

# IMS Health

## Q3 2015 Earnings Call

October 29, 2015



# Legal

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This presentation should be viewed in conjunction with IMS Health's Q3 2015 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." 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 Cegedim's information solutions and Customer Relationship Management businesses, and the other factors set forth in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2014 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed 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, Gross Leverage Ratio and Unlevered Free Cash Flow. In addition, management believes that these measures are useful to assess the company's operating performance trends because they exclude certain material non-cash items, unusual or non-recurring items that are not expected to continue in the future, and certain other items. 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.

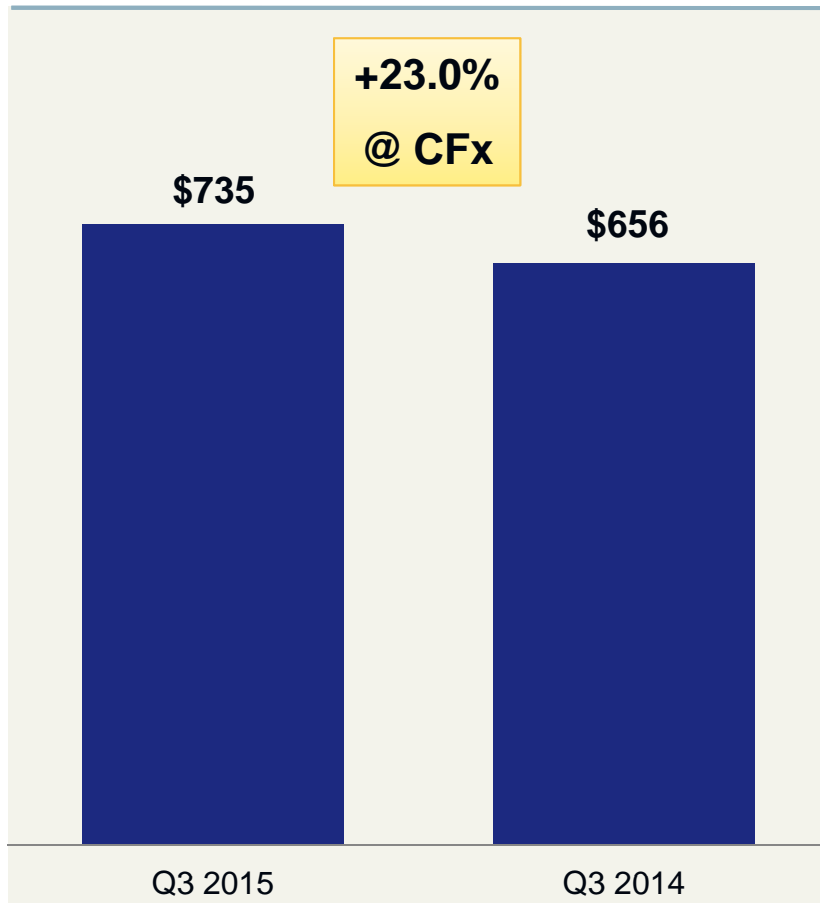
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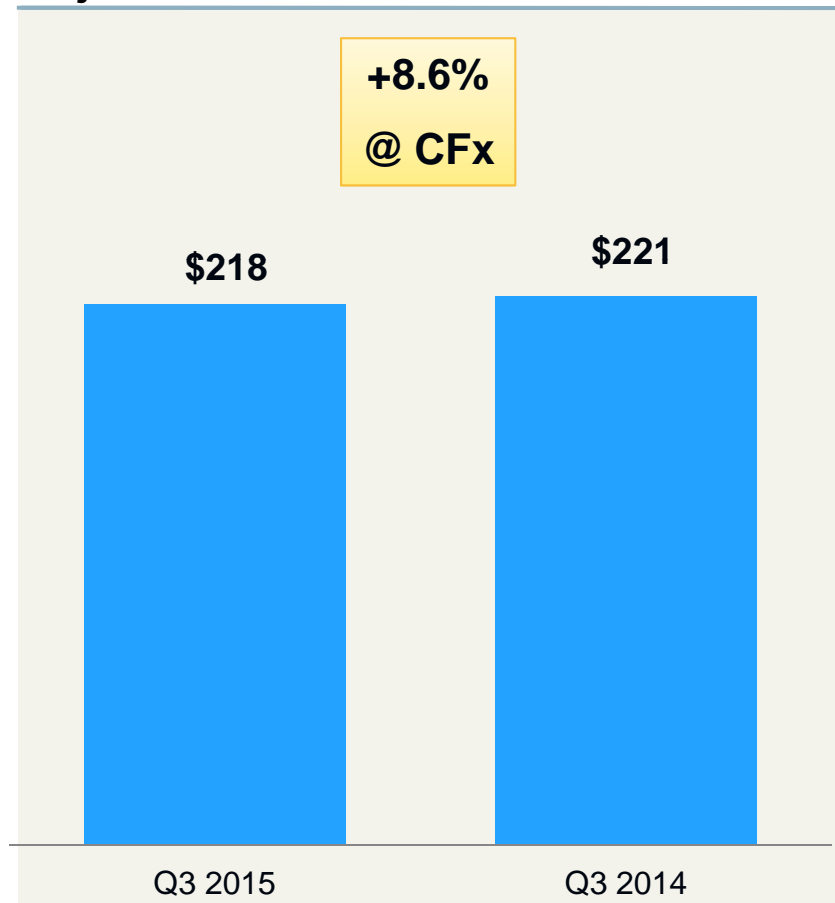
# 3<sup>rd</sup> Quarter Results

\$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

# 3<sup>rd</sup> Quarter Offering Revenue

<u>Offering</u>	<u>3<sup>rd</sup> Quarter</u>		<u>Versus Prior Year</u>	
	\$M	2015	2014	Constant Currency
<b>Information</b>	\$373	\$382	8.9%	(2.3%)
<b>Technology Services</b>	<u>\$362</u>	<u>\$274</u>	42.4%	31.9%
<b>Total</b>	<b>\$735</b>	<b>\$656</b>	<b>23.0%</b>	<b>12.0%</b>

Note: Dollars are at actual foreign exchange rates

# 3<sup>rd</sup> Quarter Geographic Revenue

<u>Geography</u>	<u>3<sup>rd</sup> Quarter</u>		<u>Versus Prior Year</u>		
	\$M	2015	2014	Constant Currency	Reported
<b>Developed Markets</b>		\$614	\$547	21.5%	12.2%
<b>Emerging Markets</b>		<u>\$121</u>	<u>\$109</u>	30.5%	11.2%
<b>Total</b>		<b>\$735</b>	<b>\$656</b>	<b>23.0%</b>	<b>12.0%</b>

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

# 3<sup>rd</sup> Quarter EBITDA

	<u>3<sup>rd</sup> Quarter</u>		<u>Versus Prior Year</u>	
	2015	2014	Constant Currency	Reported
<b>Adjusted EBITDA <sup>(1)</sup></b>	\$218	\$221	8.6%	(1.5%)
<b>Adjusted EBITDA margin</b>	29.6%	33.7%	(396) bps	(409) bps

Note: Dollars are at actual foreign exchange rates

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

# 3<sup>rd</sup> Quarter P&L

At reported FX rates

\$M (except per share data)	2015	2014
<b>Net Income</b>	\$43	\$47
<b>Diluted Earnings per Share</b>	\$0.13	\$0.14
<b>Adjusted Net Income <sup>(1)</sup></b>	\$129	\$125
<b>Adjusted Diluted Earnings per Share <sup>(1)</sup></b>	\$0.38	\$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	2015	2014	Constant Currency
<b>Information</b>	\$1,101	\$1,149	7.1%	(4.2%)
<b>Technology Services</b>	<u>\$1,008</u>	<u>\$814</u>	33.9%	23.8%
<b>Total</b>	<b>\$2,109</b>	<b>\$1,963</b>	<b>18.3%</b>	<b>7.4%</b>

<u>Geography</u>	<u>Year-to-date</u>		<u>Versus Prior Year</u>	
<b>Developed Markets</b>	\$1,760	\$1,632	17.1%	7.8%
<b>Emerging Markets</b>	<u>\$349</u>	<u>\$331</u>	24.3%	5.7%
<b>Total</b>	<b>\$2,109</b>	<b>\$1,963</b>	<b>18.3%</b>	<b>7.4%</b>

Note: Dollars are at actual foreign exchange rates

Year-to-date represents nine months ended September 30, 2015

Prior year geographies adjusted to conform with current year classification



# Year-to-date P&L

<b>\$M (except per share data)</b>	<b>2015</b>	<b>2014</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	\$654	\$664
<b>Adjusted EBITDA margin</b>	31.0%	33.8%
<b>Net Income / (Loss)</b>	\$388	\$(197)
<b>Diluted Earnings / (Loss) per Share</b>	\$1.14	\$(0.63)
<b>Adjusted Net Income <sup>(1)</sup></b>	\$390	\$329
<b>Adjusted Diluted EPS <sup>(1)</sup></b>	\$1.15	\$1.02

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

Note: Dollars are at actual foreign exchange rates

Year-to-date represents nine months ended September 30, 2015

# 3<sup>rd</sup> Quarter Balance Sheet Items & Metrics

\$M	2015	2014
<b>Cash &amp; Cash Equivalents</b>	\$394	\$390 <sup>(1)</sup>
<b>Principal Balance of Debt <sup>(2)</sup></b>	\$4,296	\$3,816 <sup>(1)</sup>
<b>Net Debt</b>	\$3,902	\$3,426 <sup>(1)</sup>
<b>Gross Leverage Ratio</b>	5.0x	4.3x <sup>(1)</sup>
<b>Net Cash Provided by Operating Activities</b>	\$111	\$191
<b>Capital Expenditures and Additions to Deferred Software</b>	\$38	\$40
<b>Unlevered Free Cash Flow</b>	\$141	\$216
<b>Unlevered Free Cash % of Adjusted EBITDA</b>	65%	98%

(1) As of December 31, 2014

(2) Excludes \$23M and \$21M of unamortized OID as of December 31, 2014 and September 30, 2015, respectively

# 2015 Guidance

<b>Full-Year 2015</b>	
<b>Revenue Growth</b>	
<i>Constant Currency</i>	<b>19 - 20%</b>
<i>Reported <sup>(1)</sup></i>	<b>~10%</b>
<b>Adjusted EBITDA Growth</b>	
<i>Constant Currency</i>	<b>~11%</b>
<i>Reported <sup>(1)</sup></i>	<b>~1%</b>
<b>Adjusted Net Income Growth</b>	
<i>Constant Currency</i>	<b>22 - 23%</b>
<i>Reported <sup>(1)</sup></i>	<b>10 - 11%</b>
<b>Adjusted Diluted EPS</b>	
<i>Constant Currency</i>	<b>17 - 18%</b>
<i>Reported <sup>(1)</sup></i>	<b>5 - 6%</b>

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

Q&A

# Appendix: Non-GAAP Financial Measures

# Net Income (Loss) to Adjusted EBITDA

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Net Income (Loss)</b>	\$ 43	\$ 47	\$ 388	\$ (197)
Provision for (benefit from) income taxes	8	11	(219)	(141)
Other (income) loss, net	(6)	(7)	(16)	281
Interest expense	44	43	124	181
Interest income	—	(1)	(1)	(3)
Depreciation and amortization	87	109	264	331
Deferred revenue purchase accounting adjustments	3	1	6	3
Stock-based compensation related charges <sup>(1)</sup>	7	6	21	52
Restructuring and related charges <sup>(2)</sup>	18	5	53	34
Acquisition-related charges <sup>(3)</sup>	14	7	33	19
Sponsor monitoring termination / fees <sup>(3)</sup>	—	—	—	74
Non-executive phantom stock compensation <sup>(4)</sup>	—	—	—	30
Secondary offering expenses	—	—	1	—
<b>Adjusted EBITDA</b>	\$ 218	\$ 221	\$ 654	\$ 664
Depreciation and amortization	(34)	(32)	(103)	(94)
Interest expense, net	(44)	(42)	(123)	(178)
Royalty hedge gains	7	1	20	1
Cash tax payments, net of refunds	(18)	(23)	(58)	(64)
<b>Adjusted Net Income</b>	\$ 129	\$ 125	\$ 390	\$ 329

1) Stock-based compensation related 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating costs of information	\$ 1	\$ 1	\$ 2	\$ 6
Direct and incremental costs of technology services	1	1	2	5
Selling and administrative expenses	5	4	17	41

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 \$1 million and \$2 million for the three and nine months ended September 30, 2015 and \$2 million and \$4 million for the three and nine months ended September 30, 2014, respectively, are primarily included in Operating costs of information.

3) Acquisition-related charges and Sponsor monitoring fees are included in Selling and administrative expenses.

4) Non-executive phantom SARs compensation expense of \$10 million and \$20 million for the nine months ended September 30, 2014 are included in Operating costs of information and Selling and administrative expenses, respectively.

# Net Income (Loss) to Adjusted Net Income & Per Share Data

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Net Income (Loss)</b>	\$ 43	\$ 47	\$ 388	\$ (197)
Provision for (benefit from) income taxes	8	11	(219)	(141)
Amortization associated with purchase accounting	53	77	161	230
Deferred revenue purchasing accounting adjustments	3	1	6	3
Stock-based compensation related charges <sup>(1)</sup>	7	6	21	52
Restructuring and related charges <sup>(2)</sup>	18	5	53	41
Acquisition-related charges <sup>(3)</sup>	14	7	33	19
Sponsor monitoring termination / fees <sup>(3)</sup>	—	—	—	74
Non-executive phantom stock compensation <sup>(4)</sup>	—	—	—	30
Secondary offering expenses	—	—	1	—
Other (income) loss, net	(6)	(7)	(16)	281
<b>Adjusted Pre Tax Income</b>	\$ 140	\$ 147	\$ 428	\$ 392
Royalty hedge gains	7	1	20	1
Cash tax payments, net of refunds	(18)	(23)	(58)	(64)
<b>Adjusted Net Income</b>	\$ 129	\$ 125	\$ 390	\$ 329

## Adjusted Earnings per Share Attributable to Common Shareholders:

Basic	\$ 0.39	\$ 0.38	\$ 1.18	\$ 1.05
Diluted	\$ 0.38	\$ 0.37	\$ 1.15	\$ 1.02

## Weighted-Average Common Shares Outstanding:

Basic	328.5	332.1	331.9	314.1
Diluted	336.1	342.3	340.4	323.1

- 1) Stock-based compensation related 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating costs of information	\$ 1	\$ 1	\$ 2	\$ 6
Direct and incremental costs of technology services	1	1	2	5
Selling and administrative expenses	5	4	17	41

- 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 \$1 million and \$2 million for the three and nine months ended September 30, 2015 and \$2 million and \$4 million for the three and nine months ended September 30, 2014, respectively, are primarily included in Operating costs of information. Nine months ended September 30, 2014 includes accelerated depreciation and amortization of \$7 million related to a real estate transaction in the three months ended June 30, 2014.
- 3) Acquisition-related charges and Sponsor monitoring fees are included in Selling and administrative expenses.
- 4) Non-executive phantom SARs compensation expense of \$10 million and \$20 million for the nine months ended September 30, 2014 are included in Operating costs of information and Selling and administrative expenses, respectively.

# Unlevered Free Cash Flow

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ 111	\$ 191	\$ 326	\$ (37)
Capital expenditures	(4)	(14)	(29)	(59)
Additions to computer software	(34)	(26)	(87)	(70)
<b>Free Cash Flow</b>	\$ 73	\$ 151	\$ 210	\$ (166)
Cash interest payments	31	26	106	196
Cash tax payments, net of refunds	18	23	58	64
Acquisition-related charges <sup>(1)</sup>	14	7	33	19
Sponsor monitoring termination / fees <sup>(1)</sup>	—	—	—	74
Non-executive phantom stock compensation <sup>(2)</sup>	—	—	—	30
Secondary offering expenses	—	—	1	—
Debt extinguishment make-whole payments	—	—	—	151
Severance, transaction & other payments	12	8	29	19
FX hedge (receipts) payments	(7)	1	(20)	7
<b>Unlevered Free Cash Flow</b>	\$ 141	\$ 216	\$ 417	\$ 394

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

2) Non-executive phantom SARs compensation expense of \$10 million and \$20 million for the nine months ended September 30, 2014 are included in Operating costs of information and Selling and administrative expenses, respectively.



# Gross Leverage Ratio

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(in millions)

<b>Gross Debt as of September 30, 2015</b>	<b>\$</b>	<b>4,296</b>
Adjusted EBITDA for the year ended December 31, 2014		878
Less: Adjusted EBITDA for the nine months ended September 30, 2014		(664)
Add: Adjusted EBITDA for the nine months ended September 30, 2015		654
<b>Adjusted EBITDA for the twelve months ended September 30, 2015</b>	<b>\$</b>	<b>868</b>
<b>Gross Leverage Ratio (Gross Debt/LTM Adjusted EBITDA)</b>		<b>5.0x</b>

# Non-GAAP Adjustments By Income Statement Line Items

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<i>Non-GAAP adjustments included in:</i>				
Operating costs of information, exclusive of depreciation and amortization	\$ 1	\$ 2	\$ 3	\$ 19
Direct and incremental costs of technology services, exclusive of depreciation and amortization	1	—	2	5
Selling and administrative expenses, exclusive of depreciation and amortization	20	12	53	156