick play" and buying back insider shares in one case. The blend of more liquidity but also redeployment of free cash flow was welcomed by the market.

Why Upgrade Now?

We would offer five reasons:

- Q is coming off a year of solid top-line growth, but even stronger bookings growth. Yes, management has cautioned that the year will get off to a somewhat slow start (we'll revisit this in a minute) because of the gating of cancellations and new business in PDEV, but growth should be well-supported by backlog.
- FX is not going to meaningfully reverse. We are in a strong dollar environment. With the US Federal Reserve considering rate lift-off, a relatively stronger US economy, and (perhaps most importantly) the ECB initiating quantitative easing, the dollar strength against the EURO (and Yen) is likely to continue for some time. Management has downplayed the FX benefit to margin in public commentary year-to-date, but it has filled enough sandbags since the IPO to protect the Outer Banks from a hurricane storm surge.
- Fundamental margin expansion can continue, principally in the Integrated Health Services business. That segment's growth is driving operating leverage on overhead costs. Management is driving productivity improvements. The shift in mix toward "real-world, late-phase" research and mega-registry studies is also favorable to margin.
- Six analysts have cut numbers in the last three weeks, reducing mean expectations by about a penny and, more importantly, depressing sentiment ahead of 1Q15 earnings results on April 29.

- Finally, Q has underperformed each member of the comp group and underperformed the average by 780 bps YTD. We think 1Q will actually be better than the now diminished expectations.

Revised EPS Estimates

We have revisited our model, taking margin expansion opportunities (primarily in IHS) into greater account. Based on analysis of last year's performance and our FX analysis early in this report, we have revised our forecasts to accommodate a small part of the FX impact...but only a small part.

In short, we have reduced 2015 revenue by another \$20M and raised Adjusted EBITDA margin by 10 bps. We had previously included 20-30 bps of FX-related margin help. Now that total is 30-40, compared to 60 bps gained in 2014.

Management has guided to a smaller FX benefit in 2015 than in 2014, so we are still in that territory. However, much of Q's margin benefit comes from the mismatch on Japanese Yen and Indian Rupee. Those spreads are not smaller in 2015 than they were in 2014. Moreover, the YoY change in the European currencies has increased significantly. Management indicates that it hedges the mismatch away in those countries, so perhaps that is a neutral, but it seems very unlikely to be a negative.

Bottom line: We take a penny out of 1Q15, while our full year 2015 is unchanged. We raise 2016 EPS estimates to \$3.58 from \$3.43. Our new estimate is slightly above consensus (+2.3%).

Valuation

Q trades at 21.5x 2015 EPS and 19.4x 2016. This is slightly below the group average for both years. Holding its current year multiple, Q could trade to \$77 on a P/E basis. On this point, we actually believe the EPS lift from higher margin could be substantially more than we are showing in the model and more than management is letting on.

In our DCF model, we arrive at \$80 using a 1.15 Beta (Bloomberg says 0.79, for what it's worth), a 7.6% WACC, and a 13x EBIT terminal multiple, which is lower than current trading levels and typical CRO transaction multiples in the mid-teens.

Taking the average of these two brings us to a price target of \$79.

Pfizer Confirms Third Alliance Partner

In a story carried by Outsourcing-pharma.com on Wednesday, Pfizer confirmed the long-awaited third Alliance Partner as Pharmaceutical Product Development (PPD). We wrote about this on January 6 (CRO "Strategic Deals" Progressing w/Important Changes). We were able to alert the market to an inevitable 3rd partner in the deal, but were not able to name the private player. (<http://bit.ly/1lie5vU>). Pfizer has now confirmed that winner.

We think additional context will help investors to set expectations around ICLR and PRXL, Pfizer's two pre-existing Alliance Partners.

Pfizer Already Outsources Essentially All Clinical.

From our tracking of the Alliance Partnership (AP) from its origins, we know that PFE already outsourced ~80% of clinical development work to a long list of vendors before the AP began. In fact, a key goal of the AP was to consolidate outsourced services from 17 functional service providers (FSPs) to 2 Alliance Partners. A second goal was to increase outsourcing to 90% of clinical activities from 80%, with the remaining 10% intended to stay in-house.

Takeaway 1: The third vendor is a reflection of Pfizer needing to consolidate more activity still being executed by a smattering of FSP vendors into the Alliance Partnership and needing another AP vendor to provide the flexibility to do that.

Takeaway 2: It is not a signal that Pfizer can outsource a larger percentage of its budget, as it is basically maxed out on that.

ICLR Awarded Bigger, Newer Studies

Pfizer tagged about 200 studies that moved from those FSPs to ICLR and PRXL. Yes, PRXL got more mid-stream projects, of which some large ones have concluded, confirming PRXL's comments in October 2014 about early completion of studies. ICLR had a heavier mix of new study starts, which ramped in 2013 and 2014 driving ICLR's top client revenue from \$200M in 2012 to \$466M in 2014. PRXL's top client (again, presumably Pfizer) generated \$311M in CY14 revenue, about flat with \$315M in CY13.

Takeaway 3: We have thought for a couple of quarters that ICLR's *bookings* from Pfizer were going to plateau and even decline in 2015. We expect this to result from risk management controls, not performance.

Takeaway 4: Thus, our attention has been on ICLR's overall book-to-bill and comments about wins from non-Pfizer clients, as ICLR's growth leadership is rotating away from Pfizer. This week's confirmation of a third Alliance Partner is a lagging indicator to that.

Price Target Changes

Increasing CRL to \$90.00 from \$85.00. The sell-side has remained predominantly cautious on early development as volumes have improved over the last 18 months. Some have even come in late and left early. Our higher R&D spending outlook coupled with biotech funding strength should be particularly positive for early development and CRL.

In the short run, we acknowledge that FX is both a top and bottom line headwind for CRL, which could hurt short-term guidance.

In the long run, we highlight two points that address elements of the cautious theses.

- Cycles for CRO segments tend to run for 5-6 years. Nothing particularly magic about that...the cycle termini have come for different reasons, but durations are surprisingly similar. 1994-1999 late-stage; 2001 – 2006 early-stage; 2003 – 2008 late-stage; 2010 – ? late-stage; 2013 – ? early-stage.
- CRL's animals models business does face secular headwinds as scientists find ways to reduce animal volumes in studies. This is not new in 2014 or 2015, but a multi-year response to animal husbandry principles. Within that secular trend, CRL is seeing cyclical upticks, starting in North America. Europe and Asia improvements are said to typically lag North America. For what it's worth, CRL's competitors have echoed the same sentiments.

The increase is driven by a higher '16 P/E multiple (20x vs. 18x). We believe CRL should trade at a slight premium to its pharma services peers because of the cyclical turn in its subsector.

Increasing PRXL to \$62.00 from \$57.00. PRXL is a mixed bag to us, leaving us with low directional conviction. We believe the FY4Q revenue expectations (\$549M consensus, \$544 Jef) look quite aggressive even in a stable currency environment, which we do not have. The company might get a pass if a guidance cut was only for FX, but management

might need a sharper knife than that depending on the ramp of this backlog bolus in start-up (discussed last call).

On the other hand, RFP activity in the March quarter was purportedly strong. If PRXL posted a strong book-to-bill for a second quarter in a row, cut revenue guidance, but increased EBIT/EPS guidance on FX, the stock might do okay. Further, a little growth in PRXL's largest client would be a confidence boost for bulls, as well. We remain at Hold and still believe PRXL should trade at a discount. Our \$62 price target applies an 18x P/E to our calendar 2016 estimate.

Chart 15: CRO Valuation Comp Table

Ticker	Company	04/23/15		Price Target	Upside to PT	PT / '16 EPS	52 Week Range		Avg Day Volume	Short % Shs Out	MCap (\$000)	EV (\$000)	Debt/ EBITDA	LT EPS		FCF Yield	Dividend Yield	FYE	Earnings Date (Est.)
		Price	Rating				Low	High						Growth	PEG				
Q	Quintiles Transnational Holdings, Inc.	\$ 67.69	BUY	\$ 79.00	16.7%	22.1x	\$ 46.27	\$ 69.97	517,596	1.8%	\$ 8,706,694	\$ 10,129,771	2.0x	12%	1.58x	4.9%	-	Dec	04/29/2015
CVD	Covance Inc.	106.42	HOLD	104.00	(2.3%)	22.0x	73.57	107.39	365,757	2.3%	6,098,793	5,533,543	0.0x	15%	1.50x	2.8%	0.0%	Dec	04/29/2015
ICLR	ICON Plc	69.41	BUY	80.00	15.3%	19.4x	35.33	72.40	378,449	2.1%	4,297,044	4,081,044	0.0x	16%	1.05x	5.0%	-	Dec	04/28/2015
WST	West Pharmaceutical Services, Inc.	56.60	HOLD	55.00	(2.8%)	24.6x	39.11	60.30	330,574	3.1%	4,143,120	4,224,520	0.3x	15%	1.69x	1.1%	1.3%	Dec	04/30/2015
CTLT	Catalent Inc	31.05	BUY	32.00	3.1%	22.4x	19.30	31.66	595,667	0.9%	3,910,879	4,863,879	2.2x	11%	1.98x	3.8%	-	Jun	05/05/2015
PRXL	PAREXEL International Corporation	67.22	HOLD	62.00	(7.8%)	18.1x	41.79	71.42	434,613	7.8%	3,744,759	3,789,716	0.2x	15%	1.31x	3.9%	-	Jun	04/29/2015
CRL	Charles River Laboratories International	77.89	BUY	90.00	15.5%	21.5x	49.60	84.69	489,353	2.6%	3,701,073	4,300,193	1.8x	10%	1.86x	5.8%	-	Dec	04/29/2015
WX	Wuxi PharmaTech (Cayman) Inc. Sponsor	39.36	HOLD	38.00	(3.5%)	22.1x	29.84	42.31	667,608	2.8%	2,826,953	2,576,832	0.0x	13%	1.76x	1.5%	-	Dec	05/12/2015
PRAH	PRA Health Sciences, Inc.	28.28	BUY	31.00	9.6%	18.5x	18.47	31.99	184,436	1.1%	1,766,834	2,623,842	4.6x	18%	0.94x	5.2%	-	Dec	TBD

Ticker	Company	EV / Revenue			EV / EBITDA			P / E			Net Revenue			Adjusted EBITDA			Adjusted EPS (non-GAAP)		
		2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Q	Quintiles Transnational Holdings, Inc.	2.4x	2.3x	2.2x	14.1x	12.9x	11.6x	25.1x	21.8x	18.9x	\$ 4,165,822	\$ 4,334,968	\$ 4,636,378	\$ 720,391	\$ 788,292	\$ 871,990	\$ 2.70	\$ 3.11	\$ 3.58
CVD	Covance Inc.	2.2x	2.1x	2.0x	12.6x	11.5x	10.7x	28.0x	24.6x	22.5x	2,521,002	2,670,709	2,791,365	439,448	480,650	516,952	3.80	4.33	4.72
ICLR	ICON Plc	2.7x	2.4x	2.2x	15.5x	12.6x	11.2x	24.4x	19.3x	16.8x	1,503,316	1,665,758	1,825,177	263,688	323,660	364,349	2.85	3.60	4.13
WST	West Pharmaceutical Services, Inc.	3.0x	2.9x	2.7x	15.1x	14.0x	12.1x	31.8x	31.4x	25.3x	1,421,400	1,447,950	1,556,181	279,100	301,446	348,634	1.78	1.80	2.23
CTLT	Catalent Inc	2.6x	2.5x	2.4x	11.1x	11.2x	10.2x	24.1x	23.9x	21.8x	1,846,800	1,920,037	2,048,827	438,200	432,914	475,647	1.29	1.30	1.43
PRXL	PAREXEL International Corporation	1.9x	1.8x	1.7x	12.7x	11.8x	10.6x	26.3x	23.0x	19.7x	1,993,935	2,133,343	2,279,962	298,586	320,494	358,017	2.55	2.92	3.42
CRL	Charles River Laboratories International	3.3x	3.2x	3.0x	13.1x	9.4x	8.7x	22.5x	21.4x	18.6x	1,297,662	1,334,684	1,424,056	328,240	457,602	494,241	3.46	3.65	4.19
WX	Wuxi PharmaTech (Cayman) Inc. Sponsor	3.8x	3.2x	2.8x	16.9x	16.4x	12.7x	25.2x	29.5x	22.8x	674,278	794,636	927,388	152,559	157,269	203,385	1.56	1.34	1.72
PRAH	PRA Health Sciences, Inc.	2.1x	1.9x	1.8x	14.0x	12.8x	11.4x	21.9x	20.4x	16.9x	1,266,596	1,355,673	1,477,174	187,655	204,253	229,905	1.29	1.38	1.67
Pharma Services Mean		2.7x	2.5x	2.3x	13.9x	12.5x	11.1x	26.2x	24.0x	20.4x									
Pharma Services Median		2.6x	2.4x	2.2x	14.0x	12.7x	11.2x	25.2x	23.4x	20.1x									

Source: FactSet and Jefferies LLC

Chart 16: Quintiles (Q) Earnings Model

Non-GAAP Income Statement	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015E	2016E
Total Service Revenue	927,435	944,238	932,727	1,003,940	3,808,340	1,005,288	1,035,476	1,061,013	1,064,045	4,165,822	1,012,780	1,080,740	1,118,881	1,122,567	4,334,968	4,636,378
YoY Growth	4.4%	(0.1%)	2.1%	6.2%	3.1%	8.4%	9.7%	13.8%	6.0%	9.4%	0.7%	4.4%	5.5%	5.5%	4.1%	7.0%
Cost of revenue	611,109	617,666	600,694	641,957	2,471,426	643,722	674,514	691,051	674,819	2,684,106	643,892	696,455	722,230	707,231	2,769,808	2,940,591
SG&A	197,968	202,478	199,573	232,797	832,816	219,242	219,014	219,027	225,055	882,338	215,405	222,933	227,614	234,676	900,628	953,843
Operating income	118,358	124,094	132,460	129,186	504,098	142,324	141,948	150,935	164,171	599,378	153,483	161,353	169,037	180,660	664,533	741,944
Adjusted EBITDA	142,998	149,080	159,784	159,740	611,602	171,412	171,793	181,115	196,071	720,391	182,397	192,207	200,980	212,709	788,292	871,990
YoY Growth	10.3%	7.9%	17.7%	14.0%	12.5%	19.9%	15.2%	13.3%	22.7%	17.8%	6.4%	11.9%	11.0%	8.5%	9.4%	10.6%
Net interest expense	35,590	31,099	27,637	25,245	119,571	23,448	23,805	24,448	25,478	97,179	25,782	25,510	25,238	25,004	101,535	98,258
Other expense (income), net	(2,151)	536	4,448	1,892	4,725	(4,844)	3,056	1,063	586	(139)	-	-	-	-	-	-
Pre-tax income	84,919	92,459	100,375	102,049	379,802	123,720	115,087	125,424	138,107	502,338	127,701	135,842	143,798	155,656	562,998	643,686
Income taxes	26,000	30,162	29,491	29,559	115,212	37,636	32,746	41,965	40,823	153,170	37,672	40,073	42,421	45,919	166,084	189,887
Income from unconsolidated affiliates	(1,683)	464	(355)	450	(1,124)	4,891	3,371	1,523	(5,417)	4,368	-	-	-	-	-	-
Loss from noncontrolling interest/minority interest	153	164	185	62	564	(31)	10	(79)	(18)	(118)	(18)	(18)	(18)	(18)	(72)	(72)
Non-GAAP net income	57,389	62,925	70,714	73,002	264,030	90,944	85,722	84,903	91,849	353,418	90,011	95,751	101,360	109,720	396,841	453,727
Non-GAAP EPS	0.48	0.50	0.53	0.55	2.06	0.68	0.65	0.65	0.71	2.70	0.71	0.75	0.79	0.86	3.11	3.58
YoY Growth	9.0%	4.7%	18.8%	34.4%	16.4%	41.4%	30.6%	22.5%	30.0%	30.6%	3.6%	15.8%	22.2%	20.1%	15.4%	14.9%
Diluted shares outstanding	118,740	126,578	133,267	132,861	127,862	133,040	132,042	130,626	128,626	131,083	127,158	127,408	127,658	127,908	127,533	126,858
COMMON SIZE:																
Cost of revenue	65.9%	65.4%	64.4%	63.9%	64.9%	64.0%	65.1%	65.1%	63.4%	64.4%	63.6%	64.4%	64.5%	63.0%	63.9%	63.4%
SG&A	21.3%	21.4%	21.4%	23.2%	21.9%	21.8%	21.2%	20.6%	21.2%	21.2%	21.3%	20.6%	20.3%	20.9%	20.8%	20.6%
Operating income	12.8%	13.1%	14.2%	12.9%	13.2%	14.2%	13.7%	14.2%	15.4%	14.4%	15.2%	14.9%	15.1%	16.1%	15.3%	16.0%
Adjusted EBITDA	15.4%	15.8%	17.1%	15.9%	16.1%	17.1%	16.6%	17.1%	18.4%	17.3%	18.0%	17.8%	18.0%	18.9%	18.2%	18.8%
Net Interest Expense	3.8%	3.3%	3.0%	2.5%	3.1%	2.3%	2.3%	2.3%	2.4%	2.3%	2.5%	2.4%	2.3%	2.2%	2.3%	2.1%
Other Expense (Income), net	(0.2%)	0.1%	0.5%	0.2%	0.1%	(0.5%)	0.3%	0.1%	0.1%	(0.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pre-tax income	9.2%	9.8%	10.8%	10.2%	10.0%	12.3%	11.1%	11.8%	13.0%	12.1%	12.6%	12.6%	12.9%	13.9%	13.0%	13.9%
Income taxes	30.6%	32.6%	29.4%	29.0%	30.3%	30.4%	28.5%	33.5%	29.6%	30.5%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%
Non-GAAP net income	6.2%	6.7%	7.6%	7.3%	6.9%	9.0%	8.3%	8.0%	8.6%	8.5%	8.9%	8.9%	9.1%	9.8%	9.2%	9.8%
GROWTH (YoY):																
Total Service Revenue	4.4%	(0.1%)	2.1%	6.2%	3.1%	8.4%	9.7%	13.8%	6.0%	9.4%	0.7%	4.4%	5.5%	5.5%	4.1%	7.0%
Cost of revenue	3.5%	(1.7%)	(1.9%)	2.1%	0.5%	5.3%	9.2%	15.0%	5.1%	8.6%	0.0%	3.3%	4.5%	4.8%	3.2%	6.2%
SG&A	3.6%	0.1%	4.2%	14.8%	5.8%	10.7%	8.2%	9.7%	(3.3%)	5.9%	(1.8%)	1.8%	3.9%	4.3%	2.1%	5.9%
Operating income	11.3%	8.4%	20.4%	12.8%	13.2%	20.2%	14.4%	13.9%	27.1%	18.9%	7.8%	13.7%	12.0%	10.0%	10.9%	11.6%
Adjusted EBITDA	10.3%	7.9%	17.7%	14.0%	12.5%	19.9%	15.2%	13.3%	22.7%	17.8%	6.4%	11.9%	11.0%	8.5%	9.4%	10.6%
Net Interest Expense	23.1%	(5.2%)	(15.4%)	(31.6%)	(8.9%)	(34.1%)	(23.5%)	(11.5%)	0.9%	(18.7%)	10.0%	7.2%	3.2%	(1.9%)	4.5%	(3.2%)
Other Expense (Income), net	(11.1%)	(108.7%)	15.5%	63.7%	(232.3%)	125.2%	470.1%	(76.1%)	(69.0%)	(102.9%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	nm
Pre-tax income	6.3%	5.3%	36.5%	33.4%	19.5%	45.7%	24.5%	25.0%	35.3%	32.3%	3.2%	18.0%	14.6%	12.7%	12.1%	14.3%
Income taxes	(12.7%)	(7.2%)	34.7%	5.3%	2.6%	44.8%	8.6%	42.3%	38.1%	32.9%	0.1%	22.4%	1.1%	12.5%	8.4%	14.3%
Non-GAAP net income	10.1%	12.6%	34.3%	51.1%	26.4%	58.5%	36.2%	20.1%	25.8%	33.9%	(1.0%)	11.7%	19.4%	19.5%	12.3%	14.3%
Non-GAAP EPS	9.0%	4.7%	18.8%	34.4%	16.4%	41.4%	30.6%	22.5%	30.0%	30.6%	3.6%	15.8%	22.2%	20.1%	15.4%	14.9%

Source: Company Data and Jefferies LLC

Chart 17: Quintiles (Q) Balance Sheet

BALANCE SHEET	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015E	2016E
Cash and cash equivalents	454,293	585,722	609,710	778,143	778,143	741,381	636,468	645,034	867,358	867,358	907,346	1,032,600	1,141,709	1,215,594	1,215,594	1,437,342
Restricted Cash	3,880	2,321	3,317	2,712	2,712	3,373	3,296	3,519	2,882	2,882	2,882	2,882	2,882	2,882	2,882	2,882
Accounts Receivable & Unbilled Services	779,342	867,211	895,345	924,205	924,205	948,453	964,346	1,032,553	975,255	975,255	923,580	985,555	1,020,336	1,023,698	1,023,698	1,101,725
Prepaid Expenses & Other Current Assets	201,982	218,606	208,814	240,628	240,628	254,613	260,597	257,497	300,588	300,588	271,095	274,035	277,794	281,596	281,596	311,331
Current assets	1,439,497	1,673,860	1,717,186	1,945,688	1,945,688	1,947,820	1,864,707	1,938,603	2,146,083	2,146,083	2,104,903	2,295,072	2,442,721	2,523,770	2,523,770	2,853,280
PP&E	190,166	196,749	197,393	199,578	199,578	195,852	196,382	190,863	190,297	190,297	195,282	198,909	201,774	204,566	204,566	218,434
Deferred Income Taxes	32,399	41,141	32,434	32,864	32,864	33,430	33,687	31,278	35,972	35,972	33,470	35,716	36,977	37,099	37,099	40,273
Investments	57,582	58,122	61,431	63,276	63,276	66,700	67,423	68,460	66,011	66,011	71,011	76,011	81,011	86,011	86,011	106,011
Goodwill and Other Intangible Assets	571,572	566,993	722,650	707,680	707,680	698,613	692,832	756,886	744,677	744,677	736,003	726,747	717,164	707,549	707,549	668,536
Deposits and Other Assets	135,489	111,302	110,927	117,711	117,711	119,477	123,606	120,625	122,792	122,792	121,292	119,792	118,292	116,792	116,792	110,792
Total Assets	2,426,705	2,648,167	2,842,021	3,066,797	3,066,797	3,061,892	2,978,637	3,106,715	3,305,832	3,305,832	3,261,961	3,452,247	3,597,939	3,675,787	3,675,787	3,997,325
Accounts payable and accrued expenses	671,448	708,583	758,641	861,805	861,805	768,868	751,649	830,388	842,387	842,387	773,050	836,156	867,102	849,094	849,094	875,404
Other Expenses	61,691	70,434	60,654	71,424	71,424	80,595	64,620	49,711	85,382	85,382	76,244	81,360	84,232	84,509	84,509	93,636
Unearned Income	454,108	459,569	510,997	538,585	538,585	511,441	516,076	526,000	543,305	543,305	526,050	561,350	581,161	583,076	583,076	620,806
Revolver	34,741	141	4,091	10,433	10,433	15,572	20,715	20,681	826	826	826	826	826	826	826	826
Current Liabilities	1,221,988	1,238,727	1,334,383	1,482,247	1,482,247	1,376,476	1,353,060	1,426,780	1,471,900	1,471,900	1,376,171	1,479,693	1,533,321	1,517,505	1,517,505	1,590,671
HoldCo Term Loan	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Term Loan B	1,935,696	1,626,075	1,623,005	1,593,934	1,593,934	1,589,595	1,585,257	1,580,943	1,850,839	1,850,839	1,825,839	1,792,839	1,767,839	1,742,839	1,742,839	1,679,839
Incremental Term B-1 Loan	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652	141,652
Other Notes Payable	43	43	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unamortized Discount	(22,908)	(22,908)	(22,908)	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Leases	280	280	280	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Tax Liabilities	16,000	8,362	16,606	37,541	37,541	35,565	33,899	25,578	61,797	61,797	48,301	51,543	53,362	53,537	53,537	63,567
Other Liabilities	156,249	153,824	160,975	178,908	178,908	178,129	186,379	167,994	183,656	183,656	176,291	188,120	194,759	195,401	195,401	208,918
Total Liabilities	3,749,000	3,446,055	3,553,993	3,734,282	3,734,282	3,621,417	3,600,247	3,642,947	4,009,844	4,009,844	3,868,254	3,953,846	3,990,932	3,950,934	3,950,934	3,984,646
Minority Interest	328	170	(5)	(72)	(72)	(51)	(61)	27	49	49	49	49	49	49	49	49
Shareholder's Equity	(1,322,623)	(798,058)	(711,967)	(667,413)	(667,413)	(559,474)	(621,549)	(536,259)	(704,061)	(704,061)	(606,342)	(501,648)	(393,042)	(275,196)	(275,196)	12,630
Total Liabilities and Equity	2,426,705	2,648,167	2,842,021	3,066,797	3,066,797	3,061,892	2,978,637	3,106,715	3,305,832	3,305,832	3,261,961	3,452,247	3,597,939	3,675,787	3,675,787	3,997,325
ASSUMPTIONS																
Days Receivable	74	78	85	82	79	84	83	85	85	82	82	82	82	82	83	83
Days Sales Outstanding																
Days Payable	105	101	110	114	63	114	101	103	112	108	108	108	108	108	105	103
Unearned Income Days Outstanding	(44)	(44)	(47)	(47)	(47)	(47)	(45)	(44)	(45)	(47)	(47)	(47)	(47)	(47)	(47)	(47)
Prepaid Expenses & Other Current Assets	5.3%	5.6%	5.7%	5.6%	5.7%	6.2%	6.2%	6.1%	6.6%	6.5%	6.5%	6.5%	6.5%	6.5%	6.7%	6.4%
Deferred Income Taxes	0.9%	1.0%	1.0%	0.8%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Deposits and Other Assets	3.5%	3.3%	3.0%	2.8%	3.2%	2.9%	2.9%	2.9%	2.9%	2.9%	3.0%	2.8%	2.7%	2.6%	2.8%	2.5%
Other Expenses	1.6%	1.7%	1.8%	1.6%	1.6%	1.9%	1.8%	1.3%	1.6%	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%	1.9%
Deferred Tax Liabilities	0.4%	0.3%	0.3%	0.7%	0.6%	0.9%	0.8%	0.7%	1.0%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%
Other Liabilities	4.3%	4.1%	4.2%	4.2%	4.5%	4.4%	4.4%	4.2%	4.1%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%

Source: Company Data and Jefferies LLC

Chart 18: Quintiles (Q) Statement of Cash Flows

CASH FLOW	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015E	2016E
GAAP Net Income	48,156	38,353	66,584	72,934	226,027	90,214	85,110	92,733	88,444	356,501	90,029	95,769	101,378	109,738	396,913	453,799
Depreciation & Amortization	24,640	24,986	27,324	30,554	107,504	29,088	29,845	30,180	31,900	121,013	28,914	30,854	31,943	32,048	123,759	130,046
Amortization of Debt Issuance	2,875	12,383	1,686	4,881	21,825	1,595	1,596	1,596	1,901	6,688	-	-	-	-	-	-
Amortization of OID	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock Based Compensation	4,473	6,618	5,869	5,866	22,826	7,221	8,380	6,787	7,613	30,001	7,690	8,925	7,228	8,108	31,951	34,028
Restructuring (payments) accrual and write-off	(492)	851	(863)	(15,849)	(16,353)	(16,180)	(6,044)	(5,147)	(9,218)	(36,589)	-	-	-	-	-	-
(Increase) Decrease in Deferred Income Taxes	11,164	(23,205)	(3,842)	(8,353)	(24,236)	(1,587)	414	(10,356)	19,384	7,855	2,502	(2,246)	(1,260)	(122)	(1,127)	(3,174)
(Increase) Decrease in OWC	(74,303)	74,303	-	-	-	-	-	-	-	-	(48,981)	65,282	30,058	(21,532)	24,827	5,701
(Increase) Decrease in Deposits and Other As	-	(18,180)	19,489	210,149	211,458	(87,770)	(41,617)	78,460	75,842	24,915	1,500	1,500	1,500	1,500	6,000	6,000
(Increase) Decrease in Unconsolidated Affiliati	1,683	(1,683)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (Decrease) in DTLs	-	-	-	-	-	-	-	-	-	-	(13,496)	3,241	1,819	176	(8,260)	10,029
Increase (Decrease) in Other Liabilities	-	-	-	-	-	-	-	-	-	-	(7,365)	11,830	6,639	642	11,745	13,517
Change in accounts receivable, unbilled servic	(39,654)	(87,584)	60,279	(84,722)	(151,681)	(51,018)	(10,550)	(57,153)	40,091	(78,630)	34,421	(26,675)	(14,971)	(1,447)	(8,673)	(40,297)
Operating Cash Flow	(21,458)	26,842	176,526	215,460	397,370	(28,437)	67,134	137,100	255,957	431,754	95,213	188,479	164,334	129,110	577,136	609,648
(Capital Expenditures)	(31,459)	(32,817)	(13,663)	(14,407)	(92,346)	(18,373)	(17,459)	(21,950)	(24,868)	(82,650)	(25,225)	(25,225)	(25,225)	(25,225)	(100,900)	(104,900)
Restricted Cash Change	(1,077)	1,077	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale / (Purchases) of equity se	(4,317)	1,194	(3,292)	1,535	(4,880)	4,394	(903)	565	(2,319)	1,737	(5,000)	(5,000)	(5,000)	(5,000)	(20,000)	(20,000)
(Acquisitions)	659	(659)	(143,637)	688	(142,949)	-	(667)	(91,534)	-	(92,201)	-	-	-	-	-	-
Investing Cash Flow	(36,194)	(31,205)	(160,592)	(12,184)	(240,175)	(13,979)	(19,029)	(112,919)	(27,187)	(173,114)	(30,225)	(30,225)	(30,225)	(30,225)	(120,900)	(124,900)
IPO Proceeds	-	489,941	(17)	(9,468)	480,456	-	-	-	-	-	-	-	-	-	-	-
Share Repurchases	149	(149)	-	-	-	-	(153,818)	11,783	(246,283)	(388,318)	-	-	-	-	-	(200,000)
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Term Loan B-2 Issuance (Repayment)	(34,304)	(350,521)	(982)	(1,850)	(387,657)	-	-	-	244,843	244,843	(25,000)	(33,000)	(25,000)	(25,000)	(108,000)	(63,000)
HoldCo Issuance (Repayment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Incremental Term B-1 Loan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Notes Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Lease Payments	-	-	-	-	-	(334)	(132)	(6,263)	4,117	(2,612)	-	-	-	-	-	-
Revolver Issuance (Repayment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	196	466	(517)	(21,987)	(21,842)	3,341	(3,143)	4,189	11,356	15,743	-	-	-	-	-	-
Financing Cash Flow	(33,959)	139,737	(1,516)	(33,305)	70,957	3,007	(157,093)	9,709	14,033	(130,344)	(25,000)	(33,000)	(25,000)	(25,000)	(108,000)	(263,000)
FX Impact	(21,824)	(3,945)	9,570	(1,538)	(17,737)	2,647	4,075	(25,324)	(20,479)	(39,081)	-	-	-	-	-	-
Beginning Cash	567,728	454,293	585,722	609,710	567,728	778,143	741,381	636,468	645,034	778,143	867,358	907,346	1,032,600	1,141,709	867,358	1,215,594
Net Cash Flow	(113,435)	131,429	23,988	168,433	210,415	(36,762)	(104,913)	8,566	222,324	89,215	39,988	125,254	109,109	73,885	348,236	221,748
Ending Cash	454,293	585,722	609,710	778,143	778,143	741,381	636,468	645,034	867,358	867,358	907,346	1,032,600	1,141,709	1,215,594	1,215,594	1,437,342
Cash Available for Debt Paydown	(57,503)	485,429	15,917	193,808	637,651	(42,416)	(105,713)	35,964	(17,513)	(129,678)	64,988	158,254	134,109	98,885	456,236	284,748
Free Cash Flow	(52,917)	(5,975)	162,863	201,053	305,024	(46,810)	49,675	115,150	231,089	349,104	69,988	163,254	139,109	103,885	476,236	504,748

Source: Company Data and Jefferies LLC

Chart 19: PAREXEL International (PRXL) Earnings Model

PAREXEL International Corporation
Earnings Model

FY June Source: Jefferies LLC	2014					2015E					2015	2016
	Sep-13	Dec-13	Mar-14	Jun-14	2014	Sep-14	Dec-14	Mar-15E	Jun-15E			
Gross revenue	529,064	574,236	577,918	585,124	2,266,342	573,689	575,045	590,187	626,953		2,365,874	2,551,837
Less: Reimbursed costs	(79,819)	(87,091)	(85,543)	(74,529)	(326,982)	(81,993)	(75,776)	(77,771)	(82,616)		(318,156)	(343,164)
Net revenue	\$449,245	\$487,145	\$492,375	\$510,595	\$1,939,360	\$491,696	\$499,269	\$512,416	\$544,336		\$2,047,717	\$2,208,673
Direct costs	303,194	324,507	323,149	328,328	1,279,178	318,819	327,321	337,887	353,682		1,337,708	1,433,562
SG&A	84,831	94,457	95,518	103,948	378,754	99,686	98,580	100,431	108,640		407,336	436,120
EBITDA	61,220	68,181	73,708	78,319	281,428	73,191	73,368	74,099	82,015		302,673	338,990
D&A	19,258	20,446	20,527	21,097	81,328	20,384	20,369	20,623	20,973		82,350	86,603
Total expenses	407,283	439,410	439,194	453,373	1,739,260	438,889	446,270	458,941	483,295		1,827,395	1,956,286
Adjusted EBIT	41,962	47,735	53,181	57,222	200,100	52,807	52,999	53,475	61,042		220,323	252,387
Interest expense (income)	2,965	3,707	2,560	2,601	11,833	(1,641)	(1,204)	1,015	939		(891)	2,798
Non-recurring items	81	1,071	814	(1,560)	406	(773)	352	-	-		(421)	-
Pretax income	38,916	42,957	49,807	56,181	187,861	55,221	53,851	52,461	60,103		221,635	249,588
Taxes	13,167	14,898	18,278	17,131	63,474	18,125	15,842	16,000	18,331		68,299	70,819
Net income	25,954	28,329	34,739	40,072	124,387	37,142	38,760	36,460	41,771		153,336	178,769
NI before charges	25,830	29,130	32,343	37,490	124,793	36,323	38,361	36,460	41,771		152,915	178,769
GAAP EPS	\$0.45	\$0.49	\$0.60	\$0.70	\$2.25	\$0.67	\$0.70	\$0.65	\$0.74		\$2.74	\$3.16
EPS before charges	\$0.45	\$0.51	\$0.56	\$0.65	\$2.17	\$0.65	\$0.69	\$0.65	\$0.74		\$2.74	\$3.16
Diluted shares	57,395	57,395	57,673	57,450	57,478	55,762	55,709	55,909	56,109		55,872	56,609
Common Size:												
Gross revenue	117.8%	117.9%	117.4%	114.6%	116.9%	116.7%	115.2%	115.2%	115.2%		115.5%	115.5%
Less: Pass-through	-17.8%	-17.9%	-17.4%	-14.6%	-16.9%	-16.7%	-15.2%	-15.2%	-15.2%		-15.5%	-15.5%
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		100.0%	100.0%
Direct costs	67.5%	66.6%	65.6%	64.3%	66.0%	64.8%	65.6%	65.9%	65.0%		65.3%	64.9%
Gross margin	32.5%	33.4%	34.4%	35.7%	34.0%	35.2%	34.4%	34.1%	35.0%		34.7%	35.1%
SG&A	18.9%	19.4%	19.4%	20.4%	19.5%	20.3%	19.7%	19.6%	20.0%		19.9%	19.7%
EBITDA	13.6%	14.0%	15.0%	15.3%	14.5%	14.9%	14.7%	14.5%	15.1%		14.8%	15.3%
D&A	4.3%	4.2%	4.2%	4.1%	4.2%	4.1%	4.1%	4.0%	3.9%		4.0%	3.9%
Charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		0.0%	0.0%
Total expenses	90.7%	90.2%	89.2%	88.8%	89.7%	89.3%	89.4%	89.6%	88.8%		89.2%	88.6%
EBIT	9.3%	9.8%	10.8%	11.2%	10.3%	10.7%	10.6%	10.4%	11.2%		10.8%	11.4%
Interest expense (income)	0.7%	0.8%	0.5%	0.5%	0.6%	-0.3%	-0.2%	0.2%	0.2%		0.0%	0.1%
Other	0.0%	0.2%	0.2%	-0.3%	0.0%	-0.2%	0.1%	0.0%	0.0%		0.0%	0.0%
Pretax income	8.7%	8.8%	10.1%	11.0%	9.7%	11.2%	10.8%	10.2%	11.0%		10.8%	11.3%
Taxes	33.8%	33.8%	36.1%	31.4%	33.7%	33.3%	29.2%	30.5%	30.5%		30.9%	28.4%
Net income	5.8%	5.8%	7.1%	7.8%	6.4%	7.6%	7.8%	7.1%	7.7%		7.5%	8.1%
Adjusted net income	5.7%	6.0%	6.6%	7.3%	6.4%	7.4%	7.7%	7.1%	7.7%		7.5%	8.1%

Source: Company Data and Jefferies LLC

Chart 20: Charles River Laboratories (CRL) Earnings Model

Charles River Laboratories International, Inc.
Earnings Model

FY December	2014E					2015E					
Source: Jefferies LLC	Q1	Q2	Q3	Q4E	2014	Q1E	Q2E	Q3E	Q4E	2015	2016
Total net sales	299,368	341,179	327,567	329,548	1,297,662	323,062	347,765	330,872	332,985	1,334,684	1,424,056
Cost of products and services	190,555	215,545	209,299	209,603	825,002	204,483	218,313	210,230	211,719	844,744	890,109
Gross profit	108,813	125,634	118,268	119,945	472,660	118,579	129,452	120,642	121,266	489,939	533,948
SG&A	57,832	60,836	60,107	65,194	243,969	60,484	59,175	55,883	59,237	234,778	245,294
EBITA	50,981	64,798	58,161	54,751	228,691	58,096	70,278	64,759	62,029	255,161	288,653
Amortization of intangibles	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	248,387	276,381	269,406	274,797	1,068,971	264,966	277,487	266,113	270,956	1,079,523	1,135,403
EBIT	50,981	64,798	58,161	54,751	228,691	58,096	70,278	64,759	62,029	255,161	288,653
Interest income (expense)	(2,596)	(3,151)	(2,621)	(2,428)	(10,796)	(2,902)	(2,742)	(2,561)	(2,391)	(10,597)	(7,912)
Other income (expense)	5,876	2,667	331	1,847	10,721	-	-	-	-	-	-
Charges	(11,274)	(13,773)	(11,989)	(13,984)	(51,020)	-	-	-	-	-	-
Pretax income	42,987	50,541	43,882	40,186	177,596	55,193	67,535	62,198	59,637	244,564	280,742
Taxes	10,358	14,081	11,582	11,650	47,671	16,001	19,579	18,031	17,289	70,900	81,388
Income before minority/sub	32,629	36,460	32,300	28,536	129,925	39,193	47,957	44,167	42,348	173,664	199,354
Discontinued Operations, net of tax	(270)	(644)	52	(864)	(1,726)	-	-	-	-	-	-
Net Income (loss)	32,359	35,816	32,352	27,672	128,199	39,193	47,957	44,167	42,348	173,664	199,354
Minority interest and other	(126)	(552)	(316)	(506)	(1,500)	(506)	(506)	(506)	(506)	(2,024)	(2,024)
Earnings from equity investments	-	-	-	-	-	-	-	-	-	-	-
Net income	32,233	35,264	32,036	27,166	126,699	38,687	47,451	43,661	41,842	171,640	197,330
Net income ex. nonrecurring	39,275	46,255	40,420	38,508	164,458	38,687	47,451	43,661	41,842	171,640	197,330
EPS	\$0.67	\$0.74	\$0.68	\$0.57	\$2.66	\$0.82	\$1.01	\$0.93	\$0.89	\$3.65	\$4.19
EPS (ex-charges) after amortization	\$0.82	\$0.97	\$0.86	\$0.81	\$3.46	\$0.82	\$1.01	\$0.93	\$0.89	\$3.65	\$4.19
Diluted shares outstanding	48,151	47,684	46,878	47,517	47,557	46,985	47,035	47,088	47,144	47,063	47,084
EBITDA	66,692	82,246	74,689	104,613	328,240	108,476	120,798	115,409	112,919	457,602	494,241
Common Size:											
Total net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of products and services	63.7%	63.2%	63.9%	63.6%	63.6%	63.3%	62.8%	63.5%	63.6%	63.3%	62.5%
Gross profit	36.3%	36.8%	36.1%	36.4%	36.4%	36.7%	37.2%	36.5%	36.4%	36.7%	37.5%
SG&A	19.3%	17.8%	18.3%	19.8%	18.8%	18.7%	17.0%	16.9%	17.8%	17.6%	17.2%
EBITA	17.0%	19.0%	17.8%	16.6%	17.6%	18.0%	20.2%	19.6%	18.6%	19.1%	20.3%
D&A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total operating expenses	83.0%	81.0%	82.2%	83.4%	82.4%	82.0%	79.8%	80.4%	81.4%	80.9%	79.7%
EBIT	17.0%	19.0%	17.8%	16.6%	17.6%	18.0%	20.2%	19.6%	18.6%	19.1%	20.3%
Interest income (expense)	-0.9%	-0.9%	-0.8%	-0.7%	-0.8%	-0.9%	-0.8%	-0.8%	-0.7%	-0.8%	-0.6%
Pretax income	14.4%	14.8%	13.4%	12.2%	13.7%	17.1%	19.4%	18.8%	17.9%	18.3%	19.7%
Taxes	24.1%	27.9%	26.4%	29.0%	26.8%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Income before minority/sub	10.8%	10.3%	9.8%	8.2%	9.8%	12.0%	13.6%	13.2%	12.6%	12.9%	13.9%
Minority interest	-0.4%	-1.5%	-1.0%	-1.8%	-1.2%	-1.3%	-1.1%	-1.1%	-1.2%	-1.2%	-1.0%
Income before minority/sub	10.8%	10.3%	9.8%	8.2%	9.8%	12.0%	13.6%	13.2%	12.6%	12.9%	13.9%
Net income ex. nonrecurring	13.1%	13.6%	12.3%	11.7%	12.7%	12.0%	13.6%	13.2%	12.6%	12.9%	13.9%

Source: Company Data and Jefferies LLC

Scenarios

Target Investment Thesis

- PDEV revenue growth approximates 7%
- IHS revenue grows 7%
- EBIT margins continue to improve
- Net interest expense declining with debt repayment
- Cash builds on balance sheet; both share buybacks and debt repayment are modest
- 2016 EPS: \$3.58; Target Multiple: 22.1x; Target Price \$79.00

Upside Scenario

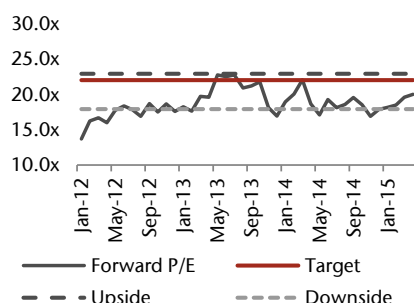
- Additional 'preferred vendor' deals are signed; PDEV revenue growth nears 10%
- IHS revenue growth also accelerates driven by additional Commercial engagements
- EBITDA margin improves to >19% on fixed leverage and cost control
- Free cash flow is used for tuck-in acquisitions
- 2016 EPS: \$3.70; Target Multiple: 23x; Target Price \$85.00

Downside Scenario

- Pricing pressures intensify; consolidated revenue growth slows to sub-6%
- Few new deals are signed; growth in late-stage clinical slows without offset in IHS
- Soft pricing drives margin deterioration; costs tightly controlled to mitigate impact
- Free cash is used to repurchase shares
- 2016 EPS: \$3.20; Target Multiple: 18x Target Price: \$57.50

Long Term Analysis

1 Year Forward P/E



Source: FactSet and Jefferies LLC

Long Term Financial Model Drivers

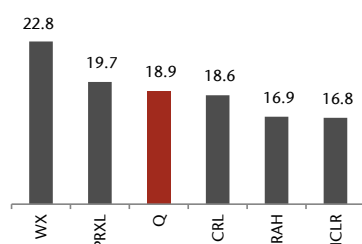
LT EPS CAGR	12-13%
Revenue Growth	7-9%
Operating Margin	14-16%
Effective Tax Rate	30%

Other Considerations

Q certainly deserves some valuation premium based on its industry leadership status and broader investability. The company has also done a great job staying ahead of peers and finding ways to enhance its industry-leading margins. FX should help out on this front again in 2015. Management continues to pursue additional tuck-in acquisitions to augment growth.

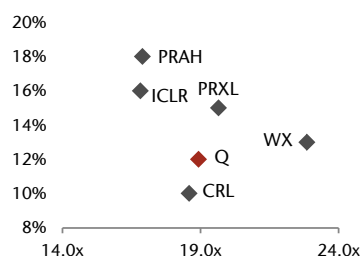
Peer Group

Group 2016 P/Es



Source: FactSet and Jefferies estimates

Earnings Growth vs P/E



Source: FactSet and Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
CRL	BUY	\$90.00
ICLR	BUY	\$80.00
PRXL	HOLD	\$62.00
PRAH	BUY	\$31.00
Q	BUY	\$79.00
WX	HOLD	\$38.00

Catalysts

- Signing of additional 'strategic' agreements
- Growth in pharma R&D budgets and/or the amount of work being outsourced
- Increased clinical trial starts, especially large global studies
- More rapid re-deployment of cash flow

Company Description

Quintiles is the leading provider of biopharmaceutical development and commercial outsourcing services in the world, covering 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. These services lines are supported by significant investments in technology, big data analytics, and tech-enabled services. Q is also building a meaningful strategic and management consulting unit to provide thought leadership to clients in R&D strategies. It was founded in 1982 and is based in Durham, North Carolina.

Scenarios

Target Investment Thesis

- Steady increase in preclinical demand from both large and small clients
- Industry capacity utilization nears ceiling, allowing price, margin improvement
- Solid cost controls and balance sheet deployment drive EPS growth
- Expanded service offering and client base via BioFocus/Argenta/ChanTest
- 2016 EPS: \$4.19; Target Multiple: 21.5x; Target Price \$90.00

Upside Scenario

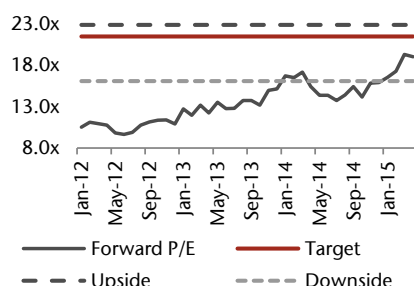
- Strong, broad-based preclinical demand fills capacity and drives mid-single digit price increase
- Competitor disruption allows share capture for CRL
- Utilization + pricing yields Incremental margin in PCS of 35-40% for 1-2 years
- Continued uptake of Endosafe-PTS drives 10%+ Manufacturing Support growth
- 2016 EPS: \$4.50; Target Multiple: 23.0x; Target Price: \$103.00

Downside Scenario

- Preclinical demand fails to accelerate; pricing remains stagnant
- Duration and mix of tox studies remains "short-biased", holding margin in PCS
- Pricing in new partnerships too aggressive
- Research model volumes do not benefit from increase in biotech activity
- Lower cash flow performance reduces benefit of capital deployment.
- 2016 EPS: \$3.85; Target Multiple: 16x; Target Price: \$62.00

Long Term Analysis

1 Year Forward P/E



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

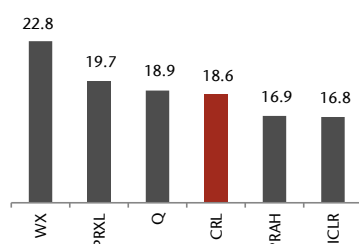
LT Earnings CAGR	10-12%
Revenue Growth	5-6%
Operating Margin	18-20%
Effective Tax Rate	28-29%

Other Considerations

The breadth of CRL's expertise in pre-human research products and services (GLP and non-GLP testing) is becoming increasingly important to big pharma. The trend toward narrower vendor lists to save R&D dollars and make quicker go/no-go decisions should avail share gain opportunities. Outsourcing of discovery and preclinical work (CRL's core skills) has lagged that of clinical, implying these areas have a longer runway.

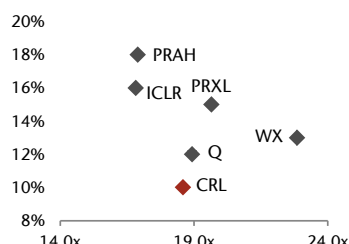
Peer Group

Group 2016 P/E



Source: FactSet, Jefferies estimates

Earnings Growth vs. P/E



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
CRL	BUY	\$90.00
ICLR	BUY	\$80.00
PRXL	HOLD	\$62.00
PRAH	BUY	\$31.00
Q	BUY	\$79.00
WX	HOLD	\$38.00
PRAH	BUY	\$31.00

Catalysts

- Acceleration in tox demand
- Share gain opportunities via platform sales to clients desiring one-stop-shop
- Increase in early stage spending by small/mid biopharmas
- Reductions in early stage industry capacity coincident with higher volume could lead to stronger pricing in 2015 and 2016

Company Description

Charles River Laboratories is a leading provider of animal research models and contract drug development services to the global biopharmaceutical industry. The company holds 50%+ market share in the supply of animals used in scientific research. Through acquisitions and de novo development, Charles River Labs has surrounded that franchise with services in late-discovery and early development of new drugs. In the most significant of these services, mammalian toxicology, Charles River became the second largest global player through its acquisition of Inveresk Research in 2004. CRL established a leadership position in outsourcing discovery work through acquisitions of Argenta, BioFocus, and ChanTest in 2014.

Scenarios

Target Investment Thesis

- Mid- to high-single digit backlog growth, stable conversion yields 6-8% revenue growth
- CRS GMS continues to improve to 32%
- PI revenue begins to accelerate toward high-single digits
- Efficiency and productivity initiatives lift OM to mid-12% range
- Tax rate trends down to ~26%
- CY16 EPS: \$3.42; Target Multiple: 18.0x; Target Price \$62.00

Upside Scenario

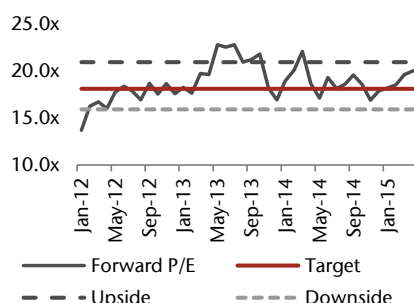
- RFPs inflect higher, driven by small biotech; rebound in PFE business
- Cancellations drop back to normal range
- Book-to-bill exceeds 1.2x target, driving revenue growth to low-teens
- Margins expansion continues above 13%
- Early Phase unit benefits from shift in budgets; Phase I operating leverage, ERP rollout, and revenue growth add to OM
- CY16 EPS: \$3.60; Target Multiple: 21x; Target Price: \$75.50

Downside Scenario

- Cancellation rates remain elevated and/or delays force projects out of backlog
- Book-to-bill trends toward 1.0x and revenue growth slows to low-single digit
- OM fails to sustain 12%+ level, due to continued discounting, "cost creep," and/or negative mix shift
- In ability to sustain share with strategic clients
- CY16 EPS: \$3.20; Target Multiple: 16x Target Price: \$51.00

Long Term Analysis

1 Year Forward P/E



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

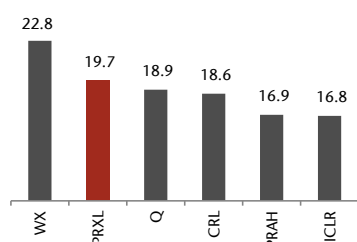
LT Earnings CAGR	15%
Revenue Growth	7-8%
Operating Margin	12-14%
Backlog	\$5.5B

Other Considerations

The new strategic partnership paradigm produced significant revenue growth and margins improvement. Those gains have stalled relative to PRXL's peers and need to reaccelerate to drive share appreciation. We believe PRXL's top 5 clients, which represent 46% of revenue, are in mature strategic deals with relatively stable revenue. Thus, PAREXEL will need smaller clients to produce substantial bookings and revenue growth to hit targets.

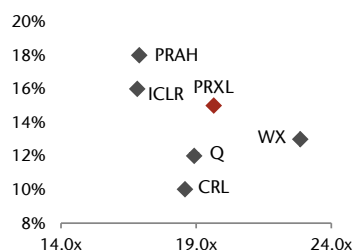
Peer Group

Group 2016 P/Es



Source: FactSet, Jefferies estimates

Earnings Growth vs. P/E



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
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PRXL	HOLD	\$62.00
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Q	BUY	\$79.00
WX	HOLD	\$38.00

Catalysts

- Acceleration in backlog conversion
- Announcement of new strategic partnerships
- Success in capturing substantial bookings from recently funded biotech
- Enterprise software deals in PI

Company Description

PAREXEL is a global provider of outsourced drug development, marketing, consulting, and IT solutions to the pharmaceutical and biotechnology industries. Based in Waltham, MA, the company employs over 15,500 people worldwide. PRXL operates three segments: Clinical Research Services, Marketing and Consulting Services, and PAREXEL Informatics. Among the publicly traded CROs, PAREXEL has the highest percentage of revenue derived outside the United States (65%+). PAREXEL's investment in information technology, including its proprietary IMPACT clinical trial management system and ClinPhone IVR, also makes it unique.

Company Description

Catalent, Inc. is the leading global provider of advanced delivery technologies and development solutions for drugs, biologics and consumer health products. With over 80 years serving the industry, Catalent has proven expertise in bringing more customer products to market faster, enhancing product performance and ensuring reliable clinical and commercial product supply. Catalent employs approximately 8,000 people, including over 1,000 scientists, at nearly 30 facilities across 5 continents.

Charles River Laboratories is a leading provider of animal research models and contract drug development services to the global biopharmaceutical industry. The company holds 50% market share in the supply of animals used in scientific research. Through acquisitions and de novo development, Charles River Labs has surrounded that franchise with services involved in the development of new drugs. In the most significant of these services, mammalian toxicology, Charles River became the second largest global player through its acquisition of Inveresk Research in 2H04. The acquisition also marked the company's entry into clinical services, albeit in a small way.

ICON is a global Phase I-IV contract research organization. After a period of extremely strong growth in Europe/ROW territories, ICON's clinical revenue is approximately balanced between U.S. and ex-U.S. operations. After establishing an international presence in Phase II-IV clinical development, ICON has made a number of acquisitions to expand services, client lists, and geographic reach. The company's Central Lab represents under 10% of revenue. ICON's management team continues to benefit from the active involvement of its two founders.

PAREXEL is a global provider of outsourced drug development, marketing, consulting, and IT solutions to the pharmaceutical and biotechnology industries. Based in Waltham, MA, the company employs over 10,300 people worldwide. PRXL operates three segments: Clinical Research Services, Marketing and Consulting Services, and Perceptive Informatics. Among the publicly traded CROs, PAREXEL has the highest percentage of revenue derived outside the United States (60%+). PAREXEL's investment in informational technology, including its proprietary IMPACT clinical trial management system, also makes it somewhat unique.

PRA Health Sciences is a leading global contract research organization. The company provides outsourced clinical development services to the biotechnology and pharmaceutical industries. PRA's global clinical development platform spans 80 countries and employs more than 10,000 individuals worldwide. Since 2000, the company has performed approximately 2,300 clinical trials worldwide and has worked on more than 100 marketed drugs across several therapeutic areas.

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.

West Pharmaceutical Services, Inc. manufactures components and systems for injectable drug delivery and plastic packaging, and delivery system components for the healthcare and consumer products markets. It operates in two segments, Packaging Systems and Delivery Systems. The Packaging Systems division engages in the design, manufacture, and sale of various packaging components such as stoppers and plungers used in parenteral drug delivery for the pharmaceutical, biopharmaceutical, and generic industries. This division also provides laboratory services such as extractables and leachables testing, package/container testing, method development/validation, stability testing and process development. The Delivery Systems division is involved in the manufacture and assembly of devices used for injectable drug delivery. This division also produces injection molded components and devices, such as contact lens storage kits, pill dispensers, and disposable blood collection systems, as well as various personal care and consumer products. The company has a global footprint and markets its products and services principally through its own sales force and distribution network. The company was founded in 1923 and is headquartered in Lionville, Pennsylvania.

WuXi is a leading China-based pharmaceutical and biotechnology R&D outsourcing company. WuXi offers a broad and integrated portfolio of laboratory and manufacturing services in the drug discovery and development process to pharmaceutical and biotechnology companies. The company's operations are grouped into two segments: laboratory services, consisting of discovery chemistry, service biology, analytical, pharmaceutical development and process development services, and manufacturing, focusing on manufacturing of advanced intermediates and API's.

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The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

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Other Companies Mentioned in This Report

- Catalent, Inc. (CTLT: \$31.05, BUY)
- Charles River Laboratories, Inc. (CRL: \$77.89, BUY)
- ICON plc (ICLR: \$69.41, BUY)
- PAREXEL International Corporation (PRXL: \$67.22, HOLD)
- PRA Health Sciences (PRAH: \$28.28, BUY)
- Quintiles Inc. (Q: \$67.69, BUY)
- West Pharmaceutical Services, Inc. (WST: \$56.60, HOLD)
- WuXi PharmaTech Inc. (WX: \$39.36, HOLD)

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1067	51.45%	291	27.27%
HOLD	840	40.50%	159	18.93%
UNDERPERFORM	167	8.05%	11	6.59%

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