

Quintiles Transnational Holdings, Inc. (Q)

Rating	OUTPERFORM*
Price (28 May 14, US\$)	50.87
Target price (US\$)	56.00 ¹
52-week price range	54.94 - 41.58
Market cap. (US\$ m)	6,620.32
Enterprise value (US\$ m)	7,713.67

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

Research Analysts

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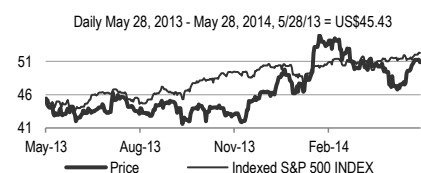
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FORECAST INCREASE

Company Repurchases Shares From Major PE Holder Just 3 Months Post Secondary

■ **Bottom Line:** This evening after the close, Q disclosed in an 8-K that it had repurchased ~3.29M shares from one of its former financial sponsors (TPG) for approximately \$165.1M in cash on hand. This implies a purchase price/share of roughly \$50.22, a slight discount to today's closing price, and that this transaction is independent of the company's existing repurchase program (\$59.5M remaining). We note that this sale/repurchase comes roughly 3 months after the company's financial sponsors & founders sold 17.25M shares in a secondary priced at \$52/share. We recognize that further sales (~18.98% of TPG's holdings per filings) from major financial sponsors just several months after a secondary could raise some concerns. However, we would also emphasize that TPG will still own over 10% of Q following this sale (over 14M shares), and given the strong performance post the IPO and YTD (shares ~+10% vs. the S&P +3% in '14) we are not overly surprised to see sponsors looking to further monetize historic investments. There are numerous sponsor-specific drivers that could motivate a sale (internal fundraising needs, tax planning, life cycle of involved funds, etc.); however, given limited visibility we acknowledge that this announcement could create some modest concerns. We remain positively disposed to Q as our checks continue to suggest healthy end market trends for the clinical players. In light of the modest accretion from the repurchase (estimate ~\$0.05-\$0.06 annually), we are increasing our F14-F16 estimates to \$2.56, \$2.87, and \$3.21. Our unchanged TP of \$56 implies shares can trade at 19-20x our F15 estimate.

Share price performance



On 05/28/14 the S&P 500 INDEX closed at 1909.78

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.49	0.50	0.54	0.58
2014E	0.68	0.58	0.63	0.67
2015E	0.73	0.67	0.72	0.75

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	2.10	2.56	2.87	3.21
Prev. EPS (US\$)	—	2.54	2.82	3.15
P/E (x)	24.2	19.9	17.7	15.9
P/E rel. (%)	139.1	124.2	123.1	122.4
Revenue (US\$ m)	3,808.3	4,146.2	4,518.7	4,894.4
EBITDA (US\$ m)	611.6	683.8	753.5	822.3
OCFPS (US\$)	3.01	3.29	3.45	3.91
P/OCF (x)	15.4	15.5	14.8	13.0
EV/EBITDA (current)	12.9	11.3	9.8	8.5
Net debt (US\$ m)	1,265	1,093	748	346
ROIC (%)	59.08	62.49	63.18	64.09
Number of shares (m)	130.14	IC (current, US\$ m)		597.68
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 28-May-2014)

Quintiles Transnational Holdings, Inc. (Q.N, \$50.87, OUTPERFORM, TP \$56.0)

Disclosure Appendix

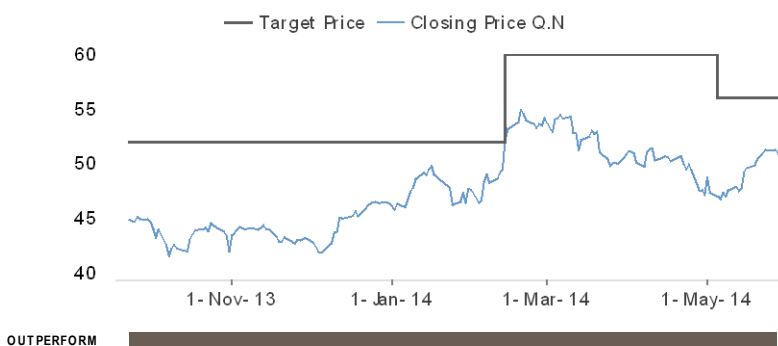
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3-Year Price and Rating History for Quintiles Transnational Holdings, Inc. (Q.N)

Q.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
23-Sep-13	44.86	52.00	O *
13-Feb-14	52.20	60.00	
05-May-14	46.99	56.00	

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Quintiles Transnational Holdings, Inc. (Q.N)

Method: Our \$56 target price for Q is based on an equal weighting of two valuation methodologies. Our price to earnings valuation yields a price of around \$56, applying a roughly 19-20x multiple on our C15 EPS estimate of \$2.87. Our EV/EBITDA analysis yields a price of around \$56, applying a roughly 11-12x multiple on our C15 EBITDA estimate of \$756M. A blend of these two valuation methodologies yields our target price of \$56. We believe that a premium multiple is consistent with the company's market-leading scale, diversity and scope of clinical services. In valuing the contract research organizations (CROs) and Quintiles, we primarily utilize price-to-earnings (P/E) and EV/EBITDA multiples to assess the risk/reward profile of the individual stocks and the group as a whole since P/E and EV/EBITDA provide both a historical and relative perspective. We look at multiples relative to historical averages to ensure that the stocks are trading in-line with our assessment of how current fundamentals fit into historical context. P/E and EV/EBITDA relative to a benchmark or to other industry peers sheds light on competitive positioning and performance.

Risk: Risks to Q's achievement of our \$56 target price are: 1) softer R&D trends; 2) disruption from Pharma M&A; 3) controlled company status; and 4) balance sheet leverage. Softer R&D trends or any pricing pressure to the company's premium margins could lead to EPS growth lower than expectations. Additionally, Q has higher leverage compared to industry peers which could limit the company's ability to accretively deploy capital.

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