

IMS Health

Q2 2016 Earnings Call

July 27, 2016



Legal

This presentation should be viewed in conjunction with IMS Health's Q2 2016 earnings call

Safe Harbor Statement

This presentation includes "forward-looking statements", including statements regarding future financial and operating results, especially those set forth under the heading "Full-Year Guidance" and "Q3 2016 Guidance." The words "guidance," "ongoing," "believes," "expects," "may," "will" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions or expectations expressed or implied will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including regulatory, competitive and other factors, which may cause actual financial or operating results or the timing of events to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include, but are not limited to: imposition of restrictions on our use of data by data suppliers or their refusal to license data to us; failure to meet our productivity objectives; failure to successfully invest in growth opportunities; imposition of restrictions on our current and future activities under data protection and privacy laws; breaches or misuse of our or our outsourcing partners' security or communication systems; hardware and software failures, delays in the operation of our computer and communications systems or the failure to implement system enhancements; consolidation in the industries in which our clients operate; our ability to protect our intellectual property rights and our susceptibility to claims by others that we are infringing on their intellectual property rights; the risks associated with operating on a global basis, including fluctuations in the value of foreign currencies relative to the U.S. dollar, and the ability to successfully hedge such risks; general economic conditions in the markets in which we operate, including financial market conditions; our ability to successfully integrate, and achieve expected benefits from, our acquired businesses; and the other factors set forth in the "Risk Factors" section included in Part I, Item 1A of our most recent annual report on Form 10-K on file with the SEC and any subsequent SEC filings. We disclaim any obligation to update any forward-looking statements as a result of developments occurring after the date of this presentation, even if estimates change, and you should not rely on those statements as representing our views as of any date subsequent to the date of this presentation.

Non-GAAP Information

This presentation includes information based on financial measures that are not recognized under generally accepted accounting principles in the United States ("GAAP"), such as Adjusted EBITDA, Adjusted Net Income, Adjusted Diluted Earnings per Share, Unlevered Free Cash Flow and Gross Leverage Ratio. In addition, management believes that these measures are useful to assess the company's operating performance trends on a more consistent basis from period to period because they exclude certain non-cash items, certain variable costs and certain other adjustments. The non-GAAP Measures are not presented in accordance with GAAP, and IMS Health's computation of these non-GAAP measures may vary from those used by other companies. Please refer to the appendix of this presentation for reconciliations of non-GAAP financial measures contained herein to the most comparable GAAP measures.

Past Performance

In all cases where historical results are presented or past performance is described, we note that past performance is not a reliable indicator of future results and performance.

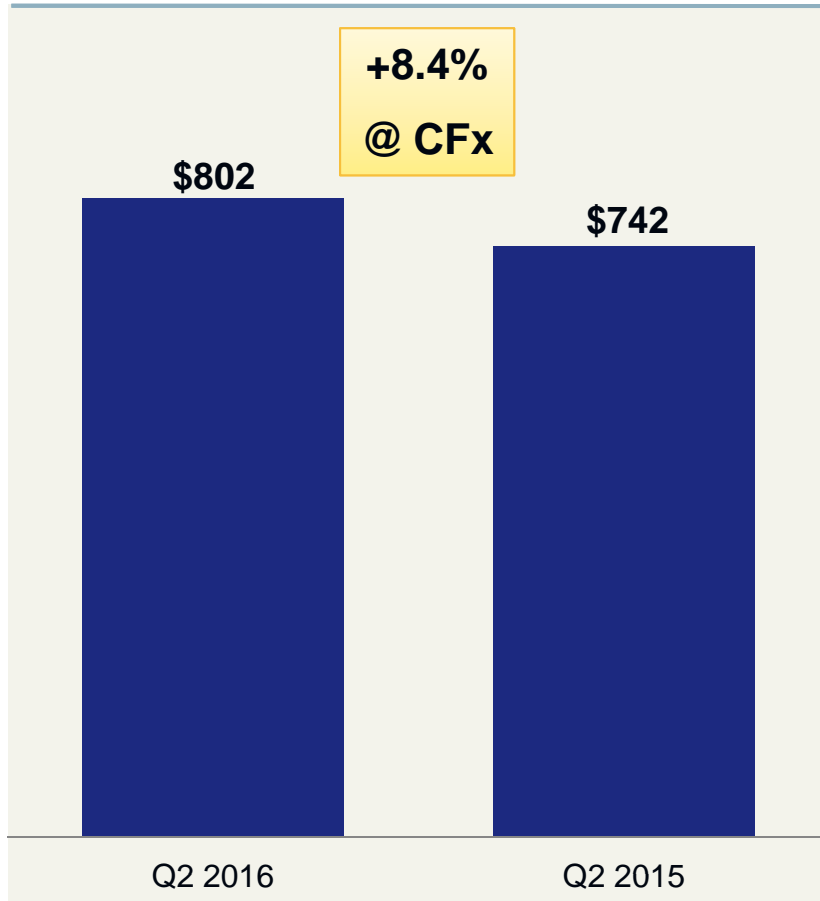
Trademarks

All trademarks or service marks are the property of IMS Health or their respective owners. Solely for convenience, the trademarks, service marks and trade names are referenced without the ®, (sm) and (TM) symbols, but we will assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these marks.

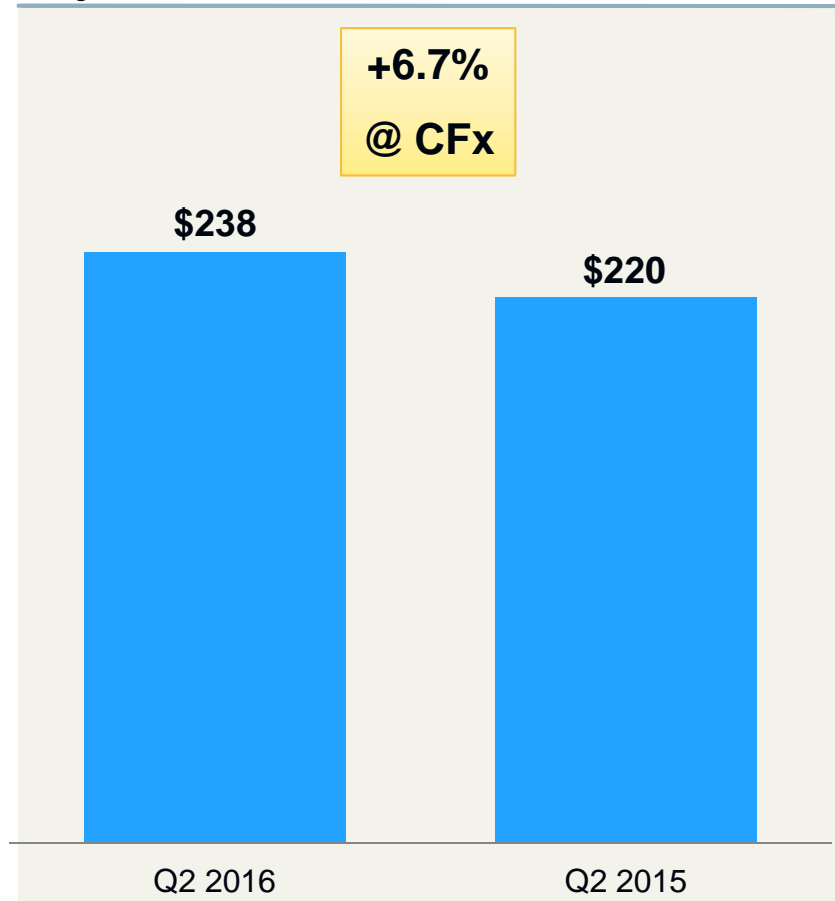
2nd Quarter Results

\$M

Revenue



Adjusted EBITDA



Note: Dollars are at actual foreign exchange rates. CFX is constant currency. EBITDA is "Adjusted EBITDA" as calculated in the appendix of this presentation

2nd Quarter Offering Revenue

<u>Offering</u>	<u>2nd Quarter</u>		<u>Versus Prior Year</u>		
	\$M	2016	2015	Reported	Constant Currency
Information		\$383	\$374	2.5%	2.6%
Technology Services		<u>\$419</u>	<u>\$368</u>	13.8%	14.3%
Total		\$802	\$742	8.1%	8.4%

Note: Dollars are at actual foreign exchange rates

2nd Quarter Geographic Revenue

<u>Geography</u>	<u>2nd Quarter</u>		<u>Versus Prior Year</u>		
	\$M	2016	2015	Reported	Constant Currency
Developed Markets		\$671	\$618	8.7%	7.9%
Emerging Markets		<u>\$131</u>	<u>\$124</u>	5.4%	11.0%
Total		\$802	\$742	8.1%	8.4%

Note: Dollars are at actual foreign exchange rates
 Prior year adjusted to conform with current year classification

2nd Quarter Adjusted EBITDA

	<u>2nd Quarter</u>		<u>Versus Prior Year</u>	
	2016	2015	Reported	Constant Currency
Adjusted EBITDA ⁽¹⁾	\$238	\$220	8.1%	6.7%
Adjusted EBITDA margin	29.7%	29.7%	0 Bps	(46) Bps

Note: Dollars are at actual foreign exchange rates

(1) See reconciliations of non-GAAP items in appendix

2nd Quarter P&L

At reported FX rates

\$M (except per share data)	2016	2015
Net Income	\$24	\$47
Diluted Earnings per Share	\$0.07	\$0.14
Adjusted Net Income ⁽¹⁾	\$139	\$125
Adjusted Diluted Earnings per Share ⁽¹⁾	\$0.41	\$0.37

(1) See reconciliations of non-GAAP items in appendix

Year-to-date Revenue

<u>Offering</u>	<u>Year-to-date</u>		<u>Versus Prior Year</u>	
\$M	2016	2015	Reported	Constant Currency
Information	\$759	\$728	4.2%	5.7%
Technology Services	<u>\$817</u>	<u>\$646</u>	26.6%	27.8%
Total	\$1,576	\$1,374	14.7%	16.1%

<u>Geography</u>	<u>Year-to-date</u>		<u>Versus Prior Year</u>	
Developed Markets	\$1,321	\$1,145	15.4%	15.6%
Emerging Markets	<u>\$255</u>	<u>\$229</u>	11.3%	18.7%
Total	\$1,576	\$1,374	14.7%	16.1%

Note: Dollars are actual foreign exchange rates
 Year-to-date represents six months ended June 30, 2016
 Prior year adjusted to conform with current year classification

Year-to-date P&L

\$M (except per share data)	2016	2015
Adjusted EBITDA ⁽¹⁾	\$474	\$436
Adjusted EBITDA margin	30.1%	31.7%
Net Income / (Loss)	\$67	\$345
Diluted Earnings / (Loss) per Share	\$0.20	\$1.01
Adjusted Net Income ⁽¹⁾	\$279	\$261
Adjusted Diluted EPS ⁽¹⁾	\$0.83	\$0.76

(1) See reconciliations of non-GAAP items in appendix

Note: Dollars are actual foreign exchange rates

Year-to-date represents six months ended June 30, 2016

2nd Quarter Balance Sheet Items & Metrics

\$M	2016	2015
Cash & Cash Equivalents	\$368	\$396 ⁽¹⁾
Principal Balance of Debt ⁽²⁾	\$4,565	\$4,266 ⁽¹⁾
Net Debt	\$4,197	\$3,870 ⁽¹⁾
Gross Leverage Ratio	4.9x	4.8x ⁽¹⁾
Net Cash Provided by Operating Activities	\$111	\$186
Capital Expenditures and Additions to Deferred Software	\$53	\$46
Unlevered Free Cash Flow	\$153	\$219

(1) As of December 31, 2015

(2) Excludes \$66M and \$71M of unamortized OID and debt issuance costs as of June 30, 2016 and December 31, 2015, respectively

Full-Year 2016 Guidance

Full-Year 2016	
Revenue Growth	
<i>Reported</i> ⁽¹⁾	10 – 12%
<i>Constant Currency</i>	10 – 12%
Adjusted EBITDA Growth	
<i>Reported</i> ⁽¹⁾	8.5 – 10.5%
<i>Constant Currency</i>	7.5 – 9.5%
Adjusted Net Income Growth	
<i>Reported</i> ⁽¹⁾	5 – 7%
<i>Constant Currency</i>	8 – 10%
Adjusted Diluted EPS	
<i>Reported</i> ⁽¹⁾	7 – 9%
<i>Constant Currency</i>	10 – 12%

(1) Assuming current exchange rates remain unchanged to the end of the year

Q3 2016 Guidance

Q3 2016	
Revenue Growth	
<i>Reported</i> ⁽¹⁾	8 – 9%
<i>Constant Currency</i>	7.5 – 8.5%
Adjusted EBITDA Growth	
<i>Reported</i> ⁽¹⁾	8 – 9%
<i>Constant Currency</i>	4 – 5%
Adjusted Net Income Growth	
<i>Reported</i> ⁽¹⁾	(1) – (2)%
<i>Constant Currency</i>	0 – 1%
Adjusted Diluted EPS	
<i>Reported</i> ⁽¹⁾	(0.5) – (1.5)%
<i>Constant Currency</i>	1.5 – 2.5%

(1) Assuming current exchange rates remain unchanged to the end of the quarter

Q&A

Appendix: Non-GAAP Financial Measures

Net Income to Adjusted EBITDA

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income	\$ 24	\$ 47	\$ 67	\$ 345
Provision for (benefit from) income taxes	7	13	27	(227)
Other (income) loss, net	2	(6)	7	(10)
Interest expense	47	43	93	80
Interest income	(1)	(1)	(2)	(1)
Depreciation and amortization	88	81	175	177
Deferred revenue purchase accounting adjustments	2	2	3	3
Stock-based compensation charges ⁽¹⁾	8	8	15	14
Restructuring and related charges ⁽²⁾	51	21	67	35
Merger and acquisition-related charges ⁽³⁾	10	11	22	19
Secondary offering expenses	—	1	—	1
Adjusted EBITDA	\$ 238	\$ 220	\$ 474	\$ 436
Depreciation and amortization	(34)	(35)	(68)	(69)
Interest expense, net	(46)	(42)	(91)	(79)
Royalty hedge gain (loss)	(3)	6	(1)	13
Cash tax payments, net of refunds ⁽⁴⁾	(16)	(24)	(35)	(40)
Adjusted Net Income	\$ 139	\$ 125	\$ 279	\$ 261

1) Stock-based compensation charges are included in Operating costs of information, Direct and incremental costs of technology services and Selling and administrative expenses as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating costs of information	\$ 2	\$ —	\$ 3	\$ 1
Direct and incremental costs of technology services	—	1	1	1
Selling and administrative expenses	6	7	11	12

2) Restructuring and related charges includes severance and impairment charges and the cost of employee and third-party charges related to dual running costs for knowledge transfer activities. Dual running costs for knowledge transfer activities of less than \$1 million for both the three months ended June 30, 2016 and 2015, and less than \$1 million and \$1 million for the six months ended June 30, 2016 and 2015, respectively, are included primarily in Operating costs of information and Selling and administrative expenses.

3) Merger and acquisition-related charges are included primarily in Selling and administrative expenses.

4) The Company currently presents Adjusted Net Income on a cash tax basis as it believes this presentation better reflects the Company's utilization of its existing assets to generate income as it expects its deferred tax assets to be available to offset U.S. taxable income for the foreseeable future. Following the closing of the merger with Quintiles Transnational Holdings Inc., the combined company will conform how the two legacy companies present non-GAAP metrics.

Net Income to Adjusted Net Income & Per Share Data

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income	\$ 24	\$ 47	\$ 67	\$ 345
Provision for (benefit from) income taxes	7	13	27	(227)
Amortization associated with purchase accounting	54	46	107	108
Deferred revenue purchasing accounting adjustments	2	2	3	3
Stock-based compensation charges ⁽¹⁾	8	8	15	14
Restructuring and related charges ⁽²⁾	51	21	67	35
Merger and acquisition-related charges ⁽³⁾	10	11	22	19
Secondary offering expenses	—	1	—	1
Other (income) loss, net	2	(6)	7	(10)
Adjusted Pre Tax Income	\$ 158	\$ 143	\$ 315	\$ 288
Royalty hedge gain (loss)	(3)	6	(1)	13
Cash tax payments, net of refunds	(16)	(24)	(35)	(40)
Adjusted Net Income	\$ 139	\$ 125	\$ 279	\$ 261

Adjusted Earnings per Share Attributable to Common

Shareholders:

Basic	\$ 0.42	\$ 0.38	\$ 0.85	\$ 0.78
Diluted	\$ 0.41	\$ 0.37	\$ 0.83	\$ 0.76

Weighted-Average Common Shares Outstanding:

Basic	328.8	331.6	328.7	333.6
Diluted	335.5	340.0	335.6	342.6

- 1) Stock-based compensation charges are included in Operating costs of information, Direct and incremental costs of technology services and Selling and administrative expenses as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating costs of information	\$ 2	\$ —	\$ 3	\$ 1
Direct and incremental costs of technology services	—	1	1	1
Selling and administrative expenses	6	7	11	12

- 2) Restructuring and related charges includes severance and impairment charges and the cost of employee and third-party charges related to dual running costs for knowledge transfer activities. Dual running costs for knowledge transfer activities of less than \$1 million for both the three months ended June 30, 2016 and 2015, and less than \$1 million and \$1 million for the six months ended June 30, 2016 and 2015, respectively, are included primarily in Operating costs of information and Selling and administrative expenses.
- 3) Merger and acquisition-related charges are included primarily in Selling and administrative expenses.

Unlevered Free Cash Flow

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Cash Provided by Operating Activities	\$ 111	\$ 186	\$ 96	\$ 215
Capital expenditures	(19)	(16)	(32)	(25)
Additions to computer software	(34)	(30)	(60)	(53)
Free Cash Flow	\$ 58	\$ 140	\$ 4	\$ 137
Cash interest payments	53	44	86	75
Cash tax payments, net of refunds	16	24	35	40
Merger and acquisition-related charges ⁽¹⁾	10	11	22	19
Secondary offering expenses	—	1	—	1
Severance, transaction & other payments	14	10	43	17
FX hedge (receipts) payments	2	(11)	—	(13)
Unlevered Free Cash Flow	\$ 153	\$ 219	\$ 190	\$ 276

1) Merger and acquisition-related charges and Sponsor monitoring fees are included in Selling and administrative expenses.

Gross Leverage Ratio

(in millions)

Gross Debt as of June 30, 2016	\$ 4,565
Adjusted EBITDA for the year ended December 31, 2015	886
Less: Adjusted EBITDA for the six months ended June 30, 2015	(436)
Add: Adjusted EBITDA for the six months ended June 30, 2016	474
Adjusted EBITDA for the twelve months ended June 30, 2016	\$ 924
Gross Leverage Ratio (Gross Debt/LTM Adjusted EBITDA)	4.9x

Non-GAAP Adjustments By Income Statement Line Items

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<i>Non-GAAP adjustments included in:</i>				
Operating costs of information, exclusive of depreciation and amortization	2	1	3	2
Direct and incremental costs of technology services, exclusive of depreciation and amortization	1	1	2	1
Selling and administrative expenses, exclusive of depreciation and amortization	15	19	32	33