June 18, 2013

WELLS FARGO SECURITIES

Equity Research

Quintiles Transnational Holdings, Inc.

Q: Size Matters--Initiated Coverage At Outperform

Outperform / V

Sector: Outsourced Services
Market Weight

Initiation of Coverage

EPS	2012A	2013E Curr.	2013E Prior	2014E Curr.	2014E Prior
Q1 (Mar.)	$0.44	$0.43 A	NC	$0.52	NE
Q2 (June)	0.47	0.48	NE	0.53	NE
Q3 (Sep.)	0.45	0.48	NE	0.54	NE
Q4 (Dec.)	0.41	0.50	NE	0.55	NE
FY	$1.77	$1.89	NE	$2.14	NE
CY	$1.77	$1.89		$2.14	
FY P/E	24.5x	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)	$43.40
52-Week Range:	$41-47
Shares Outstanding: (MM)	0.0
Market Cap.: (MM)	$0.0
S&P 500:	1,644.31
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:	NA
CY 2013 Est. P/E-to-Growth:	NM
Last Reporting Date:	05/15/2013

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

- **Bottom line.** We initiated 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 (though not inexpensive), in our view, we think these factors create a favorable long-term risk/reward profile.
- **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.

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 31 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 06/18/13 unless otherwise stated.

Together we'll go far

Q052113-100851

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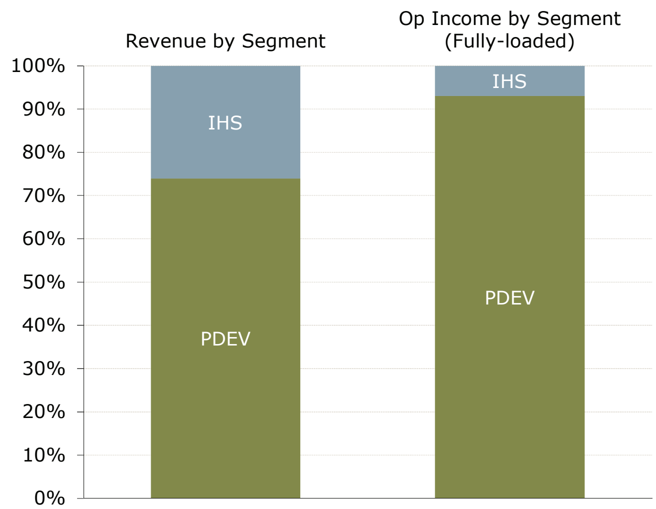
Company Description

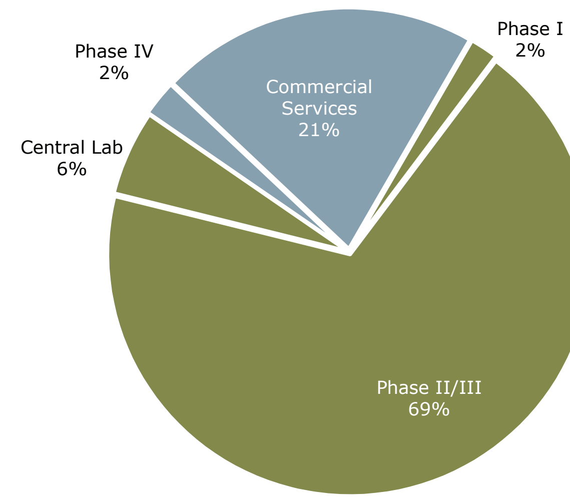
Based in Durham, North Carolina, Quintiles Transnational Holdings, Inc. is the largest contract research organization by revenue, providing both clinical trial management services and contract sales services to pharmaceutical and biotechnology clients. The company operates in two segments: Product Development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



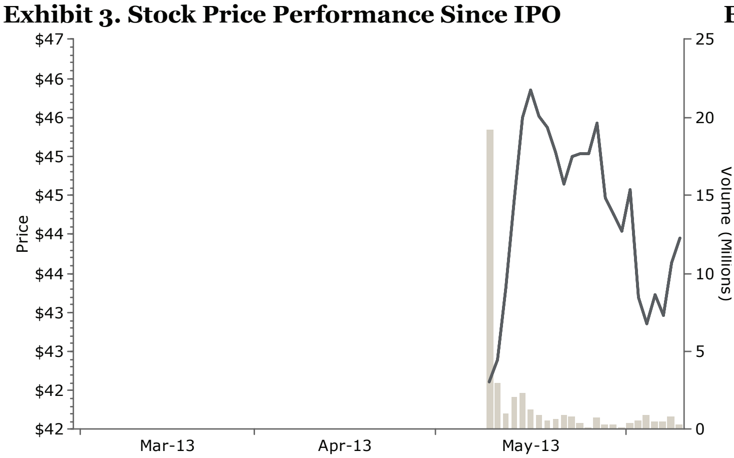
Source: Company data; Wells Fargo Securities, LLC

Exhibit 2. Revenue Mix By Service (2012)



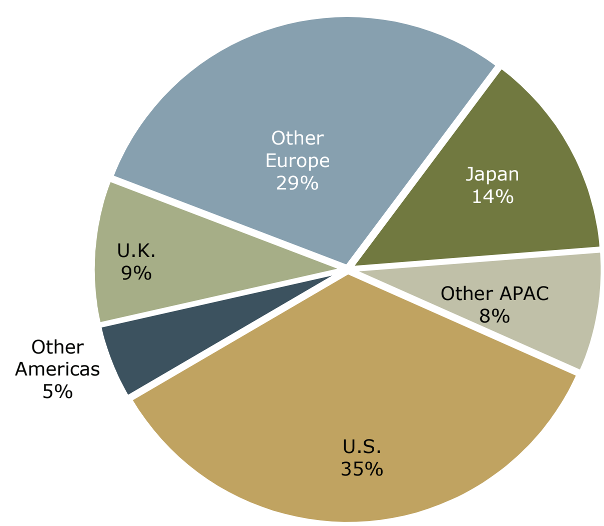
Source: Company data; Wells Fargo Securites, LLC estimates

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

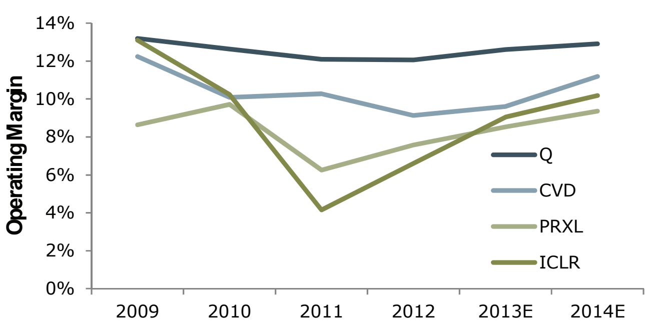
Investment Thesis

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.

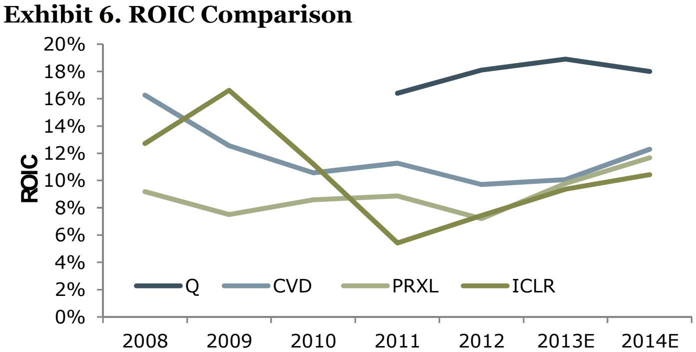
Operational discipline. In a period when competitors have come under significant margin pressure, Quintiles has been able to maintain relatively high levels of profitability. From its peak of 13.2% in 2009, the margin declined only 120 bps through 2012. By comparison, the annual peak-to-trough decline 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.

Company Description

Quintiles has a long history of being a leader in both the contract research industry and the contract sales industry, by virtue both of its size (it is the largest company by revenue in both sectors) and by its willingness to be an early mover in many of the industry's most important trends, which has positioned the company as a thought leader.

Quintiles has been public before, from 1994 through 2003. During that time, the company amassed a wide variety of businesses via acquisition (some more successful than others), creating a complex organization. The company was an innovator in partnering strategies that involved providing funding to customers or providing services at Quintiles' own cost in exchange for royalty or milestone payments on successful products. This business, which was known as PharmaBio (or sometimes, Capital Solutions) internally, but branded NovaQuest, essentially put Quintiles in a position of assuming risk in a product's success or failure and added complexity to the company's financial profile. It also required investors in the service business to tolerate the volatility and binary risks associated with drug development.

After going private in 2003, Quintiles restructured to divest underperforming assets. It also underwent a series of transactions to divest its risk-based businesses. In 2006, the company sold certain royalty rights under a co-promotion agreement with Lilly. In 2009, Quintiles spun off PharmaBio to its shareholders, but maintained an administrative services agreement with the new company, which required Quintiles to continue consolidating the operations of PharmaBio until 2010, at which point PharmaBio made other arrangements for administrative services, allowing Quintiles to deconsolidate its operations.

Quintiles' relationship with NovaQuest is now limited to a commitment to invest $60 million in a NovaQuest fund, and as of the end of Q1 2013, the company had funded about 25% of that commitment. Quintiles has a non-exclusive preferred provider agreement with NovaQuest, which gives Quintiles the opportunity to provide outsourcing services as long as pricing terms are comparable to those offered to other customers.

Quintiles thus comes to the public markets as a simplified company, operating in two segments: Product Development (PDEV) and Integrated Health Services (IHS), as shown in Exhibit 8. The segments are divided by the regulatory review window, with activities in the PDEV segment occurring prior to regulatory review and activities in IHS occurring following review.

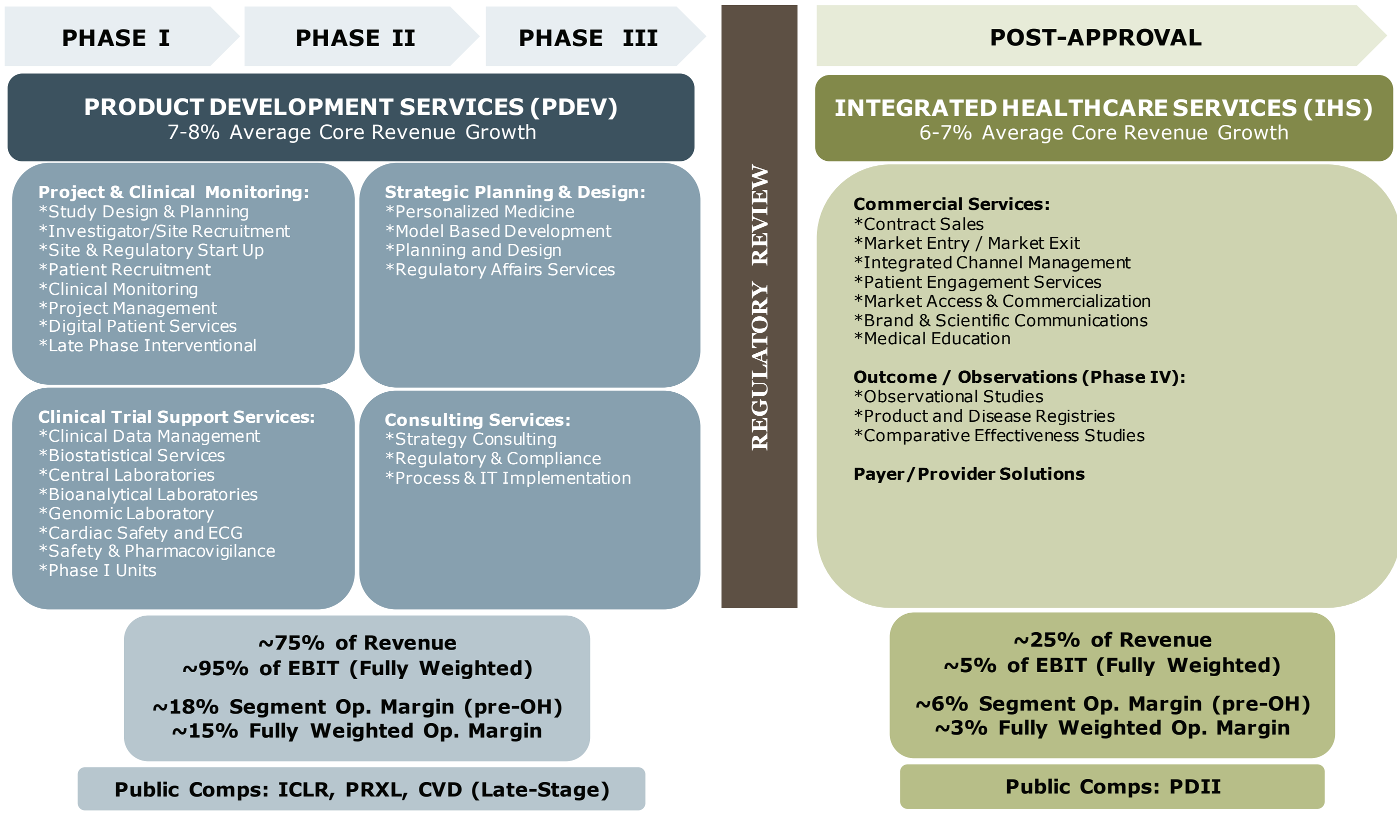
This segmentation is not quite as intuitive as it first appears, as Quintiles' Outcomes business (essentially phase IV studies), which makes up about 10% of the IHS segment, by our estimate, has more in common with phase II-III studies (in terms of both the work being performed and the financial profile) than with the remainder of the IHS segment, which is predominantly commercial services. Stated differently, revenue in the Outcomes business, like revenue in the PDEV segment, comes predominantly from pharma R&D expenses, while revenue in the commercial services business comes predominantly from pharma SG&A expenses.

Exhibit 7. Service Mix Comparison For Pharmaceutical Services Market

Pharmaceutical Services	WX	CRL	CVD	ICLR	PRXL	Q
Discovery Chemistry & Biology	43%	-	2%	-	-	-
Non-Regulated Safety Assessment (non-GLP)	2%	9%	3%	-	-	-
Regulated Safety Assessment (GLP)	5%	32%	22%	-	-	-
Non-clinical	**50%**	**41%**	**27%**	**-**	**-**	**-**
Phase I & Related Bioanalysis	1%	-	5%	5%	9%	2%
Phase II-IV & Related Bioanalysis	1%	-	26%	87%	91%	71%
Central Laboratory	-	-	29%	8%	-	6%
Clinical	**2%**	**-**	**60%**	**100%**	**100%**	**79%**
Chemistry, Manufacturing, and Control	13%	-	2%	-	-	-
Commercial Manufacturing	10%	-	-	-	-	-
Commercial Serivces	-	-	3%	-	-	21%
Other	25%	59%	8%	-	-	-
Other	**48%**	**59%**	**13%**	**-**	**-**	**21%**

Source: Wells Fargo Securities, LLC estimates

Exhibit 8. Quintiles Segment Overview



Source: Company Filings; Wells Fargo Securities, LLC

Product Development Segment (PDEV). Making up 75% of revenue and 95% of operating income when factoring in an allocation of corporate overhead, the PDEV segment is Quintiles' core franchise, comprising all phase I-III clinical research functions. The services offered in this segment fall into four groups: (1) Project & Clinical Monitoring, (2) Clinical Trial Support, (3) Strategic Planning & Design, and (4) Consulting.

Project & Clinical Monitoring, which contains a substantial majority of the segment's revenue, consists of the core services necessary to conduct drug development, including study design, recruitment of investigators and patients, project management, and clinical monitoring. Clinical Trial Support, the second-largest group, contains the company's central labs, bioanlytical labs, and phase I clinics, as well as data management and biostatistics. Finally, Quintiles also offers Strategic Planning and Consulting Services, which are smaller groups supplementing the core clinical business.

Integrated Health Services Segment (IHS). With 25% of Quintiles' revenue and 5% of operating income when factoring in an allocation of overhead, IHS is the smaller segment of the company, although Quintiles is still the largest player in the segment's largest market (Commercial Services).

Commercial Services makes up about 90% of segment revenue, by our estimate, though it is less profitable than the segment average. Within Commercial Services, contract sales, which provides outsourced sales representatives to the pharma industry, is the largest business. With difficult market dynamics, we think contract sales is the main drag on the segment's profitability. Also within Commercial Services, Quintiles offers patient engagement services, market access services, and scientific communication services.

Quintiles' Outcomes business, which conducts peri-approval studies (phase IV), makes up most of the remainder of the segment. The Phase IV business has a margin profile more in line with the PDEV segment.

Finally, Payer/Provider Services is a nascent business with almost no revenue, although Quintiles sees the opportunity for significant growth.

Facilities And Work Force. As a service organization operating in numerous geographies globally, Quintiles' facilities are mostly leased offices. The company paid $118 million in rental expense in 2012, which constitutes 3.6% of its total operating costs. The exceptions are Quintiles' central labs and bioanalytical labs, many of which are owned. The company also operates three phase I clinics with a total of 291 beds (see Exhibit 9). The company is headquartered in Durham, North Carolina, where it opened a new office complex in 2009.

Exhibit 9. Primary Facilities

Phase I	
Overland Park, Kansas	150 beds
London, England	55 beds
Hyderabad, India	86 beds
Central Lab	
Buenos Aires, Argentina	Affiliate Lab
Sao Paulo, Brazil	Affiliate Lab
Beijing, China	Wholly Owned
Mumbai, India	Wholly Owned
Tokyo, Japan	Affiliate Lab
Edinburgh, Scotland	Wholly Owned
Singapore	Wholly Owned
Pretoria, South Africa	Wholly Owned
Atlanta, Georgia	Wholly Owned
Westmont, Illinois	Wholly Owned
Bioanalytical Lab	
Ithaca, New York	Advion deal
Manassas, Virginia	Advion deal
Indianapolis, Indiana	Advion deal

Source: Company data; Wells Fargo Securities, LLC

The company has about 27,000 employees, 70% of which are in PDEV, 25% in IHS, and 5% in corporate.

Competition. Exhibit 10 details prominent companies that compete with Quintiles in each of its major service lines.

In the market for Phase II-IV services, Quintiles is the clear leader, with nearly twice as much revenue as PPD, the next largest competitor. The company is likely to see the most intense competition from companies such as PPD, PAREXEL, ICON, and Covance, though hundreds of smaller CROs also compete in the phase II-IV market.

Quintiles is the No. 2 player in the much smaller Central Lab market, where Covance is the dominant player. The most intense competition likely can be found among the top four players.

Exhibit 10. Quintiles' Competition And Market Share By Service Line

Phase I-IIa & Bioanalysis		Phase IIb-IV (inc. eClinical)		Central Lab		Commercial Services	
Celerion	5%	**Quintiles**	**15%**	**Covance**	**32%**	**Quintiles**	**29%**
PAREXEL	**3%**	PPD	8%	**Quintiles**	**11%**	United Drug	17%
Covance	**3%**	**PAREXEL**	**8%**	Quest	10%	inVentiv	14%
PPD	3%	**ICON**	**6%**	LabCorp	8%	Publicis Touchpoint	10%
PRA	2%	**Covance**	**4%**	**ICON**	**4%**	PDI, Inc.	4%
Quintiles	**2%**	inVentiv	4%	Eurofins	4%	Other	27%
Novum PRS	2%	INC	3%	PPD	3%	Total	100%
QPS	2%	PRA	3%	Other	29%	CSO Mkt Size (MM)	$ 3,000
Comprehensive Clinical	2%	RPS	2%	Total	100%	Addressable Mkt (MM)	$ 40,000
Lambda Therapeutic	2%	United Biosource	2%	CRO Mkt Size (MM)	$ 2,000	CSO Penetration	8%
Other	75%	Other	45%	Addressable Mkt (MM)	$ 2,000		
Total	100%	Total	100%	CRO Penetration	100%		
CRO Mkt Size (MM)	$ 3,200	CRO Mkt Size (MM)	$ 16,700				
Addressable Mkt (MM)	$ 6,400	Addressable Mkt (MM)	$ 38,000				
CRO Penetration	50%	CRO Penetration	44%				

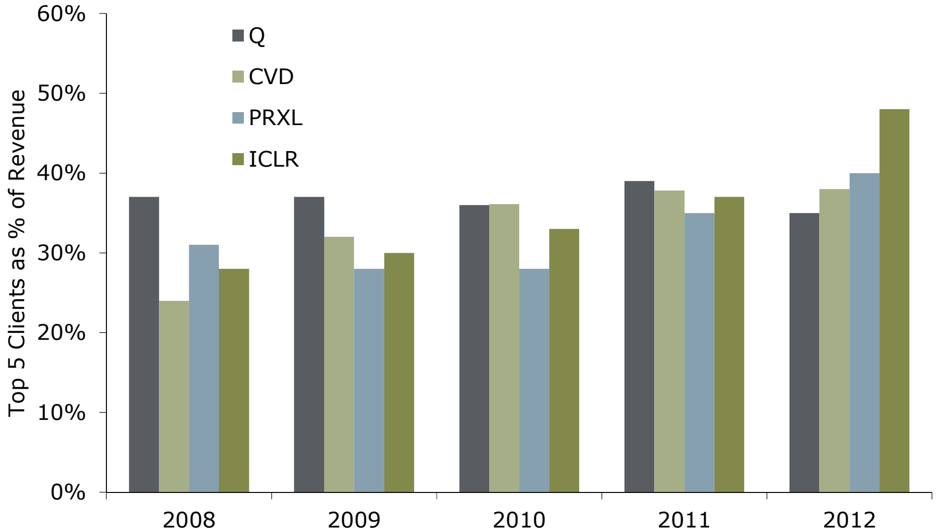
Source for all: Wells Fargo Securites, LLC estimates

The company is a smaller player in the highly fragmented phase I market, though that unit plays an important strategic role by allowing Quintiles to demonstrate scientific expertise at an early stage of the clinical pipeline.

In the contract sales market, Quintiles again is the industry leader by a substantial margin. The industry is quite consolidated, with competition coming primarily from United Drug (heavy in Europe), inVentiv, and Publicis Touchpoint. The most difficult competitor may prove to be pharma's own internal sales force as the contract sales business has been more resistant to increases in outsourcing penetration.

Client concentration. Quintiles' client concentration is now lower than that of CVD, ICLR, and PRXL, though that has not been the case historically (see Exhibit 11). The company's concentration has been fairly stable, and in fact, has declined slightly, while the rest of the industry has seen substantial increases.

Exhibit 11. Revenue From Top Five Clients



Source: Company filings and transcripts; Wells Fargo Securities, LLC

The company indicated that it received greater than $200 million in revenue from each of four customers in 2012, which is essentially the equivalent of having four deals the size of Pfizer's relationship with ICLR and PRXL. The company also indicated that it received more than $100 million in revenue from the nine customers in 2012, six of which have been the same in each of the past five years, indicating a level of stability not found at CVD, ICLR, and PRXL, in our opinion.

Company history. Quintiles was founded in 1982 by Dennis Gillings Ph.D. The company grew out of Gillings' statistical consulting services to the pharmaceutical industry, which he began providing in 1974, during his tenure as Professor of Biostatistics at the University of North Carolina at Chapel Hill.

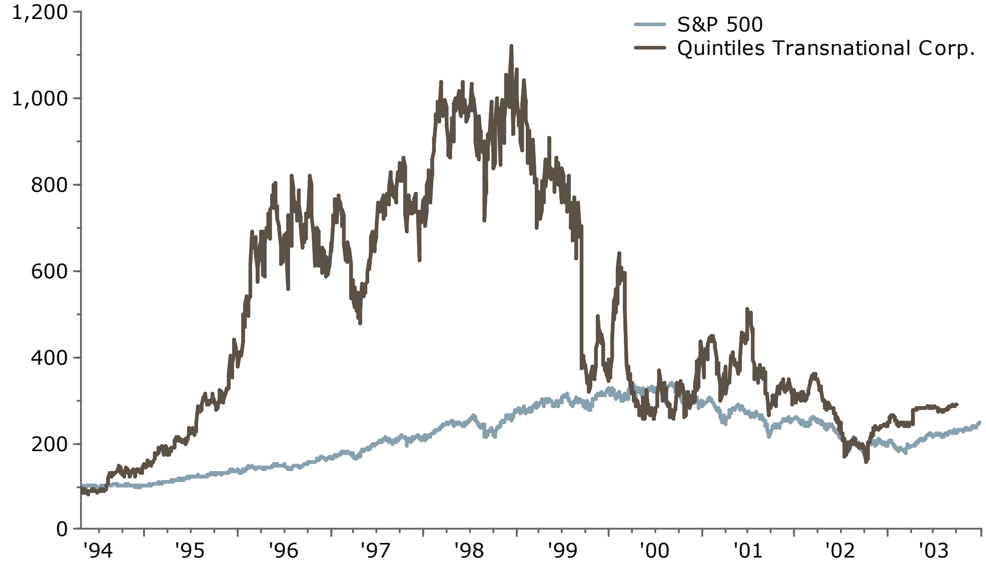
Quintiles began its global expansion by moving into Europe in 1987 and then into Asia in 1993. Quintiles also beefed up its product offerings by adding laboratory services (1991), consulting services (1996), and contract sales (Innovex acquisition, 1996).

In 1994, with more than $90 million of revenue, Quintiles went public (NASDAQ:QTRN). The company grew rapidly following its IPO, due to acquisitions and a focus on strategic partnerships. In 1998, Quintiles became the first CRO to record more than $1 billion in revenue, and in 1999, it joined the S&P 500.

In the early 2000s, the company's revenue growth stalled as pharmaceutical companies went through a wave of mergers and acquisitions. In 2001, Dr. Gillings stepped down as CEO (but remained as chairman), while Pamela Kirby was appointed the new CEO. With more focus on contract sales, it was during her tenure that Quintiles signed one of its landmark and controversial deals, the commercialization of Eli Lilly's Cymbalta, which involved an exchange of milestone payments in return for royalties.

With continued underperformance, Dr. Gillings led a $1.3 billion bid to take the company private, which the board rejected before exploring strategic alternatives for the company. Working with a consortium of private equity firms, Dr. Gillings' second bid, for $1.7 billion in 2003 ultimately proved successful. With Quintiles once again a private company, Gillings re-assumed the CEO role and began a lengthy restructuring process to refocus its operations.

Exhibit 12. Quintiles Relative Share Performance From First IPO To Go-Private In 2003



Source: FactSet; Wells Fargo Securities, LLC

In 2008, the company was sold to new owners (primarily Dr. Gillings, Bain, TPG and 3i), which continue to own a majority of the business. Following this transaction, Quintiles tiptoed back into the market for bolt-on acquisitions after a relatively quiet period that was dominated by larger divestitures. Quintiles' recent deals have been focused on genetics (i.e., TMD, Expression Analysis), biosimilars (i.e., JV with Samsung), Phase IV (i.e., Outcome Sciences), and bioanalytics services (i.e., Advion).

Exhibit 13. Acquisition And Divestiture History

Transactions (Acquisition/Divestiture)	Date Closed	Acq or Div	Payment (MM) &	Consideration	Segment	Location	Annual Rev (MM)	EV / Rev	Notes
Expression Analysis	Aug-12	A	$43	Cash	PDEV	North Carolina	ND	ND	Genomic testing for biopharma and not-for-profit
Investment in Invida	Nov-11	D	$104	Cash	IHS		ND	ND	Sold investment in Invida Pharma Holdings, a JV for commercialization in APAC
Advion BioServices	Nov-11	A	$60	Cash	PDEV	New York	ND	ND	Bioanalytical labs in NY, VA, and IN; 180 employees
Outcome Sciences	Oct-11	A	$177	Cash	IHS	Massachusetts	ND	ND	Focus on outcomes studies (Phase IV)
VCG & Associates and VCG Bio	Oct-11	A	$9	Cash	IHS	Massachusetts	ND	ND	Commercialization consulting
Samsung Group	Feb-11	JV	$266	NA		S. Korea	ND	ND	Co-devleopment of biologics/biosimilars
Targeted Molecular Diagnostics	Dec-08	A	ND	ND	PDEV	Illinois	ND	ND	Biomarker express analysis and development of targeted oncology
Eidetics (Q-Epsilon, Inc.)	May-08	A	ND	ND		Massachusetts	ND	ND	Consulting for product development & market access
Bio-Trials	Oct-07	A	ND	ND	PDEV	Panama	ND	ND	Monitoring, site coordination, regulatory support, study management, & supply dist.
Lewin healthcare policy research	Jun-07	D	$64	Cash	IHS	Virginia	ND	ND	Sold to Ingenix (United Health); Lewin is a national healthcare consulting firm
3 drug development business units	Sep-05	D	$125	Cash		North Carolina	ND	ND	Aptuit purchase preclinical technologies, pharma sciences, and packaging/logistics
Bioglan assets (Iguard)	Jun-04	D	$187	Cash		Pennsylvania	ND	ND	Bradley Pharma acquired rights to dermatology products on the U.S. market
Biomedical Systems Group	Dec-03	A	ND	ND	PDEV	Spain	ND	ND	Clinical research
Beansprout Networks	Nov-02	A	ND	ND	IHS	Massachusetts	ND	ND	Complements Innovex's internet service portal
Health Research Solution	Oct-02	A	ND	ND	PDEV	Australia	ND	ND	Majority stake; Specialized late-stage clinical research services
Bioglan Pharma Inc.	Mar-02	A	$27	Cash		Pennsylvania	ND	ND	Portfolio management solutions
Intelligent Imaging	Oct-01	D	ND	ND		North Carolina	ND	ND	Medical image management services; Bought by Bio-Imaging Technologies
Ungerer Laboratory	Feb-01	A	ND	ND	PDEV	South Africa	ND	ND	Centralized clinical lab in South Africa; neutral to EPS in 2001
OEC	Mar-01	A	ND	ND	IHS	Switzerland	ND	ND	Post marketing drug safety
Clinical dev unit of Pharmacia	Dec-00	A	ND	Cash	PDEV	Sweden	ND	ND	Clinical development business unit of Pharmacia >100 employees
Envoy	May-00	D	$1,260	Cash & Stock		Tennessee	$149	8.5x	Electronic Data Interchange; Sold to Healtheon/WebMD
Medicines Controls Consultant	Oct-99	A	ND	ND	PDEV	South Africa	ND	ND	Provides pharmaceutical regulatory consulting services
MediTrain	Jul-99	A	ND	ND	IHS	Netherlands	ND	ND	Provides training programs for pharmaceutical reps
Medcom	Jul-99	A	ND	ND	IHS	New Jersey	ND	ND	Provides physician meetings and educational events
SMG Marketing Group	Jun-99	A	ND	ND	IHS	Illinois	ND	ND	Healthcare research and informatics company
Minerva Medical	Jun-99	A	ND	ND	PDEV	UK	ND	ND	CRO specializing in drug development and pre-clinical testing
Medlab / Niehaus & Botha LP	Apr-99	A	ND	ND	PDEV	South Africa	ND	ND	Clinical laboratory testing
Oak Grove Technologies LLC	Feb-99	A	ND	ND		North Carolina	ND	ND	IT consulting, strategic communications, and analytical intelligence
Hoechst Marion Roussel	Jan-99	A	$93	Cash		France	ND	ND	R&D facility acquired from the pharma division of Hoechst AG, Germany
Envoy	*Mar-99*	*A*	*$1,132*	*Stock*		*Tennessee*	*$149*	*7.6x*	*Healthcare EDI; Intended to give insight into prescribing patterns, outcomes, etc*
Pharmaceutical Marketing Services	Mar-99	A	$218	Stock	IHS	New York	$37	5.9x	Provide market research services to pharma and healthcare companies
QED International	Oct-98	A	ND	ND	IHS	New York	ND	ND	Provides product marketing and communications services
Serval	Oct-98	A	ND	ND	IHS	France	ND	ND	Increased sales force in Europe; Combined with Innovex
Simirex	Oct-98	A	ND	ND		New Jersey	ND	ND	Provides clinical packaging services
Data Analysis Systems, Inc.	Sep-98	A	ND	Stock		New Jersey	ND	ND	Develops marketing software
Royce Consutancy	Aug-98	A	ND	ND	IHS	UK	ND	ND	Recruitment of sales reps
Cardiac Alert	Jun-98	A	ND	Stock	PDEV	UK	ND	ND	Provides ECGs for international clinical trials
ClinData International	Jun-98	A	ND	Stock	PDEV	South Africa	ND	ND	Develops biostatistic and data management software
T2A	Mar-98	A	ND	Stock		France	ND	ND	Market research firm
Technology Assessment Group	Feb-98	A	ND	Stock		California	ND	ND	Medtech economics; Fits under the Lewin Group (healthcare strategy)
More Biomedical CRO	Feb-98	A	ND	Stock	PDEV	Taiwan	ND	ND	Taiwanese CRO
Pharma Networks	Jan-98	A	ND	ND	IHS	Belgium	ND	ND	CSO
Intelligent Imaging	Sep-97	A	$7	Stock	PDEV	Pennsylvania	ND	ND	Data management, translation, and digitization services and software
Rapid Deployment Services	Sep-97	A	ND	ND	IHS	South Africa	ND	ND	CSO; 110 employees
ClinData International	Sep-97	A	$19	Stock	PDEV	South Africa	ND	ND	CRO providing biostatistics and data management
CerebroVascular Advances	Jul-97	A	ND	Stock	PDEV	Texas	ND	ND	CRO doing stroke clinical trials
Medical Action Communications	Jun-97	A	$38	Stock	IHS	UK	$14	2.8x	Provides strategic marketing solutions to pharma companies
Butler Communications, Inc.	Jun-97	A	$16	Stock	PDEV	North Carolina	$14	1.2x	Patient recruitment services for clinical trials
Medical Alliance	Feb-97	A	ND	Cash	IHS	Australia	ND	ND	CSO and healthcare recruiting
Debra Chapman Consulting	Feb-97	A	ND	Cash		Australia	ND	ND	Various management consulting
Innovex	Oct-96	A	$868	Stock	IHS	UK	$129	6.7x	CSO business
BRI International	Nov-96	A	$131	Stock	PDEV	Virginia	$43	3.1x	Added expertise in med devices and data management

Source: Company filings; Wells Fargo Securities, LLC; ND=Not Disclosed

Focal Points

We believe the factors that will drive share performance boil down to five high-level issues:

- **Revenue.** Is high-single-digit revenue growth sustainable in the long run?
- **Competition.** Is Quintiles' position as the industry leader defensible?
- **Margin.** Can Quintiles maintain (and improve) its profitability?
- **Contract Sales.** Is Contract Sales a "good" business?
- **Payer/Provider Market.** How substantial is the payer/provider opportunity?

Is High-Single-Digit Revenue Growth Sustainable In The Long Run?

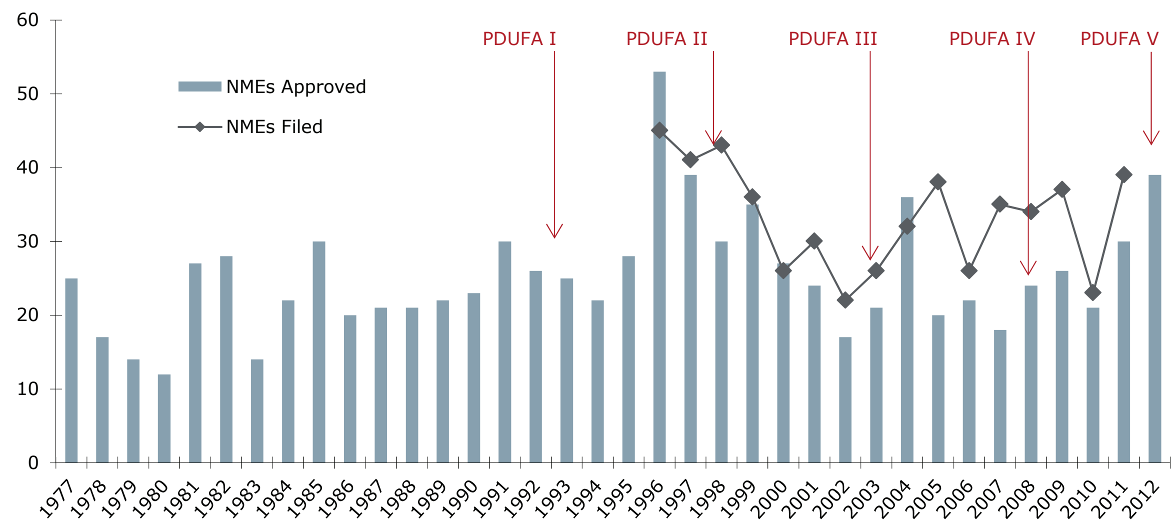
Based on our long-term DCF model, we believe Quintiles needs to sustain an average revenue growth rate of at least 7% over an extended period to justify its current valuation. We believe the question of whether this is an achievable expectation can be framed in terms of the industry's growth rate and Quintiles' ability to capture share to exceed industry growth.

The main pillars supporting Quintiles' growth are (1) biopharma spending growth in Quintiles' addressable markets, (2) the allocation of spending toward Quintiles' served markets, (3) outsourcing penetration, and (4) market-share gains. Our updated Pharmaceutical R&D Services model, shown in Exhibit 16, outlines our view of each trend in markets relevant to the PDEV segment.

We believe the commercial services market is too opaque to properly model, though we discuss our view of the general trends in that market.

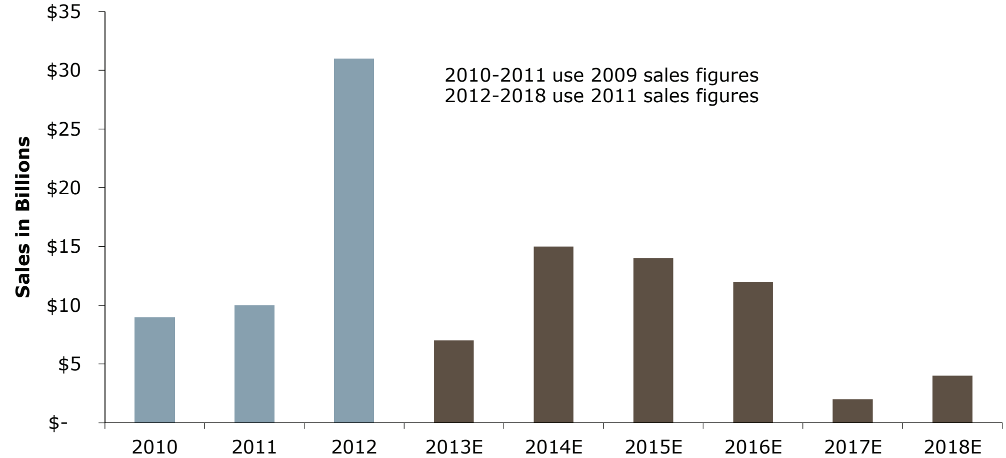
Biopharma spending growth. Growth in biopharmaceutical R&D spending is the first underlying growth driver for the PDEV segment. We believe global biopharmaceutical R&D spending has been approximately flat since 2007, hovering at $120-125 billion, with 2009 being the most difficult year. Prior to this period, R&D had been growing in the high single digits. We believe low-single-digit R&D growth is a reasonable expectation, i.e., we project a compound annual growth rate (CAGR) of 1% from 2012 to 2016. The drivers of this improvement are chiefly and improvement in new drug approvals in both 2011 and 2012, and a decline in patent expirations (see Exhibits 14 and 15). Notably, even at low-single-digit growth, R&D is expected to decline as a percentage of global biopharmaceutical sales, which should drive long-sought efficiencies at pharmaceutical companies.

Exhibit 14. FDA New Drug Approvals



Source: FDA.gov; Wells Fargo Securities, LLC

Exhibit 15. Pharmaceutical Sales Going Off Patent



Source: Company filings; Wells Fargo Securities, LLC estimates

Regarding the market for commercial services, we think pharmal companies have been aggressively reducing promotional spending over the past six years given that the number of sales reps in the United States peaked in 2006 and has declined each year since, falling more than 30% in total. The reasons are multi-factorial, but include the patent cliff, pharma M&A, low levels of new drug approvals from 2006 to 2010, and regulations on marketing practices. This, alone, has created significant headwinds for providers of commercial services.

Allocation of spending. In the PDEV segment, Quintiles competes in the markets for phase I, phase II-IV, and central lab. By far the most important of these is phase II-IV, given its size and Quintiles' concentration of revenue in this market. We estimate that phase II-IV makes up about 49% of the addressable market currently, which has increased from about 45% of the market in 2006-08. We believe this percentage is likely to be fairly stable over the next five years.

We also believe that the amount of R&D pharmaceutical companies would be willing to outsource has also been increasing and is likely to continue rising, as fewer and fewer functions are regarded as "core" activities. With an increasing percentage of "outsourceable" R&D and a stable allocation toward phase II-IV, we believe the addressable market will grow at a CAGR of 2% between 2012 and 2016.

Regarding commercial services (not shown in Exhibit 16), which is the largest part of Quintiles' IHS segment, we believe the allocation of spending to this area has declined. Sales representatives are the largest cost in this portion of the market, and with the increased ability to market products via the Internet, and with increased regulation around how sales representatives operate, we believe pharma companies have chosen to allocate promotional resources to other areas, including direct-to-consumer marketing and ePromotional activities.

Penetration. The percentage of the addressable R&D market that is outsourced has been increasing each year for at least a decade. Between 2004 and 2012, we estimate that the penetration rate for all R&D activities rose to 41% from 32% (we think phase II-IV is a little higher than this average). We believe the past two years have been a particularly strong period of increased outsourcing for the phase II-IV market as many pharmaceutical companies move to make outsourcing decisions following mergers in 2009-2011 and significant restructuring.

Drivers of increased penetration include the ability to convert semi-fixed R&D costs to variable costs, CROs' demonstrated ability to improve drug development pipelines, CROs' therapeutic and regulatory expertise, CROs' investments in global infrastructure, and finally, the potential for cost savings. We see little reason for this trend to slow. In fact, we believe the market has reached a "tipping point" of sorts, where CROs now have more clinical resources than pharmaceutical companies, meaning it would be incredibly difficult to now pull resources back in-house.

In the commercial services market, increases in penetration have been much more stubborn. We believe the market is currently at a high-single-digit level of penetration. We believe the primary reason for the lack of penetration increases is the drastic reduction in sales force numbers, which has given pharmaceutical companies little incentive to outsource. We are cautiously optimistic that the market may stabilize in 2013, following the worst of the patent cliff in 2012, as well as improvement in new drug approvals. While we do not assume significant increases in commercial services penetration, we view it as a possible source of upside to our revenue estimates.

Exhibit 16. Pharmaceutical R&D Services Market Model

In Billions	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	'12-'16 CAGR
Global Biopharma Sales	$ 495	$ 534	$ 573	$ 633	$ 693	$ 720	$ 759	$ 821	$ 851	$ 874	$ 901	$ 949	$ 1,005	4%
Growth	11.8%	7.8%	7.4%	10.5%	9.4%	3.8%	5.5%	8.2%	3.6%	2.8%	3.1%	5.3%	5.9%	
Allocation of R&D	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	
% Discovery	21%	21%	21%	21%	21%	22%	20%	21%	19%	19%	19%	19%	19%	
% Regulated Safety	6%	6%	6%	6%	5%	5%	5%	4%	4%	4%	4%	4%	4%	
% Phase I-IIa	8%	8%	8%	8%	8%	7%	7%	6%	6%	6%	6%	6%	6%	
% Phase II-IV	47%	46%	45%	45%	45%	45%	46%	46%	48%	49%	49%	49%	49%	
% Central Lab	2%	2%	2%	1%	2%	2%	2%	2%	2%	2%	2%	2%	2%	
% CMC	17%	17%	18%	19%	20%	20%	21%	21%	21%	21%	21%	21%	21%	
Total Global Biopharma R&D	$ 95	$ 102	$ 111	$ 123	$ 122	$ 119	$ 123	$ 122	$ 122	$ 122	$ 123	$ 125	$ 128	1%
% of global sales	19.2%	19.2%	19.3%	19.4%	17.6%	16.6%	16.2%	14.9%	14.3%	13.9%	13.7%	13.2%	12.7%	
Growth	7.4%	7.7%	7.8%	11.5%	(1.1%)	(2.0%)	3.0%	(0.5%)	(0.3%)	(0.3%)	1.6%	1.5%	1.9%	
Addressable Portion of R&D	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	CAGR
Discovery	$ 10	$ 11	$ 12	$ 14	$ 14	$ 14	$ 13	$ 14	$ 13	$ 13	$ 13	$ 13	$ 14	2%
Regulated Safety Assessment	$ 5	$ 6	$ 6	$ 6	$ 6	$ 5	$ 5	$ 5	$ 5	$ 5	$ 5	$ 5	$ 5	1%
Phase I-IIa	$ 7	$ 7	$ 8	$ 9	$ 8	$ 8	$ 7	$ 7	$ 6	$ 6	$ 6	$ 6	$ 6	1%
Phase II-IV	$ 28	$ 30	$ 32	$ 35	$ 35	$ 34	$ 36	$ 36	$ 38	$ 38	$ 39	$ 40	$ 40	2%
Central Lab	$ 1	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	2%
CMC	$ 14	$ 16	$ 18	$ 21	$ 22	$ 22	$ 24	$ 23	$ 23	$ 23	$ 24	$ 24	$ 25	1%
Addressable Market	$ 66	$ 72	$ 78	$ 87	$ 86	$ 85	$ 87	$ 87	$ 87	$ 87	$ 89	$ 91	$ 93	2%
% of total R&D	69.4%	69.8%	70.1%	70.4%	70.6%	70.8%	71.1%	71.1%	71.4%	71.7%	72.0%	72.3%	72.6%	
Growth	8.4%	8.2%	8.4%	11.8%	(0.7%)	(1.8%)	3.4%	(0.5%)	0.1%	0.1%	2.0%	1.9%	2.2%	
Penetration Rates	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	
Discovery Activities	6%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	
Regulated Safety Assessment	39%	40%	41%	43%	45%	47%	47%	49%	52%	53%	53%	54%	54%	
Phase I-IIa	42%	43%	44%	45%	46%	47%	48%	49%	50%	51%	52%	53%	54%	
Phase II-IV	32%	33%	35%	37%	39%	40%	41%	42%	44%	47%	49%	51%	53%	
Central Labs	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
CMC	37%	38%	38%	39%	39%	40%	40%	40%	40%	41%	42%	43%	44%	
Total Penetration Rate	32%	33%	34%	36%	37%	38%	39%	39%	41%	43%	44%	45%	47%	
Outsourcing Market	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	CAGR
Discovery Activities	$ 1	$ 1	$ 1	$ 1	$ 1	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 3	8%
Regulated Safety Assessment	$ 2	$ 2	$ 2	$ 3	$ 3	$ 3	$ 2	$ 2	$ 2	$ 2	$ 3	$ 3	$ 3	2%
Phase I-IIa	$ 3	$ 3	$ 4	$ 4	$ 4	$ 4	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 4	2%
Phase II-IV	$ 9	$ 10	$ 11	$ 13	$ 14	$ 14	$ 15	$ 15	$ 17	$ 18	$ 19	$ 20	$ 21	6%
Central Labs	$ 1	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	2%
CMC	$ 5	$ 6	$ 7	$ 8	$ 8	$ 9	$ 9	$ 9	$ 9	$ 10	$ 10	$ 10	$ 11	4%
Outsourcing Market	$ 21	$ 24	$ 27	$ 31	$ 32	$ 32	$ 34	$ 34	$ 36	$ 37	$ 39	$ 41	$ 43	5%
Growth	13.7%	11.7%	12.6%	15.9%	3.2%	0.5%	5.6%	1.0%	3.9%	4.5%	5.2%	5.1%	5.3%	
Top CROs	$ 4	$ 5	$ 6	$ 7	$ 8	$ 8	$ 9	$ 10	$ 11	$ 12	$ 12	$ 13	$ 14	8%
Growth	12%	18%	16%	21%	17%	1%	4%	8%	12%	9%	7%	7%	7%	
% of total market	20%	22%	22%	23%	26%	26%	26%	28%	30%	31%	32%	32%	33%	

Source: Company filings; Wells Fargo Securites, LLC estimates

Market share. We believe the largest CROs are poised to capture more market share over the next 5-10 years. From 2004 to 2012, we estimate that the share of the market going to top CROs across all R&D activities rose to 30% from 20%. We believe a similar increase is likely over the next ten years. Quintiles, as the "biggest of the big," is well positioned to lead this trend. The next section of this report details our view on Quintiles' competitive position.

Scenario Analysis. On an annual basis, Quintiles has posted very consistent book-to-bill ratios since 2008, averaging 1.23 ,with only a slight amount of variance. In addition, annual backlog conversion has declined by about 110 bps, to 46.3% from 47.4%. Using this historical information, we create a scenario analysis to model revenue growth under a base case, bull case, and bear case, by using book-to-bill ratios and burn rates (see Exhibit 17).

Under the base-case scenario, which approximates our published model, we use an average book-to-bill ratio of 1.25 from 2013 to 2016, which is skewed upward by stronger booking in 2013, thanks in large part to a 1.34 book-to-bill ratio in Q1 2013. We assume meaningful declines in the burn rates, as well, which has been the trend in the industry over the past decade. In this way we reach our 6.7% 2012-16 revenue CAGR, with higher growth in the out years.

Under the bull case scenario, we assume slightly higher book-to-bill ratios than in our base case (average of 1.26), but relatively stable burn rates, which produces an 11% revenue CAGR.

In the bear case, we use an average book-to-bill ratio of 1.11 and slightly worse declines in the burn rate relative to our base case. In this scenario, we produce a CAGR of about 2%.

Exhibit 17. Scenario Analysis

Base Case (in millions)	2012	2013E	2014E	2015E	2016E	
Beginning Backlog	$ 7,973	$ 8,705	$ 9,816	$ 10,888	$ 11,910	
Net bookings	$ 4,501	$ 4,942	$ 5,196	$ 5,465	$ 5,747	
Less: revenue	$ 3,692	$ 3,831	$ 4,124	$ 4,443	$ 4,789	
FX adjustments	$ (77)	$ -	$ -	$ -	$ -	
Ending Backlog	$ 8,705	$ 9,816	$ 10,888	$ 11,910	$ 12,868	
						Average
Net book-to-bill	1.22	1.29	1.26	1.23	1.20	1.25
Burn rate	46.3%	44.0%	42.0%	40.8%	40.2%	
Change (bps)		-230	-200	-120	-60	
						CAGR
Revenue growth		3.8%	7.6%	7.8%	7.8%	6.7%
Bull Case (in millions)	**2012**	**2013E**	**2014E**	**2015E**	**2016E**	
Beginning Backlog	$ 7,973	$ 8,705	$ 9,888	$ 11,143	$ 12,405	
Net bookings	$ 4,501	$ 5,127	$ 5,735	$ 6,311	$ 6,745	
Less: revenue	$ 3,692	$ 3,944	$ 4,480	$ 5,049	$ 5,621	
FX adjustments	$ (77)	$ -	$ -	$ -	$ -	
Ending Backlog	$ 8,705	$ 9,888	$ 11,143	$ 12,405	$ 13,529	
						Average
Net book-to-bill	1.22	1.30	1.28	1.25	1.20	1.26
Burn rate	46.3%	45.3%	45.3%	45.3%	45.3%	
Change (bps)		-100	0	0	0	
						CAGR
Revenue growth		6.8%	13.6%	12.7%	11.3%	11.1%
Bear Case (in millions)	**2012**	**2013E**	**2014E**	**2015E**	**2016E**	
Beginning Backlog	$ 7,973	$ 8,705	$ 9,277	$ 9,665	$ 10,054	
Net bookings	$ 4,501	$ 4,386	$ 4,267	$ 4,286	$ 4,348	
Less: revenue	$ 3,692	$ 3,814	$ 3,879	$ 3,896	$ 3,952	
FX adjustments	$ (77)	$ -	$ -	$ -	$ -	
Ending Backlog	$ 8,705	$ 9,277	$ 9,665	$ 10,054	$ 10,450	
						Average
Net book-to-bill	1.22	1.15	1.10	1.10	1.10	1.11
Burn rate	46.3%	43.8%	41.8%	40.3%	39.3%	
Change (bps)		-250	-200	-150	-100	
						CAGR
Revenue growth		3.3%	1.7%	0.4%	1.5%	1.7%

Source: Wells Fargo Securities, LLC estimates

Is Quintiles' Position As The Industry Leader Defensible?

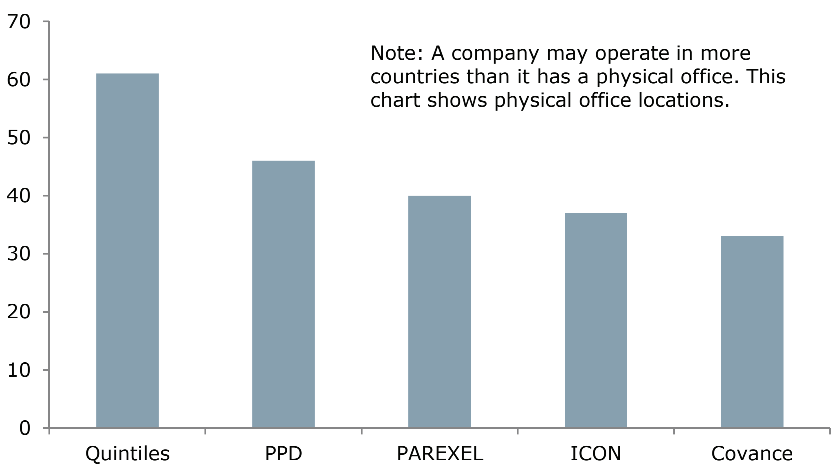
As shown in Exhibit 10, Quintiles is the largest player in the phase IIb-IV market, with a 15% share, by our estimate. The next-largest player (PPD) has only an 8% share (note that we are excluding lab-based businesses from this analysis). Likewise, in the commercial services market, Quintiles has a 29% share, by our estimate, with the next-largest player (United Drug) having about a 17% share.

Large CROs have an advantage over small companies. We estimate that nearly 80% of all R&D spending on pharmaceuticals is controlled by the largest 25 pharmaceutical companies (defined as those spending more than $1 billion per year on R&D). The outsourcing market has evolved in such a way that most large pharmaceutical companies are now trying to narrow their vendor lists to achieve sourcing efficiencies and to streamline the drug development process. The logical result of this effort is that full-service CROs, with the capabilities to meet most typical demands, will be the partners of choice for the largest pharmaceutical companies. We think only five or six CROs are in a position to offer a full suite of services on a global basis, including Quintiles, PPD, PAREXEL, ICON, and Covance. We believe that these five providers are in a position to win a majority of the core late-stage R&D spending coming from the top 25 pharmaceutical companies.

Currently, the top five providers have about a 40% of the total phase IIb-IV market, which we think is likely to go to more than 50% in the next 5-10 years, driven both by bolt-on acquisitions and organic share gains from the hundreds of CROs making up the smallest tier of the market.

With the field of true competition narrowed down to a handful of players, what advantages does Quintiles have? First, as shown in Exhibit 18, Quintiles is the "most global" of the global players, with offices in about 60 countries, compared to about 45 for PPD, the next-largest player. An ability to recruit in a multitude of geographies is a key criterion for most large partnerships.

Exhibit 18. Number Of Countries With A Physical Office



Source: Company websites; Wells Fargo Securities, LLC

Second, Quintiles has a leadership position in technology. We believe that real efficiencies in the drug development process will be driven by the effective use of technology. Because of regulation, technological adoption has been slower in the pharmaceutical industry than in less-regulated industries. With outsourcing playing a larger role in the drug development process, and with CROs being incentivized to create efficiencies, CROs are positioned to lead the way in the use of technology, and we believe Quintiles is at the forefront of that trend.

Showing its commitment to technology, Quintiles was ranked sixth in the 2012 InformationWeek 500, a list of the top technology innovators in the United States (PPD, the only other CRO on the list, was No. 102). Driving the recognition was Quintiles' collaboration with Eli Lilly on an IT project to re-engineer the way clinical trials are planned and designed, essentially using "big data" to make better decisions in the planning phase.

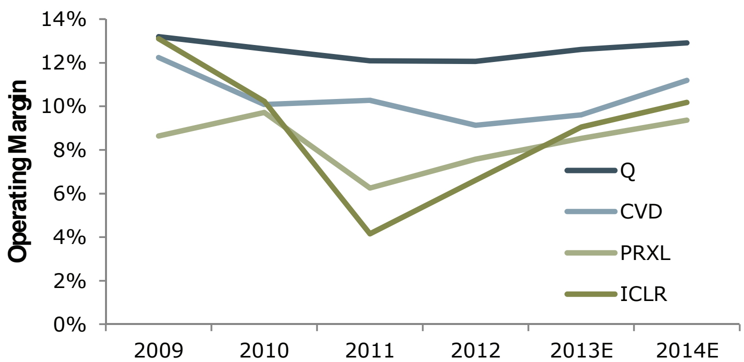
Other areas in which Quintiles has shown leadership are (1) the use of electronic medical records (EMR); (2) risk-based monitoring, which holds the promise of reducing clinical trial costs; and (3) digital patient engagement and recruitment via its sites www.clinicalresearch.com and www.medigauard.org, which have 165,000 and 2.5 million registered users, respectively.

Finally, Quintiles has a strong scientific legacy, going back to Dr. Gillings' talent as a biostatistician. The company employs 850 M.D. degree holders and 850 Ph.D. degree holders, which is comparable in size to a large teaching hospital.

Can Quintiles Maintain (And Improve) Its Profitability?

Among public comparable CVD, PRXL, and ICLR, Quintiles has posted the highest margin in each of the past five years, as shown in Exhibit 19. Only PPD had higher margin, approaching 20% in 2008, but declining to less than 14% in 2010, before it went private. Quintiles maintains its margin despite the single-digit margin in the IHS segment.

Exhibit 19. Quintiles Operating Margin Versus Peers'



Source: Company filings; Wells Fargo Securities, LLC estimates

Quintiles has acknowledged the presence of pricing pressure in the industry as pharmaceutical companies seek sourcing efficiencies. However, Quintiles believes it can achieve 100-150 bps of improvement in its cost of sales each year to offset (and hopefully more than offset) the pricing pressure. Initiatives include work force management, improved processes (i.e., risk-based monitoring as one example), measuring productivity, and employment of technology.

The company also targets about 25 bps per year of SG&A improvement, which is the primary driver of margin of the modest margin expansion in our model from 2014 to 2016. SG&A initiatives include migration of administrative support, real estate optimization, selling productivity, and other expense management.

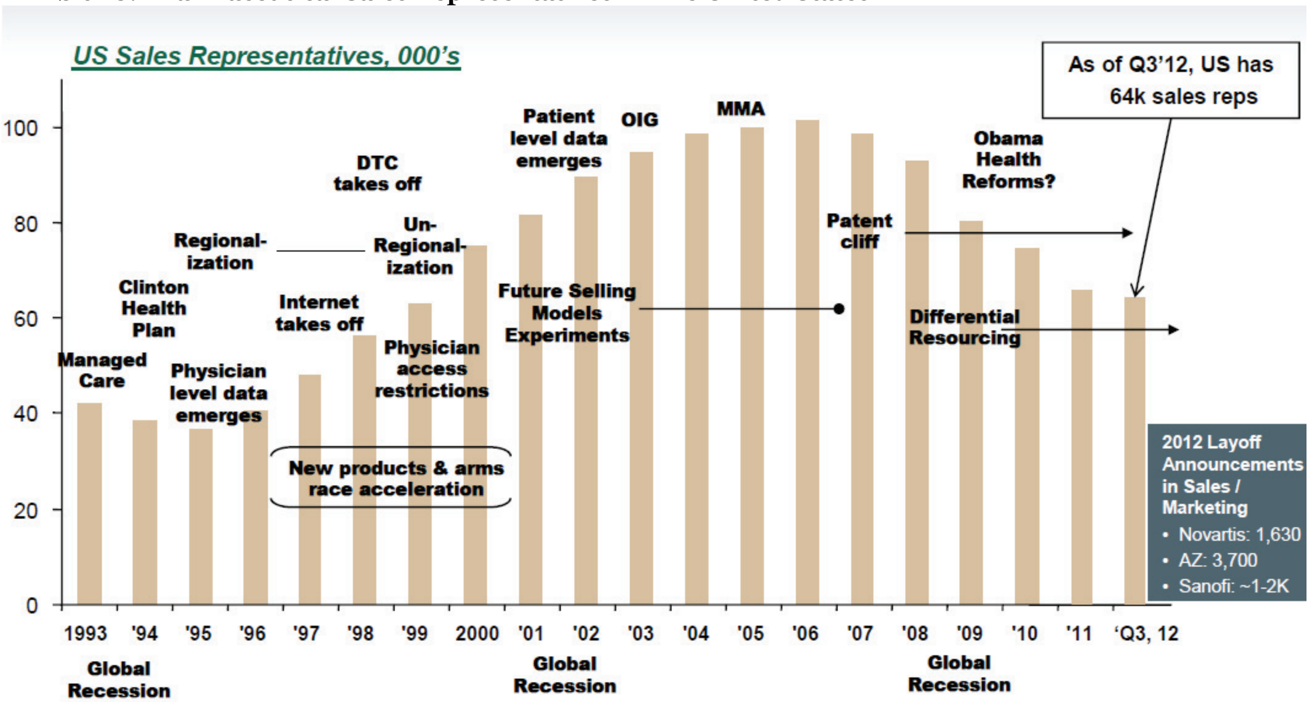
We believe CROs in general will be forced to improve negotiation skills to meet the more aggressive procurement tactics being employed by large pharmaceutical companies. We believe Quintiles is in one of the best positions to match pharmaceutical firms toe-to-toe. First, Quintiles' leadership in technology should allow it to measure, and therefore, prove, the value it adds in the clinical trial process. Second, we believe Quintiles' size and the scope of its relationships (nine customers generate more than $100 million in revenue and four generate more than $200 million) allow the company to negotiate higher up in the food chain, removing itself from the price-sensitive procurement-based organizations to make value-based (rather than price-based) negotiations, sometimes at the C-suite level. We believe it is the combination of Quintiles' technology and access that enables this possibility.

Is Contract Sales A "Good" Business?

Quintiles' IHS segment is only marginally profitable, and the Commercial Services business, which makes up about 90% of segment sales, is likely breakeven or unprofitable (the Outcomes business making up most of the remainder has margins closer to the PDEV segment). Within Commercial Services, we believe contract sales (the largest component) is mostly to blame for low margin. Whether the contract sales business proves to be a vehicle for margin expansion or a continued albatross will likely be an ongoing focus for investors.

To put contract sales into perspective, consider that the contract research market has benefited from the dual growth levers of R&D growth and increases in penetration. Even in the most difficult years, R&D spending has at least remained approximately flat. In contrast, the market for sales representatives (internal or outsourced) has shrunk dramatically, with the number of sales reps in the United States declining by more than 30% from its peak in 2006, as shown in Exhibit 20. We believe trends globally follow this pattern.

Exhibit 20. Pharmaceutical Sales Representatives In The United States



Source: ZS Associates

The reasons for the pressure on the sales portion of the pharma business are many, but we point to three. First, consolidation in the pharma industry has led to massive layoffs, as bloated sales organizations are targeted for cost synergies. Second, the patent cliff has reduced the demand for sales reps as generics make up a growing proportion of the market. Finally, regulation has stifled many once-common sales practices, forcing pharmaceutical companies to find other ways of marketing products, often with fewer touch points between sales representatives and physicians.

The decline in sales representative numbers leaves little incentive for pharmaceutical companies to outsource since ample representatives are available to meet needs, and many companies would rather shift resources internally than conduct layoffs.

The increase in availability of other sales channels has also reduced the value of sales representatives, in our view, which we believe hinders market growth, as well as pricing. Essentially, we believe the intrinsic value of contract sales is lower than that of contract research, which is not an "optional" service and which, in many ways, is significantly more complex.

With the worst of the patent cliff now in the rear-view mirror and with an improvement in new drug approvals, we are cautiously optimistic that the number of sales representatives can stabilize. We believe investors should keep a close eye on new drug approvals in 2013 and 2014 as a potential leading indicator for the business, though we note that fewer products are now blockbusters than in the past. Thus, the sales force for any individual product is likely to be smaller.

If sales representative numbers stabilize, we believe margin for Commercial Services can improve to the mid-single digits over time, meaning that the overall segment could go to mid- to high-single-digit levels with contributions from Outcomes and Payer/Provider. However, that is about as optimistic as we can be about the business, given our view of the intrinsic value of commercial services relative to R&D services.

How Meaningful Is The Payer/Provider Opportunity?

Quintiles recently began making investments to build a new business, marketing its services to healthcare payers and providers. Currently, the business is embryonic, with insignificant revenue. However, Quintiles sees the business as an opportunity to create growth and improve margin in the IHS segment.

The opportunity is extremely difficult to quantify, but the strategy seems sound. One of Quintiles' chief functions across its markets is to gather and process large quantities of data. In an era of personalized medicine, it is logical that payers and providers may demand more data to make sound decisions. For instance, health insurance companies and pharmacy benefit managers may want data about the effectiveness of competing therapies when making reimbursement and formulary decisions. Doctors and hospitals may seek similar information when evaluating which therapies to prescribe.

Quintiles is in a strong strategic position to supply this type of information, in our view. Not only does Quintiles have substantial quantities of data gleaned from years in the clinical trials business, but it also has invested in electronic medical records, now possessing de-identified data representing more than 40 million patient lives.

We find it difficult to put any reliable data around this market opportunity, given that it is so nascent. We believe it will be slow to take off given inevitable regulatory hurdles (HIPAA compliance, for instance). It is also unclear what the margin profile of such a business would look like. Competitors in the space could potentially include healthcare data providers such as IMS or CROs specializing in the phase IV market, such as United BioSource (owned by Express Scripts).

Regardless of how the market ultimately shapes up, we applaud Quintiles' decision to explore opportunities adjacent to its core market. We think it is a forward-looking strategy that too few CROs are contemplating. At some point in the future, probably 5-10 years from now, by our estimate, penetration in the core contract research market should reach a more mature level, which would reduce industry growth, assuming pharmaceutical R&D growth remains in low-single-digit territory. We think the present time is not too early for CROs to consider where the next growth opportunity might lie.

Recent Financials and Outlook

Outlook

From 2008 to 2012, Quintiles grew revenue at a CAGR of 7.3% (mostly organic), while EPS grew at a CAGR of 31% over the same time period, driven by 320 bps of margin expansion. We should be clear that EPS growth can be volatile, as we saw 200% growth in 2009, due to significant decreases in cost of services, SG&A, interest expense, and taxes, followed by a 25% decline in 2010 as some of those gains partially reversed. We believe volatility in the future is likely to be lower as Quintiles has now gotten most of its restructuring out of the way.

The difference between GAAP and non-GAAP financials has been substantial in the past five years, due primarily to Quintiles' restructuring activities as a private company, as well as costs associated with financial transactions. This year should see two large charges: a management fee and a loss on the extinguishment of debt, both transactions associated with the IPO. Beyond 2013, we expect GAAP and non-GAAP financials to be more closely correlated.

From 2012 to 2016E, we model an organic, constant currency revenue CAGR of about 7.0%, which includes 5.0% growth in 2013E, rebounding to a 7.5% growth rate in 2014-16E, which we view as a sustainable level of growth. Revenue growth in 2013 is expected to be weaker than average and substantially lower than the 11% growth rate in 2012 for several reasons: (1) several large trials wound down at the end of 2012, while new trials started up in 2013 (revenue recognition is generally stronger in wind-down than in start-up); (2) a fast-burning consulting contract contributed to strong growth in 2012, but will likely contribute only a small amount in 2013; (3) the recognition of revenue from a contract that will not repeat in 2013 as the sponsor has now partnered with a competing CRO; and (4) there were several contract modifications for IHS in 2012. While we do not model it, Quintiles expects to gain 1-2% of growth each year from bolt-on acquisitions.

Beyond 2013, we believe growth will be slightly higher in the PDEV segment than in the IHS segment, driven by pharmaceutical companies' greater propensity to outsource R&D activities. Within IHS, we believe the highest growth rates will be in Quintiles' Phase IV business and Payer/Provider service business, offset by a slower growth rate in Commercial Services.

With margin in the PDEV business already at industry highs, we believe Quintiles will focus mostly on gaining market share, while holding margin steady, using efficiency gains to offset any pricing pressure. In the IHS segment, we think Quintiles needs to improve the margin to justify its continued pursuit of the commercial services market, though we are not factoring significant improvement into our model given poor visibility. Overall, we are expecting 120 bps of consolidated margin expansion in total over the 2012-16E period, which is an average of 30 bps per year

We are expecting an EPS CAGR of 11% from 2012 to 2016E, which should be driven by a 7% revenue CAGR, modest margin expansion, a reduction in interest expense from delivering, and a reduction in the tax rate in 2013, due to a change in the treatment of foreign earnings (now permanently invested instead of repatriated), all of which is partially offset by an increase in the share count, due to the IPO. Quintiles' EPS CAGR is the lowest among its closest peer group (ICLR, PRXL, and CVD) because Quintiles has less room to expand margin (ICLR, PRXL, and CVD are all working themselves out of a deep margin trough).

Recent Financials

Backlog and bookings. Backlog at the end of Q1 2013 was $9.0 billion, which was up 11% yr/yr and 3% sequentially, due to strong bookings, mostly in the PDEV segment, with a high concentration of bookings coming in Q4 2012, which had a 1.6 consolidated book-to-bill ratio.

Net bookings in Q1 2013 were up 18% yr/yr, due to a 27% increase in PDEV bookings, offset by a 17% decline in IHS bookings. Growth in PDEV bookings was the result of strong clinical bookings in Europe, Latin America, strength in functional resourcing, and higher demand for lab services (the 2012 Expression Analysis acquisition helped), partially offset by weaker bookings in Asia-Pacific, due to intensified competition and higher cancellations. The decline in IHS bookings was a result of market decline concentrated in Japan and North America, partially offset by an increase in Europe, due to a new multiyear contract in Spain and a new agreement in Italy, which began in Q2 2012.

PDEV segment revenue. PDEV revenue in Q1 2013 was up 7.6% yr/yr, which consists of core growth of 7.8%, with a 100 bp headwind from foreign exchange and a 90 bp tailwind from acquisitions. The growth was driven by core clinical services concentrated in Europe and the Americas, due to strong bookings in prior quarters. The growth in clinical was partially offset by a decline in consulting services, due to the winding down of a regulatory compliance contract. That contract wind-down should continue to be a headwind through the remainder of 2013.

PDEV segment margin. Gross margin of 39.3% in Q1 2013 increased 90 bps yr/yr and 60 bps sequentially, primarily due to the reversal of a profit-sharing accrual in France, due to a court ruling.

PDEV operating margin of 18.8% increased 170 bps yr/yr and 90 bps sequentially, due to the increase in gross margin, as well as a reduction in SG&A expenses as a percentage of revenue.

IHS segment revenue. IHS revenue in Q1 2013 was down 4.6%, which consists of a core decline of 0.3%, exacerbated by a foreign exchange headwind of 4.2%. Core revenue was down due to a decline in the Americas (reductions in scope and cancellations in Q4 2012) and in the Asia-Pacific region (conclusion of a major contract in 2012), partially offset by growth in Europe (revenue from an agreement to distribute pharmaceuticals in Italy that began in Q2 2012).

IHS segment margin. Gross margin of 17.6% in Q1 2013 declined 200 bps yr/ry and 100 bps sequentially, primarily due to a mix shift to lower margin revenue as a result of the product distribution agreement in Italy.

PDEV operating margin of 2.8% declined 340 bps yr/yr and 280 bps sequentially, due to the decline in gross margin, as well as higher compensation costs in SG&A, due to both merit-based increases and incentive compensation.

Corporate overhead. Corporate overhead was 2.4% of revenue in Q1 2013, a 150 bp decline yr/yr. The decline was primarily due to the repricing of certain stock options and bonus payments to certain option holders in Q1 2012, which did not repeat in Q1 2013. Note that Quintiles reports corporate overhead on a GAAP basis. Excluding the costs mentioned in the preceding text, corporate overhead would have been 2.2% of revenue in Q1 2012. The increase in Q1 2013 was the result of incremental costs from the acquisition of Expression Analysis in Q3 2012.

Interest expense. Interest expense in Q1 2013 increased by about $7 million yr/yr, to $36 million, primarily due to a $300 million term loan obtained in February 2012 and a $175 million term loan obtained in October 2012.

Tax rate. The effective tax rate was 39.1% in Q1 2013, which is approximately in line with the average tax rate from 2008 to 2012. We expect a sharp reduction in the tax rate in Q2 2013 to bring the H1 2013 average tax rate into the 32-33% range, where we expect Quintiles' tax rate to stabilize in the long run. We expect the tax rate to be lower in the future than in the past as Quintiles has decided to leave earnings of foreign subsidiaries permanently invested, rather than repatriating the earnings.

Exhibit 21. Q1 2013 Financial Overview

FY ending December In millions except EPS	Actual Q1 2012	 Q4 2012	Actual Q1 2013	Yr / Yr change	Seq change
Total revenue	888	$ 946	$ 927	4.4%	(1.9%)
Cost of products and services	591	628	611	3.5%	(2.8%)
Gross profit	297	317	316	6.3%	(0.3%)
Selling, general & administrative	191	203	198	3.6%	(2.4%)
Operating income	106	115	118	11.3%	3.3%
Interest income (expense)	29	37	36	24.6%	(2.4%)
Other income (expense)	(2)	1	(3)	NA	NA
Pretax income	80	76	86	7.3%	12.0%
Taxes	30	28	34	12.5%	19.4%
Income before equity earning	50	48	$ 52	4.2%	7.8%
Equity earnings	2	(0)	(2)	NA	NA
Net income (continuing ops)	$ 52	$ 48	$ 50	(2.2%)	4.8%
Noncont. interests income (loss)	0	0	0	NA	NA
NI to common	$ 52	$ 48	$ 51	(2.8%)	4.8%
Non-GAAP EPS	**$ 0.44**	**$0.41**	**$ 0.43**	***(3.8%)***	***4.3%***
Diluted shares outstanding	118	118	119	1.0%	0.5%
EBITDA	**$ 130**	**$ 140**	**$ 143**	10.3%	2.1%
MARGIN ANALYSIS				**Yr / Yr**	**Seq**
Cost of sales / net revenue	63.6%	67.5%	65.9%	230 bps	(160) bps
Gross margin	***36.4%***	***32.5%***	***34.1%***	***(230) bps***	***160 bps***
SG&A / net revenue	18.8%	16.6%	21.3%	260 bps	480 bps
EBIT margin	***17.7%***	***15.9%***	***12.8%***	***(490) bps***	***(320) bps***
Pretax margin	16.2%	14.0%	9.2%	(700) bps	(480) bps
Tax rate	***26.6%***	***20.6%***	***39.1%***	***1250 bps***	***1850 bps***
Net margin from continuing ops	11.9%	11.1%	5.5%	(640) bps	(560) bps
EBITDA margin	***23.1%***	***17.0%***	***15.4%***	***(770) bps***	***(150) bps***
SEGMENT ANALYSIS				**Yr / Yr**	**Seq**
PDEV Segment Revenue	**$ 656**	**$ 703**	**$ 706**	7.6%	0.5%
Growth: core			7.8%		
Growth: FX			(1.0%)		
Growth: acq/div/other			0.9%		
Revenue growth: total	14.1%	8.3%	7.6%		
Gross profit	$ 252	$ 272	$ 277	10.0%	2.0%
Gross margin	38.4%	38.7%	39.3%	90 bps	60 bps
Operating income	$ 112	$ 125	$ 133	18.4%	5.8%
Operating margin	17.1%	17.8%	18.8%	170 bps	90 bps
IHS Segment Revenue	**$ 232**	**$ 243**	**$ 221**	(4.6%)	(8.9%)
Growth: core			(0.3%)		
Growth: FX			(4.2%)		
Growth: acq/div/other			0.0%		
Revenue growth: total	12.6%	8.8%	(4.6%)		
Gross profit	$ 45	$ 45	$ 39	(14.1%)	(13.8%)
Gross margin	19.6%	18.7%	17.6%	(200) bps	(100) bps
Operating income	$ 14	$ 14	$ 6	(56.4%)	(54.0%)
Operating margin	6.2%	5.6%	2.8%	(340) bps	(280) bps
Consolidated Revenue	**$ 888**	**$ 946**	**$ 927**	4.4%	(1.9%)
Growth: core			5.7%		
Growth: FX			(1.9%)		
Growth: acq/div/other			0.6%		
Revenue growth: total	13.7%	8.4%	4.4%		
Corp. overhead, non-GAAP	$ (35)	$ (37)	$ (22)	***(36.8%)***	***(41.4%)***
% of total revenue	(3.9%)	(4.0%)	(2.4%)	(150) bps	(160) bps
BOOKINGS & BACKLOG				**Yr / Yr**	**Seq**
Ending backlog	$ 8,088	$ 8,704	$ 9,000	11.3%	3.4%
PDEV net bookings	$ 847	$ 1,086	$ 1,075	27.0%	(1.0%)
IHS net bookings	$ 205	$ 421	$ 170	(16.9%)	(59.6%)
Total net bookings	$ 1,052	$ 1,507	$ 1,246	18.4%	(17.4%)
PDEV book-to-bill	1.29	1.54	1.52		
IHS book-to-bill	0.89	1.74	0.77		
Total book-to-bill	1.18	1.59	1.34		

Source: Company data; Wells Fargo Securities, LLC estimates

Valuation

DCF valuation. We use a ten-year discounted cash flow (DCF) model to derive our 12-month valuation for Quintiles, which assumes a weighted average cost of capital (WACC) of 8% and a terminal growth rate of 2%. We find that Quintiles needs to maintain a long-term revenue growth rate of about 7.5%, with about 200 bps of margin expansion over a decade (or alternatively, slightly less revenue growth and slightly more margin expansion). We find these assumptions to be reasonable considering the apparent sustainability of increases in outsourcing penetration.

Exhibit 22. Discounted Cash Flow

In millions except per share FY ending December	1 2014E	2 2015E	3 2016E	4 2017E	5 2018E	6 2019E	7 2020E	8 2021E	9 2022E	10 2023E	Term Yr 2024E
Revenue	$ 4,114	$ 4,427	$ 4,764	$ 5,121	$ 5,505	$ 5,918	$ 6,362	$ 6,839	$ 7,352	$ 7,720	$ 7,874
Revenue growth		*7.6%*	*7.6%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*5.0%*	*2.0%*
Adjusted EBITA	$ 614	$ 663	$ 715	$ 784	$ 859	$ 947	$ 1,037	$ 1,135	$ 1,250	$ 1,312	$ 1,339
EBITA margin	*14.9%*	*15.0%*	*15.0%*	15.3%	15.6%	16.0%	16.3%	16.6%	17.0%	17.0%	17.0%
Adjusted taxes	$ (200)	$ (215)	$ (232)	$ (255)	$ (279)	$ (308)	$ (337)	$ (369)	$ (406)	$ (427)	$ (435)
NOPLAT	$ 415	$ 447	$ 483	$ 529	$ 580	$ 639	$ 700	$ 766	$ 844	$ 886	$ 904
Depreciation	$ 60	$ 61	$ 67	$ 69	$ 71	$ 72	$ 73	$ 73	$ 74	$ 74	$ 74
Gross cash flow	$ 475	$ 509	$ 550	$ 598	$ 651	$ 711	$ 773	$ 840	$ 918	$ 960	$ 978
Investment in working capital	$ (165)	$ (53)	$ (60)	$ (70)	$ (72)	$ (74)	$ (76)	$ (78)	$ (80)	$ (82)	$ (84)
Net capital expenditures	$ (75)	$ (75)	$ (75)	$ (75)	$ (75)	$ (75)	$ (75)	$ (75)	$ (75)	$ (75)	$ (74)
Investment in cap. op. leases	$ (90)	$ (54)	$ (56)	$ (56)	$ (57)	$ (58)	$ (59)	$ (60)	$ (61)	$ (62)	$ (63)
Free cash flow	**$ 146**	**$ 327**	**$ 359**	**$ 397**	**$ 446**	**$ 504**	**$ 563**	**$ 626**	**$ 701**	**$ 741**	**$ 756**
Ending PP&E	$ 231	$ 244	$ 252	$ 258	$ 262	$ 265	$ 267	$ 268	$ 269	$ 270	$ 270
Dep as % of beg. PP&E	27.9%	26.6%	27.5%	*27.5%*	*27.5%*	*27.5%*	*27.5%*	*27.5%*	*27.5%*	*27.5%*	*27.5%*
Discounted at:											
7.0%	$ 136	$ 286	$ 293	$ 303	$ 318	$ 336	$ 351	$ 365	$ 382	$ 377	$ 6,911
8.0%	$ 135	$ 280	$ 285	$ 292	$ 304	$ 318	$ 329	$ 339	$ 351	$ 343	$ 5,441
9.0%	$ 134	$ 275	$ 277	$ 281	$ 290	$ 301	$ 308	$ 315	$ 323	$ 313	$ 4,373

WACC	7.0%	8.0%	9.0%
Explicit period	$ 3,147	$ 2,976	$ 2,817
Continuing value	6,911	5,441	4,373
Value of operations	$ 10,058	$ 8,416	$ 7,191
Adjusted for mid-year	$ 10,404	$ 8,747	$ 7,507
Non-operating assets	$ 430	$ 430	$ 430
Non-equity claims	(3,029)	(3,029)	(3,029)
Equity value	$ 7,805	$ 6,148	$ 4,909
Per share	**$ 61**	**$ 48**	**$ 38**
Implied terminal EV / NOPLAT	15.0x	13.0x	11.4x
% of value in explicit period	*30%*	*34%*	*38%*

Continuing Value Assumptions	
Perpetuity NOPLAT growth rate	2.0%
RONIC in perpetuity = Year 10 WACC plus:	1.0%
Cash tax rate	32.5%
Implied terminal EV / NOPLAT multiple	13.0x
Other Data	
Non-operating assets	$ 430
Non-equity claims (including op. leases)	$ 3,029
Diluted shares	128
Current month	6

RONIC = return on newly invested capital

Source: Wells Fargo Securities, LLC estimates

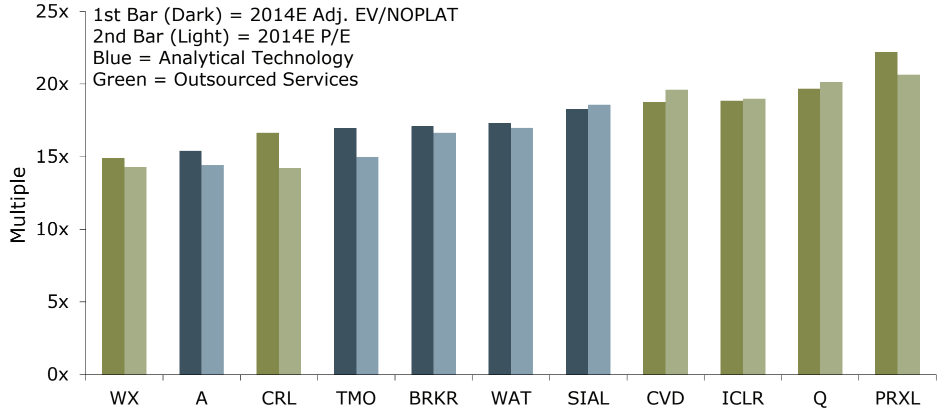
Relative valuation. Exhibit 23 shows normalized multiples for our coverage, as well as price-to-earnings (P/E) multiples based on our 2014 estimates under the company's preferred reporting style. Our normalized multiple attempts to account for the impact of leverage, operating leases, non-GAAP reporting styles, and various other adjustments that can otherwise skew P/E multiples. We believe the most relevant peers for Quintiles are CVD, ICLR, and PRXL. P/E multiples for that group are in a tight range, making Quintiles valuation appear reasonable.

Using our normalized valuation, Quintiles trades at a discount to PRXL, which appears to be quite expensive, and at a slight premium to CVD and ICLR. While Quintiles has a slower earnings growth rate because of its more stable margin (i.e., it is not working out of a margin trough like its peers), we believe the premium is reasonable and warranted based on Quintiles' significantly higher ROIC, which we have outlined elsewhere in this report.

With the maturation of the CRO industry, we believe it is time for investors to begin factoring ROIC into the valuation equation. This has not historically been a common metric, the argument being that CROs are not capital intensive. We argue, however, that CROs are more capital intensive than many realize, with most large CROs owning labs and/or Phase I clinics, and with most late-stage CROs incurring substantial rental payments, which we believe should be capitalized.

We believe that shifting the conversation to one focused on ROIC would allow a more informed discussion of relative multiples.

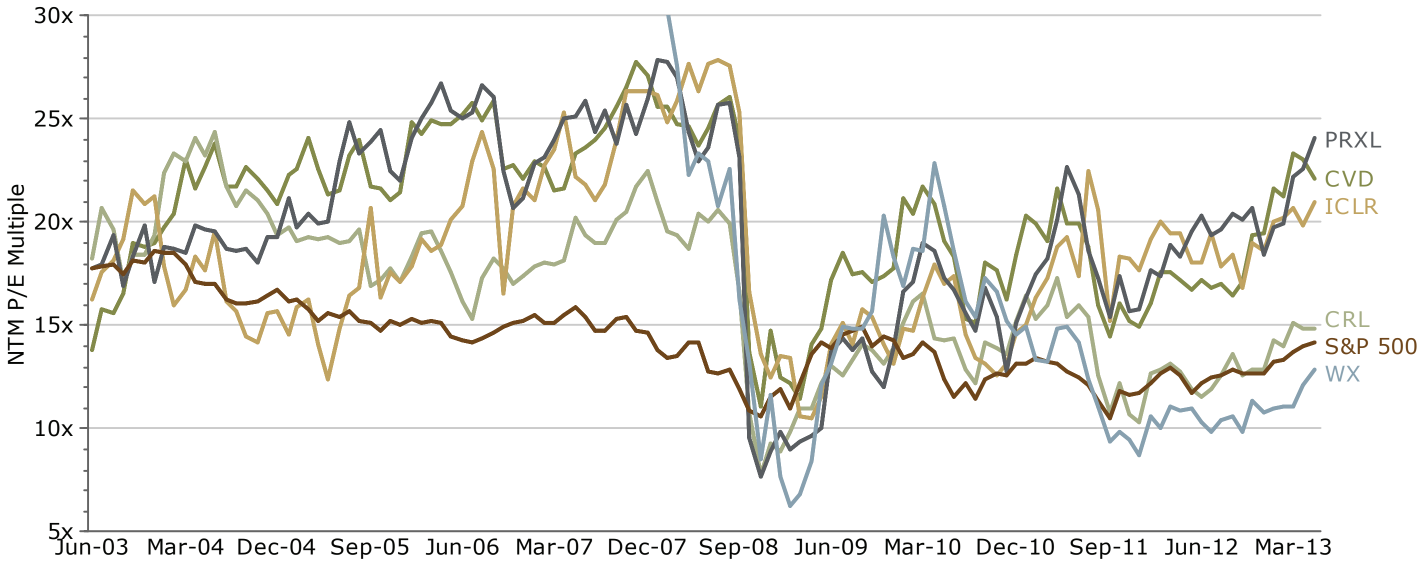
Exhibit 23. Normalized Valuation Multiples



Source: Wells Fargo Securities, LLC estimates

Historical valuation. Exhibit 24 show ten-year next-12-months P/E multiples for the CRO group (Quintiles is not included because it was private for most of the time). We see that PRXL, CVD, and ICLR (Quintiles' closest peers) are trading a five-year highs, but not ten-year highs. Indeed, in the years leading up to the financial crisis, PRXL, ICLR, and CVD spent much of the time trading at levels similar to those of today (20-25x). Thus, with Quintiles at a level similar to its peers, we think valuations relative to history are reasonable, although we are not counting on multiple expansion to drive our target valuation range.

Exhibit 24. Ten-Year Next-12-Months Price-To-Earnings Ratios For CRO Group



Source: FactSet; Wells Fargo Securities, LLC

Exhibit 25. Table Of Comparables

Company Name	Ticker	Rating	Price 6/17/13	FY End	Shares Out (MM)	Float (MM)	Shares Shrt (MM)	Days to Cover	Avg Daily Vol (000s)	Market Cap (MM)	Enterprise Value (MM)	EV / EBITDA 2012	EV / EBITDA 2013E	EV / EBITDA 2014E	P / E 2012	P / E 2013E	P / E 2014E
Charles River Labs	CRL	2	$ 43.21	Dec	48	48	0.7	1.3	511	$ 2,093	$ 2,652	10.2x	9.9x	9.4x	15.8x	15.4x	14.4x
Covance Inc.	CVD	1	$ 78.43	Dec	56	56	2.4	6.4	370	$ 4,416	$ 4,311	13.9x	12.3x	10.5x	29.1x	25.3x	20.4x
ICON PLC	ICLR	1	$ 35.94	Dec	61	58	0.1	0.3	351	$ 2,204	$ 2,018	17.3x	12.3x	10.7x	36.0x	23.2x	19.2x
PAREXEL Int'l	PRXL	1	$ 46.74	Jun	59	58	3.3	6.4	519	$ 2,761	$ 2,814	15.2x	12.1x	10.8x	34.3x	25.8x	20.8x
Quintiles Trans.	Q	1	$ 43.53	Dec	129	38	NA	NA	1,500	$ 5,611	$ 7,546	13.9x	13.0x	12.1x	24.5x	23.1x	20.3x
WuXi PharmaTech*	WX	2	$ 21.11	Dec	72	52	0.2	0.7	350	$ 1,518	$ 1,320	10.1x	8.8x	7.8x	17.5x	15.7x	14.1x
Contract Outsourcing Average												13.4x	11.4x	10.2x	26.2x	21.4x	18.2x

Company Name	Tax Rate	Total Debt (MM)	Net Debt (MM)	Debt / EBITDA	Net Debt / EBITDA	FCF '13E (MM)	FCF Yield	Annual Div	Div Yld	Revenue Growth, Core 2012	Revenue Growth, Core 2013E	Revenue Growth, Core 2014E	EBIT Margin 2012	EBIT Margin 2013E	EBIT Margin 2014E	EPS Growth 2012	EPS Growth 2013E	EPS Growth 2014E
Charles River Labs	27%	$ 667	$ 559	2.6x	0.6x	$ 159	8%	$0.00	0.0%	(1.5%)	3.2%	3.9%	17.5%	17.2%	17.9%	7.0%	2.3%	7.3%
Covance Inc.	21%	$ 325	$ (105)	1.0x	-0.3x	$ 118	3%	$0.00	0.0%	5.6%	9.4%	7.4%	9.1%	9.6%	11.1%	(0.1%)	14.7%	24.3%
ICON PLC	19%	$ -	$ (186)	0.0x	-1.4x	$ 66	3%	$0.00	0.0%	19.2%	10.5%	8.0%	6.6%	9.1%	10.2%	93.8%	55.3%	20.8%
PAREXEL Int'l	27%	$ 396	$ 53	2.0x	0.3x	$ 128	5%	$0.00	0.0%	26.3%	16.6%	8.5%	7.6%	8.5%	9.4%	49.7%	33.0%	24.1%
Quintiles Trans.	32%	$ 2,390	$ 1,935	4.3x	3.5x	$ 132	2%	$0.00	0.0%	11.4%	5.0%	7.4%	12.1%	12.5%	12.7%	9.5%	6.4%	13.5%
WuXi PharmaTech*	17%	$ 68	$ (198)	0.5x	-1.3x	$ 42	3%	$0.00	0.0%	21.1%	14.1%	12.0%	18.3%	18.3%	18.5%	11.1%	11.7%	11.0%
Contract Outsourcing Weighted Average										11.7%	8.6%	7.4%	11.1%	11.6%	12.4%	14.4%	14.9%	16.6%

Company Name	CCC (Days)	FTEs	Rev per FTE (000s)	BV / Share	TBV / Share	ROIC	ROA	ROE	WACC	CY Revenue (MM) 2012	CY Revenue (MM) 2013E	CY Revenue (MM) 2014E	CY EBIT (MM) 2012	CY EBIT (MM) 2013E	CY EBIT (MM) 2014E	CY EPS 2012	CY EPS 2013E	CY EPS 2014E
Charles River Labs	78	7,225	$ 156	$ 13	$ 7	6%	8%	21%	9%	$ 1,130	$ 1,168	$ 1,218	$ 198	$ 201	$ 219	$ 2.74	$ 2.80	$ 3.01
Covance Inc.	NA	12,019	$ 181	$ 24	$ 22	11%	7%	13%	9%	$ 2,172	$ 2,375	$ 2,551	$ 198	$ 227	$ 283	$ 2.70	$ 3.10	$ 3.85
ICON PLC	NA	10,200	$ 109	$ 13	$ 6	10%	8%	12%	8%	$ 1,115	$ 1,290	$ 1,396	$ 74	$ 117	$ 142	$ 1.00	$ 1.55	$ 1.87
PAREXEL Int'l	NA	14,275	$ 110	$ 10	$ 3	10%	6%	18%	9%	$ 1,565	$ 1,836	$ 1,976	$ 119	$ 157	$ 185	$ 1.36	$ 1.81	$ 2.25
Quintiles Trans.	NA	26,846	$ 138	$ (11)	$ (16)	18%	4%	(11%)	8%	$ 3,692	$ 3,827	$ 4,114	$ 445	$ 478	$ 523	$ 1.77	$ 1.89	$ 2.14
WuXi PharmaTech*	NA	6,988	$ 72	$ 8	$ 8	16%	14%	18%	12%	$ 500	$ 571	$ 639	$ 91	$ 105	$ 118	$ 1.21	$ 1.35	$ 1.50

Source: FactSet (Market data); Company filings (Historical data); Wells Fargo Securities, LLC estimates
1=Outperform; 2=Market Perform; 3=Underperform
**WX earnings estimates have been normalized to include stock comp charges*

Appendices

Appendix A. Management

Name and Current Responsibilities	Age	Previous Roles
Dennis Gillings, CBE, PhD *Executive Chairman (since 1982)*	69	*Quintiles - CEO (1982-2001 and 2003-2012) *University North Carolina, Chapel Hill - Professor
Thomas H. Pike *Chief Executive Officer (since 2012)* *Director (since 2012)*	53	*Accelion - CEO (2010) *Accenture - Various Roles (1999-2010) *McKinsey - (1989-1992)
Kevin K. Gordon *CFO (since 2010)*	50	*Teleflex - CFO (2007-2010) *Teleflex - various roles (1997-2010) *Package Machinery Company *KPMG
John D. Ratliff *COO (since 2006)* *Director (since 2006)*	53	*Quintiles - CFO (2004-2006) *Acterna Corp. - (2000-2003); CFO (2002-2003) *IBM - Several executive positions
Michael I. Mortimer *Chief Administrative Officer (since 2007)*	53	*Quintiles - EVP Global HR (2003-2007) *Charles Schwab Corp. - Sr. VP of HR (1993-2003) *Sprint - (1986-1993)
Derek M. Winstanly, MBChB *Chief Customer & Governance Officer (since 2011)*	66	*Quintiles - EVP Strategic Business Partnerships (2005-2011) *Quintiles - Regional Director APAC (2002-2005) *Quintiles - President of Quintiles Japan (1999-2002) *Glaxo Wellcome - (1984-1999)
James H. Erlinger III *General Counsel (since 2013)*	54	*Bryan Cave, LLP - (27 years)
Jean Holder *SVP, Operations*		
Richard Gliklich, MD *President, Quintiles Outcome*		
Jay Norman *President Consulting, Head of Strategy*		
Brian Kelly, MD *President, Payer & Provider Solutions*		
Jeff Spaeder, MD *Chief Medical and Scientific Officer*		
Rich Pilnik *President, Commercial Solutions*		
Paula Brown Stafford *President, Clinical Development*		
Paul Spreen *SVP , Customer Solutions Management Group*		
Richard Thomas *Chief Information Officer*		
Anand Tharmaratnam, MBBS *SVP and Head of Asia Markets*		
Cynthia Verst, PharmD *Global Head, Business Operations, Quintiles Outcomes*		

Source: Company filings; Wells Fargo Securities, LLC

Appendix B. Board Of Directors

Name and Current Responsibilities	Age	Class*	Primary Association	Other Current Boards
Dennis Gillings, CBE, PhD *Executive Chairman & Director (since 1982)*	69	Class I	Quintiles	
Thomas H. Pike *Chief Executive Officer (since 2012)* *Director (since 2012)*	53	Class III	Quintiles	
John D. Ratliff *COO (since 2006)* *Director (since 2006)*	53	Class II	Quintiles	
Fred E. Cohen, M.D., D.Phil, F.A.C.P *Director (since 2007)*	56	Class II	TPG - Partner	*Aptalis Holdings *Genomic Health
John P. Connaughton *Director (since 2008)*	47	Class II	Bain Capital - Managing Director	*HCA Holdings *Warner Chilcott *Clear Channel Communication *Air Medical Group Holdings
Jonathan J. Coslet *Director (since 2003)*	48	Class I	TPG - Sr. Partner & CIO	*Iasis Healthcare Corp. *Neiman Marcus, Inc. *Petco Animal Supplies, Inc. *Biomet, Inc.
Michael J. Evanisko *Director (since 2003)*	63	Class I	PARx Solutions - Chairman	
Mireille Gillings, Ph.D *Director (since 2013)*	49	Class III	HUYA - Founder, Exec Chair, and CEO	
Chirstopher R. Gordon *Director (since 2009)*	40	Class I	Bain Capital - Managing Director	*HCA Holdings *Air Medical Group Holdings *CRC Health Corporations *SunGard Data Systems
Jack M. Greenberg *Director (since 2004)*	70	Class III	McDonald's - Former Chairman & CEO	*The Western Union Co. *InnerWorkings, Inc. *The Allstate Corp. *Hasbro, Inc.
Denis Ribon *Director (since 2011)*	43	Class III	3i - Managing Director	*Labco S.A. *Loxam SAS *WFCI SAS
Leonard D. Schaeffer *Director (since 2008)*	67	Class II	TPG - Sr. Advisor	

Source: Company filings; Wells Fargo Securities, LLC
**The Board is divided into three classes, with stagged three-year terms. Class I terms expire in 2014, Class II terms expire in 2015, and Class III terms expire in 2016.*

Appendix C. Financial Model

Quintiles Transnational (FY ending December)
In millions, except EPS

NON-GAAP INCOME STATEMENT	2008	2009	2010	2011	Q1	Q2	Q3	Q4	2012	Q1	Q2E	Q3E	Q4E	2013E	2014E	2015E	2016E
Service revenues	$ 2,782	$ 2,924	$ 2,997	$ 3,295	$ 888	$ 945	$ 914	$ 946	$ 3,692	$ 927	$ 945	$ 970	$ 984	$ 3,827	$ 4,114	$ 4,427	$ 4,764
Cost of revenues	1,852	1,876	1,925	2,153	591	628	612	628	2,459	611	625	641	652	2,529	2,709	2,910	3,126
Gross profit	930	1,048	1,072	1,142	297	317	301	317	1,233	316	321	329	332	1,298	1,406	1,517	1,638
Selling, general & administrative	683	662	693	744	191	202	191	203	788	198	205	208	209	820	883	942	1,002
Operating income	247	386	379	398	106	114	110	115	445	118	115	122	123	478	523	575	636
Interest expense (income), net	82	68	117	105	29	33	33	37	131	36	35	27	25	123	101	98	94
Other expense (income), net	(16)	11	18	(3)	(2)	(6)	4	1	(4)	(3)	-	-	-	(3)	-	-	-
Pretax income	$ 181	$ 307	$ 244	$ 296	$ 80	$ 88	$ 74	$ 76	$ 318	$ 86	$ 80	$ 95	$ 97	$ 358	$ 422	$ 478	$ 542
Provision for income taxes	118	91	78	102	30	32	22	28	112	34	20	30	31	115	137	155	176
Income before equity in earnings of unconsol	$ 62	$ 216	$ 165	$ 194	$ 50	$ 55	$ 52	$ 48	$ 205	$ 52	$ 60	$ 64	$ 66	$ 243	$ 285	$ 322	$ 366
Equity in earnings from unconsolidated affiliates	8	(3)	1	(4)	2	0	1	(0)	3	(2)	-	-	-	(2)	2	2	2
Net income from continuing ops	$ 70	$ 214	$ 166	$ 190	$ 52	$ 56	$ 53	$ 48	$ 208	$ 50	$ 60	$ 64	$ 66	$ 241	$ 287	$ 324	$ 368
Loss (income) to noncontrolling interests	(0)	0	(5)	1	0	0	0	0	1	0	-	-	-	0	-	-	-
Net income to common	$ 70	$ 214	$ 162	$ 191	$ 52	$ 56	$ 53	$ 48	$ 209	$ 51	$ 60	$ 64	$ 66	$ 241	$ 287	$ 324	$ 368
Adjustments	35	4	(3)	(49)	9	9	1	13	32	2	28	2	5	37	6	6	6
GAAP net income	$ 35	$ 210	$ 165	$ 240	$ 43	$ 47	$ 52	$ 35	$ 177	$ 48	$ 32	$ 62	$ 62	$ 204	$ 281	$ 318	$ 362
Non-GAAP EPS	**$ 0.60**	**$ 1.82**	**$ 1.37**	**$ 1.62**	**$ 0.44**	**$ 0.47**	**$ 0.45**	**$ 0.41**	**$ 1.77**	**$ 0.43**	**$ 0.48**	**$ 0.48**	**$ 0.50**	**$ 1.89**	**$ 2.14**	**$ 2.40**	**$ 2.71**
GAAP EPS	$ 0.30	$ 1.78	$ 1.40	$ 2.04	$ 0.36	$ 0.40	$ 0.44	$ 0.29	$ 1.50	$ 0.41	$ 0.25	$ 0.47	$ 0.46	$ 1.60	$ 2.10	$ 2.36	$ 2.66
Diluted shares outstanding	116	118	118	118	118	118	118	118	118	119	126	133	133	128	134	135	136
EBITDA	**$ 324**	**$ 464**	**$ 463**	**$ 490**	**$ 130**	**$ 138**	**$ 136**	**$ 140**	**$ 544**	**$ 143**	**$ 140**	**$ 147**	**$ 148**	**$ 579**	**$ 621**	**$ 668**	**$ 723**

MARGIN ANALYSIS	2008	2009	2010	2011	Q1	Q2	Q3	Q4	2012	Q1	Q2E	Q3E	Q4E	2013E	2014E	2015E	2016E
Cost of revenue	66.6%	64.2%	64.2%	65.3%	66.5%	66.5%	67.0%	66.5%	66.6%	65.9%	66.1%	66.0%	66.3%	66.1%	65.8%	65.7%	65.6%
Gross margin	33.4%	35.8%	35.8%	34.7%	33.5%	33.5%	33.0%	33.5%	33.4%	34.1%	33.9%	34.0%	33.7%	33.9%	34.2%	34.3%	34.4%
SG&A	24.6%	22.6%	23.1%	22.6%	21.5%	21.4%	21.0%	21.4%	21.3%	21.3%	21.7%	21.4%	21.3%	21.4%	21.5%	21.3%	21.0%
Operating margin	8.9%	13.2%	12.6%	12.1%	12.0%	12.1%	12.0%	12.1%	12.1%	12.8%	12.2%	12.5%	12.5%	12.5%	12.7%	13.0%	13.3%
Pretax margin	6.5%	10.5%	8.1%	9.0%	9.0%	9.3%	8.0%	8.1%	8.6%	9.2%	8.5%	9.7%	9.9%	9.4%	10.3%	10.8%	11.4%
Tax rate	65.5%	29.6%	32.1%	34.5%	37.3%	37.0%	29.8%	36.7%	35.3%	39.1%	25.0%	32.0%	32.0%	32.1%	32.5%	32.5%	32.5%
Net margin	2.5%	7.3%	5.4%	5.8%	5.9%	5.9%	5.8%	5.1%	5.7%	5.5%	6.4%	6.6%	6.7%	6.3%	7.0%	7.3%	7.7%
EBITDA margin	11.6%	15.9%	15.4%	14.9%	14.6%	14.6%	14.9%	14.8%	14.7%	15.4%	14.8%	15.1%	15.1%	15.1%	15.1%	15.1%	15.2%

CHANGE ANALYSIS YR / YR	2008	2009	2010	2011	Q1	Q2	Q3	Q4	2012	Q1	Q2E	Q3E	Q4E	2013E	2014E	2015E	2016E
Total net revenue		5.1%	2.5%	10.0%	13.7%	14.9%	11.5%	8.4%	12.1%	4.4%	0.0%	6.2%	4.0%	3.6%	7.5%	7.6%	7.6%
Cost of revenue		1.3%	2.6%	11.8%	15.1%	16.4%	13.4%	12.1%	14.2%	3.5%	(0.6%)	4.7%	3.8%	2.8%	7.1%	7.4%	7.4%
Gross profit		12.7%	2.3%	6.5%	11.0%	11.9%	7.8%	1.9%	8.0%	6.3%	1.2%	9.3%	4.5%	5.3%	8.3%	7.9%	7.9%
SG&A		(3.1%)	4.7%	7.3%	4.8%	7.4%	4.9%	6.5%	5.9%	3.6%	1.6%	8.5%	3.2%	4.2%	7.7%	6.7%	6.3%
Operating income		56.4%	(1.8%)	5.2%	24.4%	21.0%	13.3%	(5.5%)	11.8%	11.3%	0.7%	10.6%	7.0%	7.3%	9.4%	10.0%	10.6%
Pretax income		70.0%	(20.6%)	21.4%	34.6%	29.0%	1.5%	(20.4%)	7.4%	7.3%	(8.6%)	28.6%	27.4%	12.7%	17.9%	13.1%	13.5%
Net income		204.7%	(24.4%)	18.1%	50.6%	34.1%	40.3%	(37.4%)	9.4%	(2.8%)	7.7%	22.1%	37.1%	15.5%	18.9%	13.0%	13.4%
Non-GAAP EPS		201.5%	(24.7%)	18.1%	51.5%	34.7%	40.4%	(37.7%)	9.5%	(3.8%)	0.4%	8.1%	21.6%	6.4%	13.5%	12.2%	12.6%
Diluted shares outstanding		1.1%	0.4%	(0.1%)	(0.6%)	(0.4%)	(0.0%)	0.4%	(0.1%)	1.0%	7.3%	12.9%	12.8%	8.5%	4.7%	0.7%	0.7%
EBITDA		43.3%	(0.3%)	6.0%	21.4%	18.1%	12.5%	(4.0%)	10.9%	10.3%	1.2%	8.3%	6.0%	6.4%	7.4%	7.5%	8.3%

SEGMENT ANALYSIS	2008	2009	2010	2011	Q1	Q2	Q3	Q4	2012	Q1	Q2E	Q3E	Q4E	2013	2014	2015	2016
Product Development (PDEV)	**$ 1,980**	**$ 2,103**	**$ 2,222**	**$ 2,438**	**$ 656**	**$ 692**	**$ 677**	**$ 703**	**$ 2,729**	**$ 706**	**$ 716**	**$ 721**	**$ 725**	**$ 2,869**	**$ 3,096**	**$ 3,337**	**$ 3,597**
Growth: core				8.5%					12.1%	7.8%	4.0%	6.8%	4.1%	5.6%	7.8%	7.8%	7.8%
Growth: FX				1.8%					(1.5%)	(1.0%)	(1.4%)	(0.3%)	(1.0%)	(0.9%)	0.1%	0.0%	0.0%
Growth: acquisitions				(0.6%)					1.4%	0.9%	0.9%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%
Growth: total		6.2%	5.7%	9.7%	14.1%	13.5%	12.2%	8.3%	11.9%	7.6%	3.5%	6.5%	3.1%	5.1%	7.9%	7.8%	7.8%
Gross profit				$ 974	$ 252	$ 263	$ 258	$ 272	$ 1,045	$ 277	$ 277	$ 278	$ 280	$ 1,112	$ 1,207	$ 1,305	$ 1,410
Operating income			$ 422	$ 425	$ 112	$ 119	$ 121	$ 125	$ 478	$ 133	$ 129	$ 129	$ 130	$ 520	$ 573	$ 627	$ 687
Gross margin				40.0%	38.4%	38.0%	38.1%	38.7%	38.3%	39.3%	38.6%	38.6%	38.6%	38.8%	39.0%	39.1%	39.2%
Operating margin			19.0%	17.4%	17.1%	17.2%	17.9%	17.8%	17.5%	18.8%	17.9%	17.9%	17.9%	18.1%	18.5%	18.8%	19.1%
Integrated Healthcare Services (IHS)	**$ 802**	**$ 821**	**$ 775**	**$ 857**	**$ 232**	**$ 253**	**$ 236**	**$ 243**	**$ 964**	**$ 221**	**$ 229**	**$ 249**	**$ 259**	**$ 958**	**$ 1,019**	**$ 1,090**	**$ 1,167**
Growth: core				8.8%					9.4%	(0.3%)	(5.1%)	9.0%	10.0%	3.3%	6.3%	7.0%	7.0%
Growth: FX				5.4%					(2.8%)	(4.2%)	(4.3%)	(3.6%)	(3.3%)	(3.9%)	(0.0%)	0.0%	0.0%
Growth: acquisitions				(3.6%)					5.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Growth: total		2.4%	(5.6%)	10.6%	12.6%	19.0%	9.5%	8.8%	12.4%	(4.6%)	(9.4%)	5.4%	6.7%	(0.5%)	6.3%	7.0%	7.0%
Gross profit				$ 168	$ 45	$ 54	$ 43	$ 45	$ 188	$ 39	$ 44	$ 51	$ 52	$ 186	$ 199	$ 213	$ 227
Operating income			$ 37	$ 58	$ 14	$ 20	$ 12	$ 14	$ 61	$ 6	$ 10	$ 17	$ 17	$ 51	$ 57	$ 63	$ 73
Gross margin				19.7%	19.6%	21.2%	18.3%	18.7%	19.5%	17.6%	19.3%	20.5%	20.0%	19.4%	19.5%	19.5%	19.5%
Operating margin			4.8%	6.8%	6.2%	8.0%	5.2%	5.6%	6.3%	2.8%	4.6%	6.7%	6.7%	5.3%	5.6%	5.8%	6.3%
Total revenue	**$ 2,782**	**$ 2,924**	**$ 2,997**	**$ 3,295**	**$ 888**	**$ 945**	**$ 914**	**$ 946**	**$ 3,692**	**$ 927**	**$ 945**	**$ 970**	**$ 984**	**$ 3,827**	**$ 4,114**	**$ 4,427**	**$ 4,764**
Growth: core				8.6%					11.4%	5.7%	1.6%	7.4%	5.6%	5.0%	7.4%	7.6%	7.6%
Growth: FX				2.7%					(1.9%)	(1.9%)	(2.1%)	(1.2%)	(1.6%)	(1.7%)	0.1%	0.0%	0.0%
Growth: acquisitions				(1.4%)					2.6%	0.6%	0.6%	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%
Growth: total		5.1%	2.5%	10.0%	13.7%	14.9%	11.5%	8.4%	12.1%	4.4%	0.0%	6.2%	4.0%	3.6%	7.5%	7.6%	7.6%
Corporate OH			$ (86)	$ (103)	$ (35)	$ (26)	$ (25)	$ (37)	$ (123)	$ (22)	$ (50)	$ (24)	$ (25)	$ (121)	$ (107)	$ (116)	$ (125)
Corporate OH as % of total revenue			(2.9%)	(3.1%)	(3.9%)	(2.8%)	(2.7%)	(4.0%)	(3.3%)	(2.4%)	(5.3%)	(2.5%)	(2.5%)	(3.2%)	(2.6%)	(2.6%)	(2.6%)
Fully-loaded margins (by revenue %)																	
Total op income (before adjustments)			$ 374	$ 380	$ 92	$ 113	$ 109	$ 102	$ 415	$ 117	$ 89	$ 122	$ 123	$ 450	$ 523	$ 575	$ 636
PDEV			16.1%	14.3%	13.2%	14.4%	15.2%	13.9%	14.2%	16.4%	12.6%	15.4%	15.4%	15.0%	15.9%	16.2%	16.5%
IHS			2.0%	3.7%	2.3%	5.2%	2.5%	1.6%	2.9%	0.5%	(0.7%)	4.2%	4.2%	2.1%	3.0%	3.2%	3.7%
Total			12.5%	11.5%	10.3%	12.0%	11.9%	10.7%	11.2%	12.6%	9.4%	12.5%	12.5%	11.8%	12.7%	13.0%	13.3%

Source for all: Company reports and Wells Fargo Securities, LLC estimates

Quintiles Balance Sheet (FY Ending December)
In millions, except DSO and per share

BALANCE SHEET	2008	2009	2010	2011	2012	Q1	Q2E	Q3E	Q4E	2013E	2014E	2015E	2016E
Assets													
Cash & equivalents	$ 425	$ 566	$ 647	$ 516	$ 568	$ 454	$ 964	$ 707	$ 753	$ 753	$ 885	$ 1,153	$ 1,456
Restricted Cash				3	3	4	4	4	4	4	4	4	4
Accounts receivable and unbilled services, net	640	584	570	691	745	779	793	812	830	830	929	1,032	1,146
Prepaid expenses				31	33	41	41	41	41	41	41	41	41
Deferred income taxes				47	69	67	67	67	67	67	67	67	67
Income taxes receivable				25	18	21	21	21	21	21	21	21	21
Other				52	74	73	73	73	73	73	73	73	73
Total current assets				1,365	1,510	1,439	1,962	1,725	1,789	1,789	2,020	2,392	2,808
PP&E, net	188	199	184	186	194	190	200	208	216	216	231	244	252
Investments in debt, equity & other securities	78	62	2	22	36	36	44	53	61	61	81	101	121
Investments in unconsolidated affiliates				12	19	22	22	22	22	22	22	22	22
Goodwill				278	302	298	298	298	298	298	298	298	298
Intangibles				269	273	274	263	252	241	241	203	172	152
Deferred income taxes				78	37	32	21	10	(1)	(1)	7	15	23
Other assets				112	128	135	135	135	135	135	135	135	135
Total assets	**$ 2,079**	**$ 2,113**	**$ 2,065**	**$ 2,323**	**$ 2,499**	**$ 2,427**	**$ 2,945**	**$ 2,702**	**$ 2,761**	**$ 2,761**	**$ 2,997**	**$ 3,379**	**$ 3,810**
Liabilities													
Accounts payable & accrued expenses				687	752	671	679	689	701	701	648	696	748
Unearned income				398	457	454	451	451	450	450	467	503	541
Income taxes payable				47	10	17	17	17	17	17	17	17	17
Current portion of long-term debt				20	56	35	56	56	56	56	56	56	56
Other current liabilities				40	44	45	45	45	45	45	45	45	45
Total current liabilities				1,192	1,318	1,222	1,248	1,257	1,269	1,269	1,233	1,317	1,407
Long-term debt, net current portion				1,952	2,366	2,355	2,315	1,996	1,977	1,977	1,947	1,907	1,867
Deferred income taxes				10	12	16	16	16	16	16	16	16	16
Other liabilities				139	162	156	156	156	156	156	156	156	156
Total liabilities	**2,695**	**3,020**	**2,965**	**$ 3,293**	**$ 3,858**	**$ 3,749**	**$ 3,735**	**$ 3,426**	**$ 3,419**	**3,419**	**3,353**	**3,396**	**3,446**
Shareholders' equity													
Common stock and additional paid-in-capital				$ 1	$ 5	9	9	9	9	9	9	9	9
Retained earnings (accumulated deficit)				(994)	(1,372)	(1,323)	(791)	(724)	(658)	(658)	(357)	(19)	363
Accumulated other comprehensive income				23	8	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Non-controlling interests' equity				1	0	0	0	0	0	0	0	0	0
Total shareholders' equity	**$ (616)**	**$ (908)**	**$ (900)**	**(970)**	**(1,359)**	**$ (1,322)**	**$ (790)**	**$ (723)**	**$ (657)**	**(657)**	**(356)**	**(18)**	**364**
Total liabilities & equity	**$ 2,079**	**$ 2,113**	**$ 2,065**	**$ 2,323**	**$ 2,499**	**$ 2,427**	**$ 2,945**	**$ 2,702**	**$ 2,761**	**$ 2,761**	**$ 2,997**	**$ 3,379**	**$ 3,810**
check				-	-	-	-	-	-	-	-	-	-

KEY RATIOS	2008	2009	2010	2011	2012	Q1	Q2E	Q3E	Q4E	2013E	2014E	2015E	2016E
Working Capital													
DSO (billed accounts receivable)				25	26	25	25	26	26	26	28	30	32
DSO (unbilled services)				33	30	33	33	33	33	33	33	33	33
DSO (client advances)				(34)	(34)	(33)	(33)	(32)	(32)	(32)	(31)	(31)	(31)
DSO,net				25	22	24	25	26	27	27	30	32	34
Current ratio				1.15	1.15	1.18	1.57	1.37	1.41	1.41	1.64	1.82	2.00
Cash Flow													
Cash flow from operations				$ 161	$ 336	$ (21)	$ 63	$ 94	$ 96	$ 232	$ 257	$ 403	$ 437
Capital expenditures, net				(76)	(71)	(31)	(23)	(23)	(23)	(100)	(75)	(75)	(75)
Free cash flow				$ 85	$ 264	$ (52)	$ 40	$ 71	$ 73	$ 132	$ 182	$ 328	$ 362
Free cash flow per share				$ 0.72	$ 2.24	$ (0.44)	$ 0.32	$ 0.53	$ 0.55	$ 1.03	$ 1.36	$ 2.43	$ 2.67
% of non-GAAP NI converted to FCF				*45%*	*127%*	*-103%*	*67%*	*110%*	*110%*	*55%*	*63%*	*101%*	*99%*
Leverage													
Cash and equivalents				$ 516	$ 568	$ 454	$ 964	$ 707	$ 753	$ 753	$ 885	$ 1,153	$ 1,456
Total debt				(1,972)	(2,422)	(2,390)	(2,371)	(2,052)	(2,033)	(2,033)	(2,003)	(1,963)	(1,923)
Net cash (debt)				$ (1,456)	$ (1,854)	$ (1,935)	$ (1,407)	$ (1,345)	$ (1,280)	$ (1,280)	$ (1,118)	$ (810)	$ (468)
Net cash (debt) per share				$ (12)	$ (16)	$ (16)	$ (11)	$ (10)	$ (10)	$ (10)	$ (8)	$ (6)	$ (3)
Debt/total capitalization				197%	228%	224%	150%	154%	148%	148%	122%	101%	84%
Total debt/TTM EBITDA				4.0x	4.5x	4.3x	4.2x	3.6x	3.5x	3.5x	3.2x	2.9x	2.7x
Net debt/TTM EBITDA				3.0x	3.4x	3.5x	2.5x	2.4x	2.2x	2.2x	1.8x	1.2x	0.6x
Book Value													
Book value/share				$ (8)	$ (12)	$ (11)	$ (6)	$ (5)	$ (5)	$ (5)	$ (3)	$ (0)	$ 3
Tangible book value/share				$ (11)	$ (16)	$ (16)	$ (11)	$ (10)	$ (9)	$ (10)	$ (7)	$ (4)	$ (1)
ROA / ROE													
Profit margin (net income/sales)				*5.8%*	*5.7%*					*6.3%*	*7.0%*	*7.3%*	*7.7%*
Asset turnover (sales/assets)				1.5	1.5					1.5	1.4	1.4	1.3
Return on assets				*3.9%*	*3.7%*					*4.3%*	*4.9%*	*5.3%*	*5.8%*
Leverage ratio (assets/equity)				(2.3)	(2.1)					(2.6)	(5.7)	(17.1)	20.8
Return on equity				*(9.1%)*	*(7.7%)*					*(11.3%)*	*(27.7%)*	*(89.9%)*	*120.9%*
ROIC Decomposition													
Capital turns					1.89					1.85	1.79	1.77	1.82
EBITA margin					*14.8%*					*15.0%*	*14.9%*	*15.0%*	*15.0%*
Pretax ROIC					*27.9%*					*27.8%*	*26.7%*	*26.6%*	*27.3%*
Cash tax rate					*35.3%*					*32.1%*	*32.5%*	*32.5%*	*32.5%*
ROIC (after goodwill)					*18.1%*					*18.9%*	*18.0%*	*17.9%*	*18.4%*
ROIC (before goodwill)					*21.2%*					*22.1%*	*20.7%*	*20.4%*	*20.8%*

Source for all: Company reports and Wells Fargo Securities, LLC estimates

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