Quintiles Transnational Holdings, Inc. (Q)

Rating	**OUTPERFORM* [V]**
Price (21 Feb 14, US$)	53.93
Target price (US$)	60.00[1]
52-week price range	54.94 - 41.58
Market cap. (US$ m)	6,953.12
Enterprise value (US$ m)	7,900.43

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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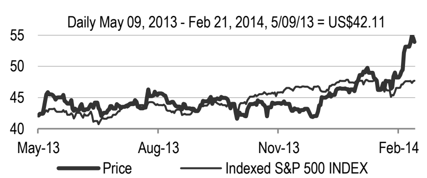
COMMENT

Secondary Offering Shouldn't Come As A Surprise - Take Advantage On Weakness

- **Bottom Line:** Friday after the close, Quintiles filed a 15M share offering by current shareholders, with an overallotment option of 2.25M shares. Recall that Q's former financial sponsors and founder owned ~65% of the outstanding shares following the May 2013 IPO and post-lockup transactions. Consequently, we believe that concerns around potential secondary activity has at times weighed on shares. Given the strong recent share performance and 4Q13 results, we would suggest that this announcement should not come as overly surprising. Following the close of the offering (assuming exercise of the over-allotment), the sponsors (and Q's founder) will still own 52.8% of the company. We continue to anticipate an orderly sale process over time from the financial sponsors, and Friday's announcement could serve to remove the secondary overhang in the near/intermediate-term. Our estimates and constructive view of Q remain unchanged, and we would suggest investors take advantage of any material weakness in shares following the offering.
- **Who Is Selling:** Per Q's S-1, the company is planning to offer up to 17.25M common shares (~13% of 12/31/13 shares outstanding) with a proposed maximum offering price of $939.3M. Parties currently subject to Q's Shareholders Agreement will be trimming their ownership from 64.9% to 52.8% following the transaction. Selling shareholders include: Bain Capital, TPG Funds, Affiliates of 3i, Temasek Life Sciences, and Dr. Dennis Gillings. We would note that current management does not appear to be participating in the offering, and Q will not receive any proceeds from this transaction.

Share price performance



On 02/21/14 the S&P 500 INDEX closed at 1842.34

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.49	0.50	0.54	0.58
2014E	0.54	0.58	0.62	0.67
2015E	0.63	0.66	0.70	0.74

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	2.10	2.41	2.73	3.08
Prev. EPS (US$)	—	—	—	—
P/E (x)	25.6	22.3	19.7	17.5
P/E rel. (%)	145.9	134.6	130.6	128.7
Revenue (US$ m)	3,808.3	4,119.4	4,476.2	4,857.5
EBITDA (US$ m)	611.6	675.8	740.6	811.9
OCFPS (US$)	3.01	3.11	3.29	3.78
P/OCF (x)	15.4	17.3	16.4	14.3
EV/EBITDA (current)	13.4	11.7	10.2	8.8
Net debt (US$ m)	1,265	947	612	217
ROIC (%)	59.08	61.62	61.74	63.07

Number of shares (m)	128.93	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 cap (Next Qtr., %)	—	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates.

Other Considerations

- **Secondary Further Improves Liquidity:** Prior to this transaction, only a little over 32% of the shares outstanding floated (per FactSet 13-F aggregated data). Consequently, while the secondary offering and pricing could somewhat weigh on shares in the near-term, we believe that the increased liquidity could ultimately be beneficial in the long-run from a technical and trading perspective. Note that on average Quintiles daily trading volume is roughly 572k shares. **We would emphasize that this offering does not create any incremental dilution or impact our estimates.**
- **No Change to Estimates - Q Still Represents Compelling Opportunity:** Our F14, F15, and F16 estimates of $2.41, $2.73, and $3.08 respectively. We continue to have a favorable view of Q due to: 1) its strong competitive positioning given its broad geographic and service scale/scope; 2) recent execution track record; 3) industry-leading margin profile; and 4) under-appreciated capital deployment opportunities. Reiterate Outperform rating.

CREDIT SUISSE

Companies Mentioned *(Price as of 21-Feb-2014)*

Quintiles Transnational Holdings, Inc. (Q.N, $53.93, OUTPERFORM[V], TP $60.0)

Disclosure Appendix

Important Global Disclosures

I, Jeffrey Bailin, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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

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

** Asterisk signifies initiation or assumption of coverage.*

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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Neutral/Hold*	40%	(49% banking clients)
Underperform/Sell*	15%	(43% banking clients)
Restricted	2%	

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

Method: Our $60 target price for Q is based on an equal weighting of two valuation methodologies. Our price to earnings valuation yields a price of around $60, applying a roughly 22x multiple on our C15 EPS estimate of $2.73. Our EV/EBITDA analysis yields a price of around $60, applying a roughly 12x multiple on our C15 EBITDA estimate of $740.6M. A blend of these two valuation methodologies yields our target price of $60. We believe that a multiple in line with leading clinical peers is consistent with the company's market-leading scale 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 $60 target price are: 1) softer R&D trends; 2) already have peak margins; 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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See the Companies Mentioned section for full company names

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