June 18, 2013

WELLS FARGO SECURITIES

Equity Research

Quintiles Transnational Holdings, Inc.

Q: Size Matters--Initiating Coverage At Outperform

Outperform / V

Sector: Outsourced Services
Market Weight

Initiation of Coverage

- **Bottom line.** We are initiating coverage of Quintiles Transnational Holdings (Q) with an Outperform rating and a 12-month valuation range of $48-50. Quintiles is the largest company in a secular growth industry, where size and scope are important differentiators. As such, we believe Quintiles will continue capturing share from small contract research organizations (CRO). We also see Quintiles as one of the industry's most disciplined operators, maintaining relatively high margin and returns on capital. Finally, we believe Quintiles is one of the most forward-looking companies in the industry, taking a leadership position in technology and also willing to think outside the box strategically. With a valuation that is reasonable, in our view, we think these factors create a favorable long-term risk/reward profile. **See our 30-page report for full details.**

- **Leader in a secular growth industry.** We believe contract research is a secular growth industry, driven primarily by persistent momentum toward increased R&D outsourcing at biopharmaceutical companies. Quintiles, as the largest CRO, is well positioned to capture more than its fair share of the industry's growth, in our view.

- **Size confers competitive advantage.** As the pharma industry narrows its vendor lists, Quintiles' size offers a competitive advantage when bidding on large global contracts, due to the company's wide range of service offerings, broad geographic footprint, and significant therapeutic and regulatory expertise. Size may also offer opportunities for negotiation leverage, both because Quintiles is in a position to offer "one-stop shopping" and because the company is in a better position to negotiate at an elevated managerial level. Finally, Quintiles' size has allowed it to achieve a more diversified client base than peers'.

- **Operational discipline.** In a period when competitors have come under significant margin pressure, Quintiles has been able to maintain relatively high levels of profitability, demonstrating operational discipline, in our view. As such, the company also has a high return on invested capital (ROIC), which we believe justifies a premium valuation, all other metrics being equal.

- **Technological and strategic leadership.** We believe technology will play an increasingly important role delivering efficiency to the R&D process, and Quintiles has been an industry leader in technological development. Also, we believe the company's pursuit of the payer/provider market demonstrates forward-thinking strategic leadership in an industry that has traditionally been hesitant to venture into adjacent opportunities.

	2012A	2013E		2014E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	$0.44	$0.43 A		$0.52	
Q2 (June)	0.47	0.48		0.53	
Q3 (Sep.)	0.45	0.48		0.54	
Q4 (Dec.)	0.41	0.50		0.55	
FY	$1.77	$1.89		$2.14	
CY	$1.77	$1.89		$2.14	
FY P/E	24.6x	23.0x		20.3x	
Rev.(MM)	$3,692	$3,827		$4,114	

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

Ticker	Q
Price (06/17/2013)	$43.53
52-Week Range:	$41-47
Shares Outstanding: (MM)	0.0
Market Cap.: (MM)	$0.0
S&P 500:	1,639.04
Avg. Daily Vol.:	834,745
Dividend/Yield:	$0.00/0.0%
LT Debt: (MM)	$2,390.0
LT Debt/Total Cap.:	NM
ROE:	NM
3-5 Yr. Est. Growth Rate:	13.0%
CY 2013 Est. P/E-to-Growth:	1.8x
Last Reporting Date:	05/15/2013

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

Valuation Range: $48.00 to $50.00 from NA to NA
Our valuation range is DCF-based (WACC = 8.0%; terminal NOPLAT growth = 2%) and represents 22.5x our 2014 EPS estimate and 9.8x our 2014 EBITDA 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; and (5) foreign exchange volatility.

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.

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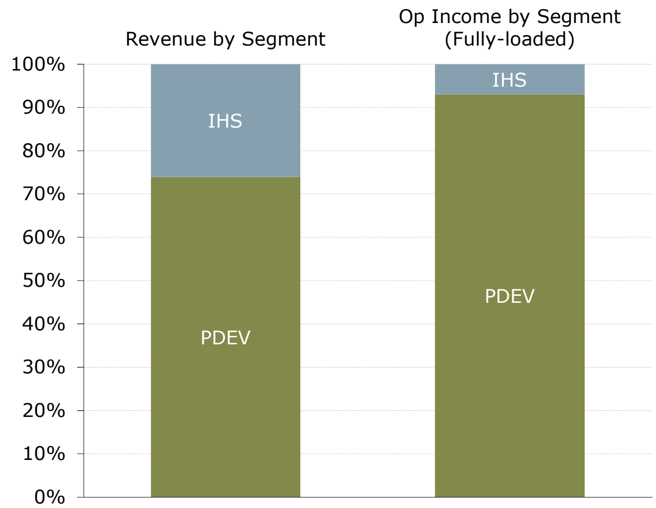
Please see page 5 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 06/18/13 unless otherwise stated.

Company Description:

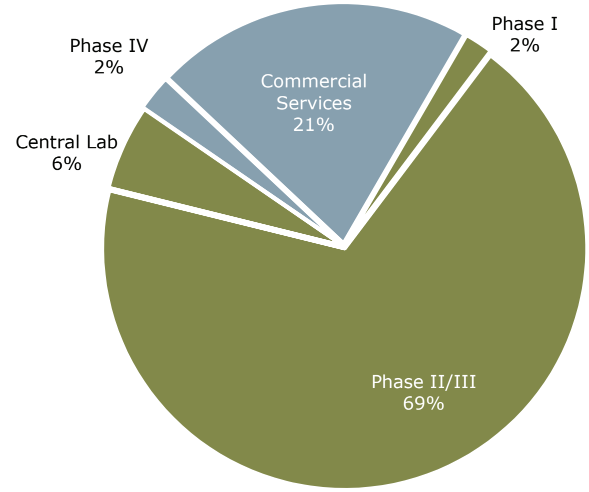
Based in Durham, North Carolina, Quintiles Transnational Holdings, Inc. is the largest contract research organization by revenue, providing both clinical trial management services and contract sales services to pharmaceutical and biotechnology clients. The company operates in two segments: Product Development (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, biostatics, 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. Revenue & Profit Mix By Segment (2012)



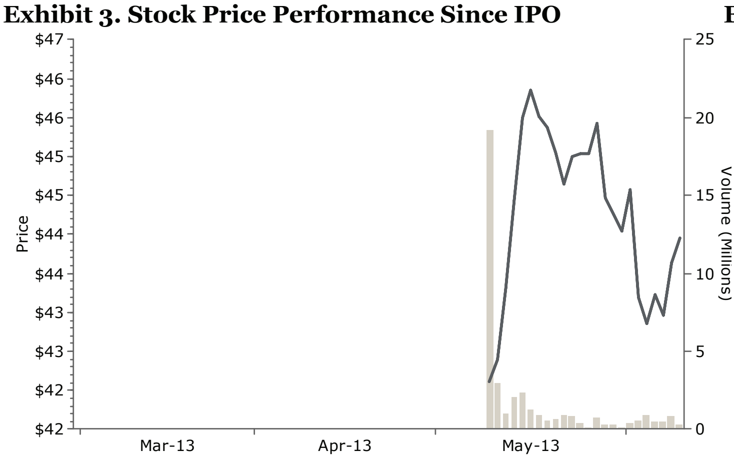
Source: Company data; Wells Fargo Securities, LLC

Exhibit 2. Revenue Mix By Service (2012)



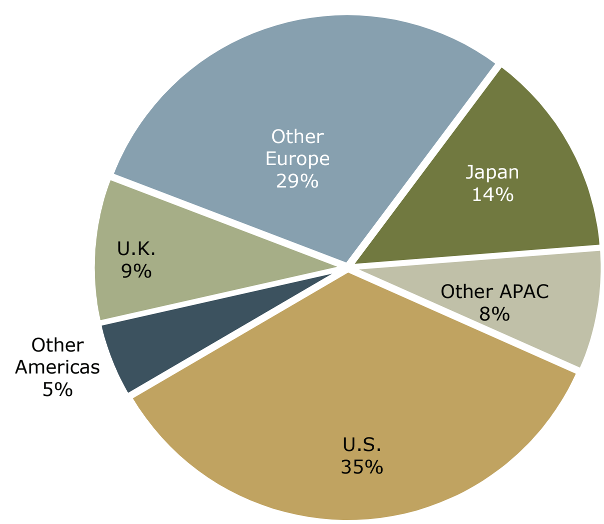
Source: Company data; Wells Fargo Securites, LLC estimates

Exhibit 3. Stock Price Performance Since IPO



Source: FactSet; Wells Fargo Securities, LLC Note: E=Earnings Reported

Exhibit 4. Geographic Mix (2012)



Source: Company data; Wells Fargo Securites, LLC

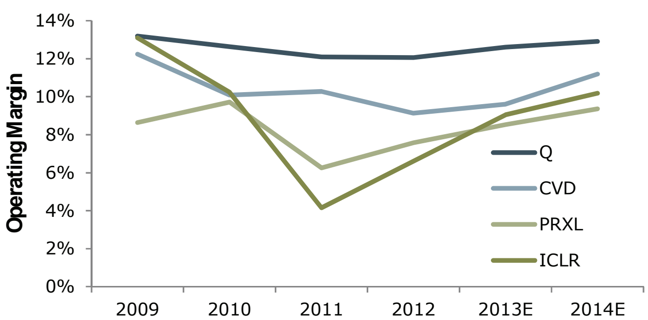
Investment Thesis

Leader in a secular growth industry. We believe contract research is a secular growth industry, driven primarily by persistent momentum toward increased R&D outsourcing at biopharmaceutical companies. Quintiles, as the largest CRO, is well positioned to capture more than its fair share of the industry's growth, in our view. While outsourcing penetration varies across Quintiles' business lines, the company's largest business line (clinical research) has a penetration rate below 50%, by our estimate, which should allow for 5-10 years of high-visibility mid- to high-single digit revenue growth as penetration rates rise. The penetration rate in the company's second-largest business (contract sales) is only in the single digits, by our estimate, though it lacks the same unrelenting momentum toward increased outsourcing observable in the clinical research market. A significant increase in the contract sales penetration rate could be a nice windfall for the company, though we are modeling only a modest improvement in contract sales penetration.

Size confers competitive advantage. As the pharma industry narrows its vendor lists, increasingly moving to a partnership-oriented contracting model, Quintiles' size (nearly twice as large as the next-largest competitor in its two major markets, by our estimates) offers a competitive advantage when bidding on large global contracts, due to the company's wide range of service offerings, broad geographic footprint, and significant therapeutic and regulatory expertise. As the largest CRO in the industry, Quintiles is likely invited to bid on almost every major partnership. Size may also offer more negotiation leverage than smaller CROs are able to achieve, both because Quintiles is often in a position to offer "one-stop shopping" and because the company is in a better position to negotiate at an elevated managerial level, where total value, rather than simply price, is likely to be a more significant factor in the win. Finally, Quintiles' size has allowed it to diversify its revenue base, which we believe reduces volatility.

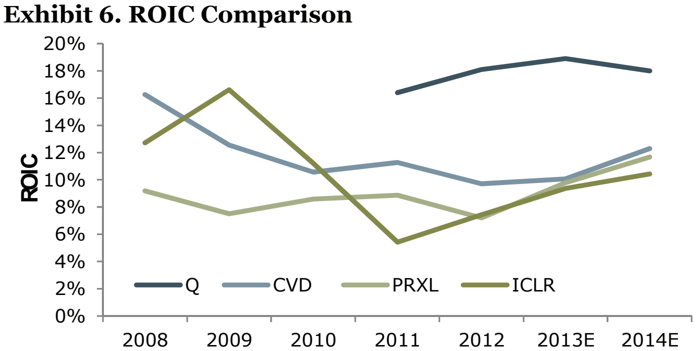
Operational discipline. In a period when competitors have come under significant margin pressure, Quintiles has been able to maintain relatively high levels of profitability. From its peak of 13.2% in 2009, the margin declined only 120 bps through 2012. By comparison, the annual peak-to-trough decline for ICLR, PRXL, and CVD was 650 bps, 230 bps, and 620 bps, respectively. Perhaps more impressive is the absolute level of the company's contract research margin (excluding the contract sales business), which currently stands at about 14% when fully weighted with a corporate overhead charge. This compares to 6.6% for ICLR, 7.6% for PRXL, and 13.7% for CVD's Late-Stage segment (also fully weighted with overhead). Because of its relatively high margin and because of a highly efficient capital structure (likely a result of many years under private equity ownership), the company has returns on invested capital (ROIC) at the top of the industry. We believe Quintiles' high margin and strong returns demonstrate a culture of operational discipline.

Exhibit 5. Margin Comparison



Source: Company filings; Wells Fargo Securities, LLC estimates

Exhibit 6. ROIC Comparison



Source: Company filings and Wells Fargo Securities, LLC estimates

Technological and strategic leadership. We believe technology will play an increasingly important role delivering efficiency to the R&D process, and we think CROs will likely take a lead role in encouraging technology adoption. Quintiles has been a recognized leader in exploring new technologies, ranking No. 6 in Information Week's 2012 list of the top technology innovators in the United States, for instance (a list that is considerably broader than just that of the CRO or pharmaceutical industry). Some of Quintiles' initiatives include exploring the uses of electronic medical records, cloud-based solutions, "big data" management and integration (a tool Quintiles calls Infosario), and risk-based monitoring. Also, we believe the company's pursuit of the payer/provider market demonstrates forward-thinking strategic leadership in an industry that has traditionally been hesitant to venture into adjacent opportunities. It remains to be seen what the payer/provider opportunity will ultimately look like and in what ways Quintiles will be able to serve that community; however, we applaud management for seeking new growth areas.

Investment Risks

Contract cancellations or delays. We believe the most substantial risk for Quintiles (or any CRO, for that matter) is the cancellation or delay of large projects. Cancellations occur for a variety of reasons. Cancellations are a normal part of the drug development process as drugs fail or as the scope of a trial changes for either scientific or regulatory reasons. Cancellations are most harmful when they involve very large trials, or when several trials are cancelled at once, which could be caused by a pharma merger, or by a client's decision to move business to another CRO. In the latter case, existing trials usually are allowed to wind down, giving the CRO time to refill its backlog. However, in some cases (e.g., Pfizer's recent move to PRXL and ICLR most notably), in-progress trials can be moved to new CROs.

Pricing pressure. The industry-wide trend toward "strategic" partnerships has increased the negotiating leverage of large pharmaceutical companies. The higher volume of business flowing to CROs has caused an increase in volume-based rebates, as well as increased pressure on CRO rates. CROs may be able to offset some of this pressure by reducing selling expenses, but we think a CRO's ultimate success at maintaining or improving margin will be a function of its ability to match the pharmaceutical company's considerable procurement resources with skillful negotiation that focuses on total value added instead of simply price. Along the same lines, some pharmaceutical companies have started demanding more aggressive payment terms, which we think will push up days sales outstanding (DSO) for CROs.

Risk sharing. As the pharmaceutical industry outsources more of its R&D work, CROs are incurring a higher obligation to drive efficiencies into the process. Gone are the days when change orders were easily rubber-stamped. Risk sharing can entail fixed contracts, more aggressive targets for contractual bonuses or penalties, or the requirement that CROs incur higher up-front investment costs to service contracts.

A reduction in pharma R&D spending, or a change in the trend toward more outsourcing. The past decade has seen an increase in R&D outsourcing each year, with significant increases in the level of R&D spending in many years (low-single-digit declines in select years being the worst-case scenario). This trend, particularly the increase in outsourcing penetration, has become the expected norm. While we see no impediments to this trend continuing, the contract sales and contract manufacturing industries, which have been stuck at penetration levels of 5-10% and 40-45% respectively, demonstrate that increases in penetration are not a given. A reversal or pause in this trend could affect Quintiles' revenue growth and profitability.

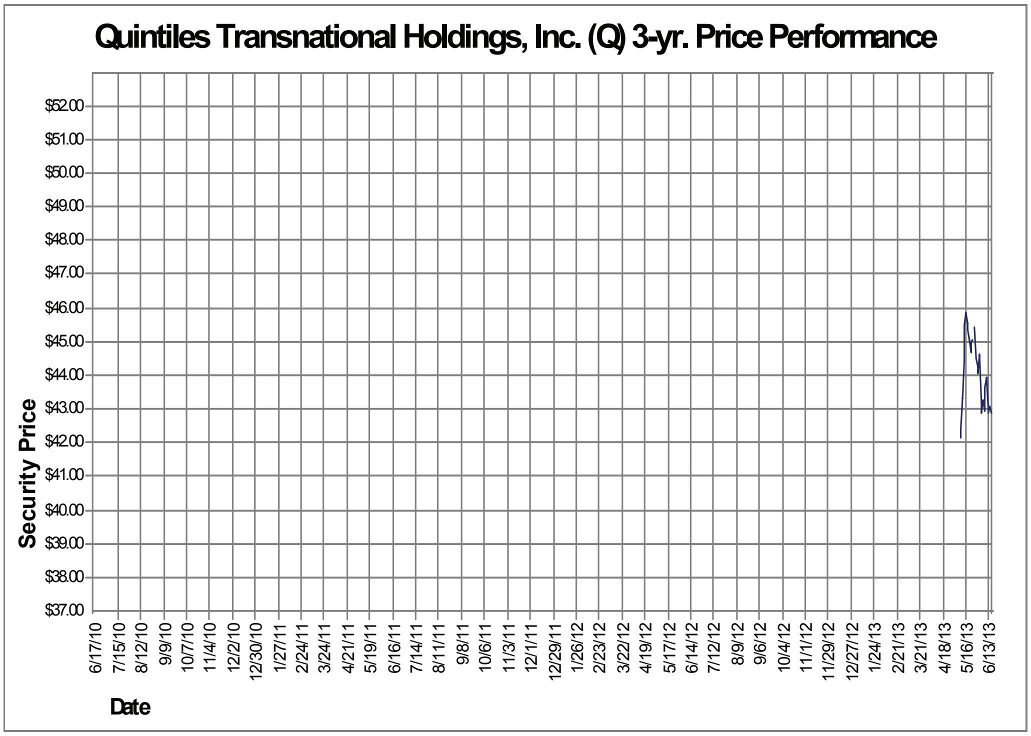
Foreign exchange. About 39% of Quintiles' revenue is denominated in foreign currencies, the largest of which are the Euro (EUR), British Pound (GBP), Japanese Yen (JPY), and the Singapore Dollar (SID). The company is naturally hedged in most geographies, meaning that revenue will likely be affected, but the margin percentage should remain stable (stated differently, the revenue impact falls through to EPS at a consistent margin rate). The exception to this rule is the United Kingdom, where the company is not as well hedged naturally and thus, uses forward contracts to achieve partial hedging.

Inability to improve profitability in contract sales. Quintiles' lowest-margin business is, by our estimate, the contract sales business, which we think makes up about 20-23% of Quintiles' revenue. We estimate that, when fully loaded with an allocation of corporate overhead, the contract sales business is approximately breakeven (excluding overhead, we calculate the contract sales margin as about 5%). The reasons for the weak profitability are mostly related to market dynamics, rather than Quintiles' management of the business. However, we believe that, over time, shareholders will want to see that business improve its profitability substantially. If the contract sales margin remains stuck at breakeven levels, we believe it could negatively affect share price performance.

Debt. Quintiles is the most highly leveraged CRO by virtue of its recent history as a leveraged buyout. We estimate that the company will end 2013 at 3.5x debt-to-EBITDA (compared to the industry average of about 1.2x) after using a portion of IPO proceeds to reduce the debt level. While we see limited risk of default in the current environment given Quintiles' strong free cash flow, the high debt level could constrain the company's ability to invest aggressively in either new capabilities or larger acquisitions if attractive opportunities arise. In addition, the variable interest rate on Quintiles' term loan exposes the company's earnings to interest rate fluctuations.

Majority ownership. Quintiles continues to be majority-owned by the consortium of shareholders that has owned the company since 2008, consisting primarily of Dr. Gillings, Bain, TPG, and 3i. As such, minority shareholders may not be able to exercise influence over important decisions.

Required Disclosures



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)

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

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Q: 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; and (5) foreign exchange volatility.

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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

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M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
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As of: June 17, 2013

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