

Equity Research

Quintiles Transnational Holdings, Inc.

Q: Q1 2014 Earnings Full Analysis

Outperform / V

Sector: Pharmaceutical Services

Market Weight

Earnings Estimates Revised Up

	2013A	2014E	2015E		
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	\$0.49	\$0.68 A	NC	\$0.66	0.65
Q2 (June)	0.50	0.60	0.59	0.68	0.67
Q3 (Sep.)	0.54	0.61	NC	0.69	0.68
Q4 (Dec.)	0.58	0.61	NC	0.70	0.69
FY	\$2.10	\$2.51	2.39	\$2.73	2.68
CY	\$2.10	\$2.51		\$2.73	
FY P/E	23.2x	19.4x		17.9x	
Rev.(MM)	\$3,808	\$4,161		\$4,464	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, * = Company is on the Priority Stock List

• **What to do from here.** Part of our thesis on Quintiles has been that its size should allow its results to be more consistent than those of smaller CROs, and Quintiles seems to be delivering on that expectation, posting strong revenue, bookings, and margins in the quarter. Quintiles also has the lowest client concentration among public clinical CROs, which we think is particularly important in the current environment of pharma M&A, where the risk of project delays due to uncertainty created by deals is very real. We think Quintiles' diverse base of business offers a good hedge against that risk. Raising our 2014E/2015E EPS to \$2.51/\$2.73 from \$2.39/\$2.68 previously.

• **Financial highlights.** Quintiles posted revenue slightly ahead of consensus with EPS beating consensus by \$0.13, (\$0.04 of the beat came from non-operational items). Notably, the IHS segment saw a return to growth after a weak 2013. A very strong operating margin in the PDEV segment was mostly responsible for the operational EPS beat. It is important to remember that FX contributed 110bps to the aggregate 140bp yr/yr margin expansion (depreciation of the Indian Rupee, South African Rand and Japanese Yen against the USD are factors). We caution investors against becoming too optimistic about margin given the significant FX tailwind the quarter (and in recent quarters). Finally, the company posted strong bookings in both segments, with a book-to-bill of 1.30 in PDEV and 1.15 in IHS.

• **Guidance highlights.** The company increased 2014 revenue guidance by \$40MM at the midpoint, most of which is expected to come from the IHS segment, which posted strong Q1 bookings. The company increased 2014 EPS guidance by about \$0.11 at the midpoint, which is largely a function of the Q1 beat.

• **Other items of note.** Several other items worth highlighting from the call: (1) the recently announced partnership with Biogen Idec is the unnamed partnership called out in the Q3 2013 earnings call; (2) management highlighted strength in Phase IV, which is part of the IHS segment; (3) management gave statistics to highlight Quintiles' client diversity, including 10 clients doing more than \$100MM of revenue and 51% of net new business in 2013 coming from companies outside the top pharma tier; (4) in response to questions about pharma M&A, management pointed to the company's performance during the downturn beginning in 2008, noting the company has grown every yr since 2008.

Valuation Range: \$56.00 to \$60.00

Our valuation range is DCF-based (WACC = 8.0%; terminal NOPLAT growth = 2%) and represents 23x our 2014 EPS estimate. Risks include: (1) project cancellations or delays due to client M&A, economic weakness, pipeline reprioritization, or compound failure; (2) a reversal in the trend toward increased outsourcing; (3) lack of improvement in the IHS segment; (4) margin pressure from strategic relationships; (5) foreign exchange volatility; and (6) large insider ownership.

Investment Thesis:

We believe Quintiles is a leader in several capacities (size, operational efficiency, strategic savvy) in a secular growth industry, creating a favorable risk/reward profile for long-term holders.

Please see page 5 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 05/01/14 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Ticker	Q
Price (05/01/2014)	\$48.76
52-Week Range:	\$40-55
Shares Outstanding: (MM)	128.9
Market Cap.: (MM)	\$6,285.2
S&P 500:	1,883.68
Avg. Daily Vol.:	641,054
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$2,046.0
LT Debt/Total Cap.:	NM
ROE:	NM
3-5 Yr. Est. Growth Rate:	13.0%
CY 2014 Est. P/E-to-Growth:	1.5x
Last Reporting Date:	05/01/2014

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Together we'll go far



Company Description:

Based in Durham, North Carolina, Quintiles Transnational Holdings, Inc. is the largest contract research organization by revenue, providing both clinical trial management services and contract sales services to pharmaceutical and biotechnology clients. The company operates in two segments: Product Development (PDEV) and Integrated Health Services (IHS). PDEV provides a range of clinical trial services including study design, investigator recruitment, site start-up, patient recruitment, clinical monitoring, project management, phase I, bioanalytical services, biostatistics, central lab, genomics services, strategic planning, and a range of consulting services. The vast majority of the IHS business consists of contract sales and related commercial services, but the segment also contains peri-approval clinical trial services as well as services provided to payers and healthcare providers. In addition to being the industry's largest CRO, Quintiles is differentiated from peers by its exposure to the contract sales business.

Exhibit 1. Stat Tracker

Bookings & Backlog (MM)	1Q13	2Q13	3Q13	4Q13	1Q14
Beginning backlog	\$ 8,704	\$ 9,000	\$ 9,034	\$ 9,583	\$ 9,900
PDEV net bookings	1,075	871	862	964	1,005
IHS net bookings	<u>170</u>	<u>143</u>	<u>479</u>	<u>335</u>	<u>269</u>
Ending backlog	\$ 9,000	\$ 9,034	\$ 9,583	\$ 9,900	\$ 10,100
PDEV book-to-bill	1.52	1.20	1.21	1.24	1.30
IHS book-to-bill	0.77	0.65	2.19	1.46	1.15
Total book-to-bill	1.34	1.07	1.44	1.29	1.27

Source: Company filings; Wells Fargo Securities, LLC

Exhibit 2. Guidance Table

Guidance	Q1 2014	Q2 2014	Q3 2014	Q4 2014	CY 2014	Notes
Revenue (B)						
2/13/2014					\$4.09-4.15	
5/1/2014					\$4.13-4.19	
Tax rate						
2/13/2014					30%	
5/1/2014					30%	
Non-GAAP EPS						
2/13/2014					\$2.33-2.46	
5/1/2014					\$2.45-2.58	

Source: Company press releases and transcripts; Wells Fargo Securities, LLC

Exhibit 3. Q1 2014 Variance Analysis

FY ending December In millions except EPS	Actual		Est	Actual	Cons	Yr / Yr change	Seq change
	Q1 2013	Q4 2013	Q1 2014	Q1 2014	Q1 2014		
Total revenue	927	\$ 1,004	\$ 1,001	\$ 1,005	\$ 997	8.4%	0.1%
Cost of products and services	611	642	644	644		5.3%	0.3%
Gross profit	316	362	357	362		14.3%	(0.1%)
Selling, general & administrative	198	233	224	219		10.7%	(5.8%)
Operating income	118	129	134	142	131	20.2%	10.2%
Interest expense (income)	36	25	24	23		(34.1%)	(7.1%)
Other expense (income)	(2)	(2)	-	(5)			
Pretax income	85	106	109	124		45.3%	17.3%
Taxes	26	30	33	38		44.8%	27.3%
Income before equity earnings	59	76	76	86		45.5%	13.4%
Equity earnings	(2)	0	-	5			
Net income (continuing ops)	57	76	76	91		58.3%	19.1%
Noncont. interests income (loss)	0	0	-	0			
NI to common	\$ 58	\$ 76	\$ 76	\$ 91		57.8%	18.9%
Non-GAAP EPS	\$ 0.49	\$0.58	\$0.57	\$ 0.68	\$ 0.55	40.9%	18.8%
Diluted shares outstanding	119	133	133	133		12.0%	0.1%
EBITDA	\$ 143	\$ 160	\$ 162	\$ 171		19.9%	7.3%
MARGIN ANALYSIS						Yr / Yr	Seq
Cost of sales / net revenue	65.9%	63.9%	64.3%	64.0%		(190) bps	10 bps
Gross margin	34.1%	36.1%	35.7%	36.0%		190 bps	(10) bps
SG&A / net revenue	21.3%	23.2%	22.3%	21.8%	13.1%	50 bps	(140) bps
EBIT margin	12.8%	12.9%	13.4%	14.2%		140 bps	130 bps
Pretax margin	9.2%	10.5%	10.9%	12.3%		310 bps	180 bps
Tax rate	30.5%	28.0%	30.0%	30.4%		(10) bps	240 bps
Net margin from continuing ops	6.2%	7.6%	7.6%	9.0%		280 bps	140 bps
EBITDA margin	15.4%	15.9%	16.1%	17.1%		160 bps	110 bps
SEGMENT ANALYSIS						Yr / Yr	Seq
PDEV Segment Revenue	\$ 706	\$ 775	\$ 773	\$ 771	\$ 767	9.1%	(0.5%)
Growth: core	7.8%	6.1%	5.0%	4.0%			
Growth: FX	(1.0%)	(0.4%)	(0.1%)	0.5%			
Growth: acq/div/other	0.9%	4.6%	4.5%	4.6%			
Revenue growth: total	7.6%	10.2%	9.4%	9.1%			
Gross profit	\$ 277	\$ 319	313	\$ 320		15.5%	0.4%
Gross margin	39.3%	41.2%	40.5%	41.6%		230 bps	40 bps
Operating income	\$ 133	\$ 153	\$ 150	\$ 161	\$ 147	21.1%	5.1%
Operating margin	18.8%	19.7%	19.4%	20.8%	19.2%	210 bps	110 bps
IHS Segment Revenue	\$ 221	\$ 229	\$ 228	\$ 234	\$ 231	6.0%	2.4%
Growth: core	(0.3%)	(1.0%)	4.0%	7.9%			
Growth: FX	(4.2%)	(4.7%)	(0.7%)	(1.9%)			
Growth: acq/div/other	0.0%	0.0%	0.0%	0.0%			
Revenue growth: total	(4.6%)	(5.7%)	3.3%	6.0%			
Gross profit	\$ 39	\$ 43	\$ 44	\$ 41		5.6%	(3.6%)
Gross margin	17.6%	18.7%	19.4%	17.6%		(10) bps	(110) bps
Operating income	\$ 6	\$ 12	\$ 13	\$ 9	\$ 12	44.1%	(23.1%)
Operating margin	2.8%	5.1%	5.6%	3.8%	5.2%	100 bps	(130) bps
Consolidated Revenue	\$ 927	\$ 1,004	\$ 1,001	\$ 1,005	\$ 997	8.4%	0.1%
Growth: core	5.7%	4.3%	4.8%	4.9%			
Growth: FX	(1.9%)	(1.5%)	(0.3%)	0.0%			
Growth: acq/div/other	0.6%	3.4%	3.5%	3.5%			
Revenue growth: total	4.4%	6.2%	7.9%	8.4%			
Corp. overhead, non-GAAP	\$ (22)	\$ (35)	\$ (29)	\$ (27)		24.8%	(22.8%)
% of total revenue	(2.4%)	(3.5%)	(2.9%)	(2.7%)		40 bps	(80) bps
BOOKINGS & BACKLOG						Yr / Yr	Seq
Ending backlog	\$ 9,000	\$ 9,855	\$ 10,069	\$ 10,100	\$ 1,004	12.2%	2.5%
PDEV net bookings	\$ 1,075	\$ 964	\$ 968	\$ 1,005		(6.5%)	4.3%
IHS net bookings	\$ 170	\$ 335	\$ 247	\$ 269		57.9%	(19.7%)
Total net bookings	\$ 1,246	\$ 1,299	\$ 1,215	\$ 1,274	\$ 1,190	2.3%	(1.9%)
PDEV book-to-bill	1.52	1.24	1.25	1.30			
IHS book-to-bill	0.77	1.46	1.08	1.15			
Total net book-to-bill	1.34	1.29	1.21	1.27	1.19		

Source: FactSet (consensus); Company data; Wells Fargo Securities, LLC estimates

Exhibit 4. Earnings Model

Quintiles Quarterly Data (Year Ending December)

In millions, except EPS

NON-GAAP INCOME STATEMENT	2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014E	Q3 2014E	Q4 2014E	2014E	2015E
Total net revenue	\$ 3,692	\$ 927	\$ 944	\$ 933	\$ 1,004	\$ 3,808	\$ 1,005	\$ 1,042	\$ 1,052	\$ 1,062	\$ 4,161	\$ 4,464
Direct costs	2,459	611	618	601	642	2,471	644	674	678	685	2,680	2,863
Gross profit	1,233	316	327	332	362	1,337	362	369	374	376	1,481	1,601
SG&A	788	198	202	200	233	833	219	230	234	236	919	986
Operating income	445	118	124	132	129	504	142	138	140	140	561	614
Interest expense (income), net	131	36	31	28	25	120	23	23	23	23	93	88
Other expense (income), net	(4)	(2)	1	3	(2)	(0)	(5)	-	-	-	(5)	-
Pretax income	318	85	92	102	106	385	124	115	117	117	473	526
Provision for income taxes	112	26	30	29	30	115	38	34	35	35	143	158
Income before equity earnings	\$ 205	\$ 59	\$ 62	\$ 72	\$ 76	\$ 270	\$ 86	\$ 80	\$ 82	\$ 82	\$ 331	\$ 368
Equity earnings	3	(2)	0	(0)	0	(1)	5	-	-	-	5	-
NI from continuing ops	\$ 208	\$ 57	\$ 63	\$ 72	\$ 76	\$ 268	\$ 91	\$ 80	\$ 82	\$ 82	\$ 336	\$ 368
Loss (income) to noncont. interests	1	0	0	0	0	1	(0)	-	-	-	(0)	-
NI to common	\$ 209	\$ 58	\$ 63	\$ 72	\$ 76	\$ 269	\$ 91	\$ 80	\$ 82	\$ 82	\$ 336	\$ 368
Non-GAAP EPS	\$ 1.77	\$ 0.49	\$ 0.50	\$ 0.54	\$ 0.58	\$ 2.10	\$ 0.68	\$ 0.60	\$ 0.61	\$ 0.61	\$ 2.51	\$ 2.73
Diluted shares outstanding	118	119	127	133	133	128	133	133	134	134	134	135
EBITDA	\$ 544	\$ 143	\$ 149	\$ 160	\$ 160	\$ 612	\$ 171	\$ 167	\$ 170	\$ 170	\$ 678	\$ 721

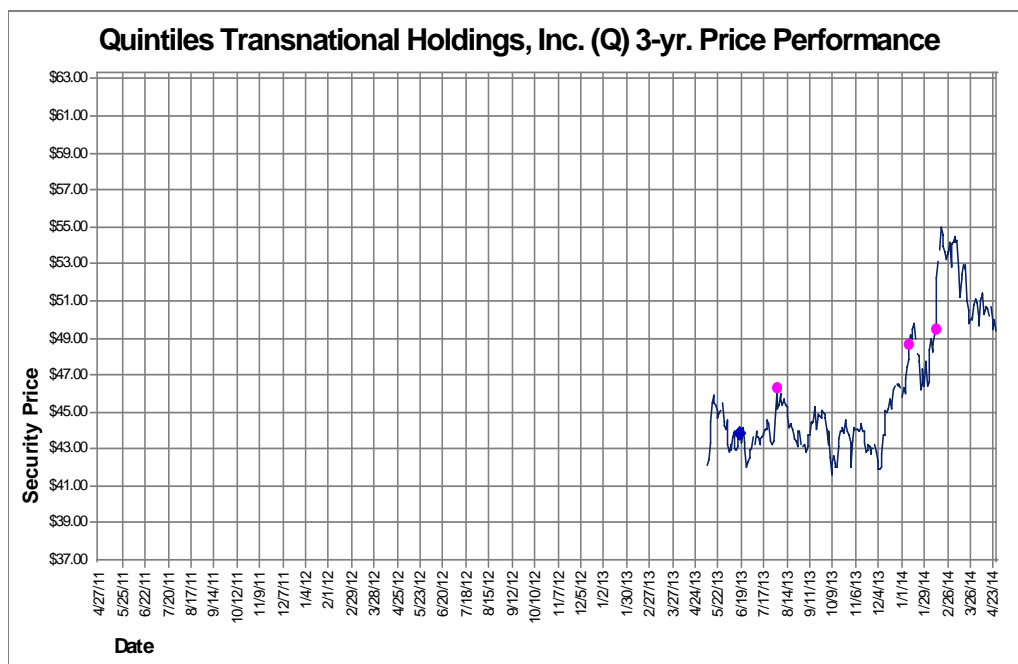
MARGIN ANALYSIS												
Direct costs	66.6%	65.9%	65.4%	64.4%	63.9%	64.9%	64.0%	64.6%	64.4%	64.6%	64.4%	64.1%
Gross margin	33.4%	34.1%	34.6%	35.6%	36.1%	35.1%	36.0%	35.4%	35.6%	35.4%	35.6%	35.9%
SG&A / revenue	21.3%	21.3%	21.4%	21.4%	23.2%	21.9%	21.8%	22.1%	22.2%	22.2%	22.1%	22.1%
Operating margin	12.1%	12.8%	13.1%	14.2%	12.9%	13.2%	14.2%	13.3%	13.3%	13.2%	13.5%	13.8%
Pretax margin	8.6%	9.2%	9.8%	10.9%	10.5%	10.1%	12.3%	11.0%	11.1%	11.1%	11.4%	11.8%
Tax rate	35.3%	30.5%	32.6%	29.0%	28.0%	29.9%	30.4%	30.0%	30.0%	30.0%	30.1%	30.0%
Net margin	5.7%	6.2%	6.7%	7.7%	7.6%	7.1%	9.0%	7.7%	7.8%	7.7%	8.1%	8.3%
EBITDA margin	14.7%	15.4%	15.8%	17.1%	15.9%	16.1%	17.1%	16.0%	16.1%	16.0%	16.3%	16.2%

SEGMENT ANALYSIS												
PDEV	\$2,729	\$ 706	\$ 724	\$ 714	\$ 775	\$2,920	\$ 771	\$ 797	\$ 811	\$ 815	\$3,195	\$3,436
PDEV growth: core	12.1%	7.8%	4.9%	5.2%	6.1%	6.0%	4.0%	5.0%	9.0%	5.0%	5.7%	7.5%
PDEV growth: FX	(1.5%)	(1.0%)	(1.2%)	(0.8%)	(0.4%)	(0.9%)	0.5%	0.5%	0.4%	0.2%	0.4%	0.0%
PDEV growth: acquisitions	1.4%	0.9%	0.9%	1.1%	4.6%	1.9%	4.6%	4.6%	4.2%	0.0%	3.3%	0.0%
PDEV growth: total	11.9%	7.6%	4.6%	5.5%	10.2%	7.0%	9.1%	10.1%	13.6%	5.2%	9.4%	7.5%
Gross profit	\$ 1,045	\$ 277	\$ 295	\$ 288	\$ 319	\$ 1,180	\$ 320	\$ 324	\$ 331	\$ 332	\$ 1,308	\$ 1,405
Gross margin	38.3%	39.3%	40.8%	40.3%	41.2%	40.4%	41.6%	40.7%	40.8%	40.7%	40.9%	40.9%
Operating income	\$ 478	\$ 133	\$ 136	\$ 141	\$ 153	\$ 562	\$ 161	\$ 155	\$ 158	\$ 158	\$ 632	\$ 680
Operating margin	17.5%	18.8%	18.8%	19.7%	19.7%	19.3%	20.8%	19.5%	19.5%	19.4%	19.8%	19.8%
IHS	\$ 964	\$ 221	\$ 220	\$ 218	\$ 229	\$ 889	\$ 234	\$ 245	\$ 240	\$ 247	\$ 966	\$1,028
IHS growth: core	9.4%	(0.3%)	(7.6%)	(2.3%)	(1.0%)	(2.9%)	7.9%	6.0%	6.0%	6.0%	6.5%	6.0%
IHS growth: FX	(2.8%)	(4.2%)	(5.3%)	(5.2%)	(4.7%)	(4.9%)	(1.9%)	5.3%	4.0%	1.7%	2.3%	0.4%
IHS growth: acquisitions	5.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
IHS growth: total	12.4%	(4.6%)	(12.9%)	(7.6%)	(5.7%)	(7.8%)	6.0%	11.3%	10.0%	7.7%	8.7%	6.4%
Gross profit	\$ 188	\$ 39	\$ 44	\$ 44	\$ 43	\$ 170	\$ 41	\$ 44	\$ 43	\$ 44	\$ 173	\$ 195
Gross margin	19.5%	17.6%	20.2%	20.1%	18.7%	19.1%	17.6%	18.0%	18.0%	18.0%	17.9%	19.0%
Operating income	\$ 61	\$ 6	\$ 13	\$ 12	\$ 12	\$ 42	\$ 9	\$ 11	\$ 11	\$ 11	\$ 41	\$ 55
Operating margin	6.3%	2.8%	5.7%	5.3%	5.1%	4.7%	3.8%	4.4%	4.4%	4.4%	4.3%	5.3%
Total Revenue	\$3,692	\$ 927	\$ 944	\$ 933	\$ 1,004	\$3,808	\$ 1,005	\$ 1,042	\$ 1,052	\$ 1,062	\$4,161	\$4,464
Growth: core	11.4%	5.7%	1.6%	3.2%	4.3%	3.7%	4.9%	5.2%	8.3%	5.2%	5.9%	7.2%
Growth: FX	(1.9%)	(1.9%)	(2.3%)	(1.9%)	(1.5%)	(1.9%)	(0.1%)	1.6%	1.3%	0.5%	0.8%	0.1%
Growth: acquisitions	2.6%	0.6%	0.7%	0.8%	3.4%	1.4%	3.5%	3.5%	3.2%	0.0%	2.5%	0.0%
Growth: total	12.1%	4.4%	(0.1%)	2.1%	6.2%	3.1%	8.4%	10.4%	12.8%	5.7%	9.3%	7.3%
Corporate OH	\$ (123)	\$ (22)	\$ (51)	\$ (20)	\$ (35)	\$ (128)	\$ (27)	\$ (28)	\$ (28)	\$ (29)	\$ (112)	\$ (121)
Corporate OH as % of total revenue	(3.3%)	(2.4%)	(5.4%)	(2.1%)	(3.5%)	(3.4%)	(2.7%)	(2.7%)	(2.7%)	(2.7%)	(2.7%)	(2.7%)

BOOKINGS & BACKLOG												
Ending backlog	\$ 8,704	\$ 9,000	\$ 9,034	\$ 9,583	\$ 9,855	\$ 9,855	\$ 10,066	\$ 10,276	\$ 10,436	\$ 10,671	\$10,671	\$11,594
PDEV net bookings	\$ 3,472	\$ 1,075	\$ 871	\$ 862	\$ 964	\$ 3,772	\$ 1,005	\$ 1,002	\$ 948	\$ 1,012	\$ 3,967	\$ 4,245
IHS net bookings	\$ 1,030	\$ 170	\$ 143	\$ 479	\$ 335	\$ 1,127	\$ 269	\$ 250	\$ 263	\$ 285	\$ 1,067	\$ 1,142
Total net bookings	\$ 4,502	\$ 1,246	\$ 1,014	\$ 1,341	\$ 1,299	\$ 4,900	\$ 1,274	\$ 1,252	\$ 1,212	\$ 1,297	\$ 5,035	\$ 5,387
PDEV book-to-bill	1.27	1.52	1.20	1.21	1.24	1.29	1.30	1.26	1.17	1.24	1.24	1.24
IHS book-to-bill	1.07	0.77	0.65	2.19	1.46	1.27	1.15	1.02	1.10	1.15	1.10	1.11
Total book-to-bill	1.22	1.34	1.07	1.44	1.29	1.29	1.27	1.20	1.15	1.22	1.21	1.21

Source: Company reports and Wells Fargo Securities, LLC estimates

Required Disclosures



	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
	6/18/2013		Evans			
◆	6/18/2013	43.53	1	48.00	50.00	43.89
●	8/1/2013	46.29	1	50.00	52.00	46.29
●	1/10/2014	47.84	1	52.00	54.00	48.61
●	2/12/2014	51.55	1	56.00	60.00	49.44

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC maintains a market in the common stock of Quintiles Transnational Holdings, Inc.
- Wells Fargo Securities, LLC or its affiliates managed or co-managed a public offering of securities for Quintiles Transnational Holdings, Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from Quintiles Transnational Holdings, Inc.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Quintiles Transnational Holdings, Inc. in the past 12 months.
- Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 1% or more of any class of the common stock of Quintiles Transnational Holdings, Inc.
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- Quintiles Transnational Holdings, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided noninvestment banking securities-related services to Quintiles Transnational Holdings, Inc.
- Wells Fargo Securities, LLC received compensation for products or services other than investment banking services from Quintiles Transnational Holdings, Inc. in the past 12 months.
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STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: May 1, 2014

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