Quintiles Transnational Holdings Inc.

April 24, 2014

Stock Rating:	**Outperform**
Company Profile:	**Established Growth**

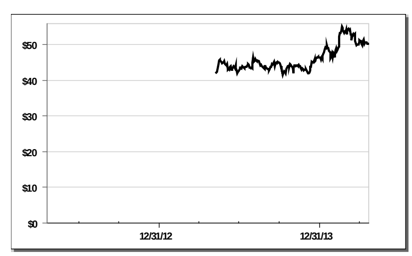
Symbol:	Q (NYSE)
Price:	$49.94 (52-Wk.: $40-$55)
Market Value (mil.):	$6,494
Fiscal Year End:	December
Long-Term EPS Growth Rate:	12%
Dividend/Yield:	None

		2013A	2014E	2015E
Estimates				
EPS	Q1	$0.49	$0.56	NA
	Q2	$0.50	$0.58	NA
	Q3	$0.54	$0.62	NA
	Q4	$0.58	$0.63	NA
	FY	$2.10	$2.40	$2.72
	CY		$2.40	$2.72
Valuation				
FY P/E		23.8x	20.8x	18.4x
CY P/E			20.8x	18.4x

Trading Data (FactSet)	
Shares Outstanding (mil.)	129
Float (mil.)	58
Average Daily Volume	738,457

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	-5.1
Return on Equity (TTM)	0.0

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

Thoughts on Biogen's Selection of Quintiles as a Strategic Partner

Conclusion

Thursday morning, April 24, Biogen (BIIB $294.84; Outperform) announced a five-year strategic partnership with Quintiles for clinical drug development, including full-service outsourcing of Phase II-IV studies as well as select Phase I studies. We understand that Quintiles won this deal in third quarter 2013 and has already included the impact in 2014 guidance. As the relationship matures, we believe an increase in both outsourcing penetration and margin contribution could generate an incremental $100 million in revenues for Quintiles. This, in turn, could contribute as much as 5% of EPS over the long term, by our estimate. However, given a lack of detail on the specific contribution to 2014 and the fact that the contribution has already been included in expectations, we are maintaining our 2014 EPS estimate of $2.40 (up 14%) and our 2015 estimate of $2.72 (up 14%). We maintain our Outperform rating on Q shares and view this deal as a validation that Quintiles is very well positioned to secure additional full-service clinical partnerships as outsourcing becomes increasingly prevalent.

Key Details

- ***Potential revenue and earnings contribution.*** William Blair estimates that Biogen Idec will spend roughly $1.8 billion in R&D in 2014. Neither Quintiles nor Biogen disclosed specific data relating to the size or the terms of this partnership. But by our estimates, excluding spending on preclinical development (25% of spending), Phase I (10% of spending; we are excluding the impact of Phase I to revenue and EPS because we suspect the impact would be small), and payments to labs and investigators, we believe the total potential spending opportunity available to Quintiles in 2014 is roughly $440 million. In the first year, we believe Quntiles's outsourcing capture rate will be low but could build to 60% or more over time. In our analysis, we have assumed a 40% capture rate by 2018, up from 15% in 2014. This leads to estimated revenue contribution increasing from $65 million this year to $225 million by 2018. In addition to increasing penetration, this analysis assumes a 6%-7% average growth rate in Biogen's R&D spending.

  In terms of margins, we note that Quintiles has nine clients generating in excess of $100 million in revenue, four of which generate in excess of $200 million, and still maintains a segment EBIT margin of 19%. In our analysis, we assume EBIT margin at the beginning of this contract is 13% but ramps up to the high teens by 2018. This suggests a potential EPS contribution of $0.04 in 2014 (4% of total EPS) ramping up to $0.22 (6% of EPS, assuming Quintiles maintains an EPS CAGR of 14% over that period). Please see exhibits 1 and 2 for additional detail.

- ***Valuation and stock thoughts.*** Despite a correction of late, the CRO group is trading at the high end of its typical range. The group now trades at an average of 18.9 times our 2015 estimates. Over the past five years, the group has traded at an equal-weighted average of 17.3 times forward earnings, with a range of 11 to 23 times.

Quintiles is the largest pharmaceutical outsourcing company in the world, with an annual revenue base approaching $4 billion. Founded in 1982, the company is now a leader in both outsourced drug development and commercialization services. It operates in 100 countries, employs roughly 27,000 employees, and has generated double-digit revenue and EBITDA growth, on average, over the past decade.

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Quintiles currently trades at 18.4 times our 2015 estimate of $2.72, a discount to its average of 20.5 times since going public last May and at the low end of its 18.7- to 21.9-times range. Thus, relative to the group, we believe Quintiles is reasonably priced, despite strong fundamentals. Therefore, we maintain our Outperform rating, but we caution that additional news of pharmaceutical industry consolidation could drive valuations lower. A summary of our current model on Quintiles can be found on page 3.

Exhibit 1: Potential Contribution of Biogen Idec Contract to Quintiles Revenue in 2014

Total Pharmaceutical R&D Budget		$1,789		
Preclinical Spending (assuming 25% haircut for bloated budgets)		$335		
Clinical Spending (Phase I only - assuming 25% haircut for bloated budgets)		$134		
Clinical Spending (Phase II-IV - assuming 25% haircut for bloated budgets)		$872		
Payments to Investigators & Labs		$436		
Clinical Spending available to CROs		$436		
Outsourcing Penetration Scenarios	**15%**	**30%**	**45%**	**60%**
Potential Opportunity - Clinical (phase II-IV)	$65	$131	$196	$262
Percent of Estimated Cal 2014 PDEV Revenue Base				
Quintiles (PDEV)	**2%**	**4%**	**6%**	**8%**

Source: William Blair estimates and company reports

Exhibit 2: Potential Long-Term Contribution to Quintiles's Earnings

	2014	2015	2016	2017	2018
BIIB R&D Spending Estimates	$1,789	$1,940	$2,060	$2,184	$2,315
Estimated Spending Available to Quintiles	$436	$473	$502	$532	$564
Estimated Penetration	15%	21%	28%	34%	40%
Estimated Revenue Contribution	$65	$100	$138	$180	$226
Contribution as percent of PDEV revenue	2%	3%	4%	4%	5%
Estimated EPS Contribution	**$0.04**	**$0.08**	**$0.12**	**$0.16**	**$0.22**
Contribution as a percent of consolidated EPS	2%	3%	4%	5%	6%

*Assumes margin ramp-up from 13% in 2014 to 19% in 2018, 30% tax rate, and weighted average shares outstanding from 132.7 million in 2014 to 133.8 million in 2018.

Source: William Blair estimates and company reports

Quintiles Income Statement (2010-2015E)

	2010	2011	2012	2013	Q1'14E	Q2'14E	Q3'14E	Q4'14E	2014E	2015E
Product Development Revenue	$2,221.9	$2,437.8	$2,728.7	$2,919.7	$766.1	$784.8	$782.6	$843.1	$3,176.6	$3,433.9
I.H.S. Revenue	$774.8	$857.1	$963.7	$888.6	$227.4	$230.7	$233.3	$241.1	$932.5	$997.8
Net revenue	**$2,996.8**	**$3,294.9**	**$3,692.4**	**$3,808.3**	**$993.5**	**$1,015.4**	**$1,015.9**	**$1,084.2**	**$4,109.1**	**$4,431.7**
Total Cost of revenue	1,925.0	$2,153.0	$2,459.4	$2,471.4	$641.8	$657.2	$652.2	$699.8	$2,651.1	$2,846.7
Gross profit	1,071.8	$1,142.0	$1,233.0	$1,336.9	$351.7	$358.2	$363.7	$384.4	$1,458.0	$1,585.0
Selling, general and administrative expense	608.9	$651.7	$687.3	$725.3	$190.2	$196.1	$191.5	$207.6	$785.4	$840.9
EBITDA	462.9	$490.3	$545.7	$611.6	$161.5	$162.1	$172.2	$176.8	$672.6	$744.0
Depreciation and amortization expense	84.6	$91.9	$100.3	$107.5	$27.2	$28.9	$29.7	$31.3	$117.2	$134.4
Operating income (inlcuding options beg Q105)	**378.3**	**$398.4**	**$445.4**	**$504.1**	**$134.3**	**$133.2**	**$142.5**	**$145.5**	**$555.4**	**$609.6**
Interest and other income (expense), net	(133.4)	($102.8)	($127.8)	($119.4)	(25.00)	(24.81)	(24.81)	(24.81)	($99.4)	($91.8)
Pretax income	245	$295.6	$317.6	$384.7	109.27	108.40	117.66	120.65	$456.0	$517.9
Income tax expense	84.2	$100.4	$112.0	$115.2	32.78	32.52	35.30	36.19	$136.8	$155.4
Equity investee earnings	1.11	($4.2)	$3.0	($1.3)	(1.70)	0.48	0.37	(0.47)	($1.3)	($1.4)
Loss/(income) from Noncontrolling interests/minority interest	0.000	1.400	0.900	0.867	0.25	0.25	0.30	0.30	1.100	1.100
Net income (non-GAAP)	**$161.8**	**$191.0**	**$208.6**	**$268.2**	**$74.8**	**$76.4**	**$82.7**	**$84.0**	**$317.9**	**$361.1**
Nonrecurring items	(5.2)	(36.3)	(50.3)	(61.6)	(3.3)	(3.3)	(3.3)	(3.3)	(13.0)	(6.0)
Tax adjustment	1.8	87.1	18.9	19.2	1.0	1.0	1.0	1.0	3.9	2.0
Non controlling interest		(1.4)	(0.9)	(0.6)	(0.3)	(0.3)	(0.3)	(0.3)	(1.1)	(1.1)
Nonrecurring items (net of tax)	(3.4)	49.4	(32.3)	(42.9)	(2.5)	(2.5)	(2.6)	(2.6)	(10.2)	(5.1)
Net income (GAAP)	**$158**	**$240.4**	**$174.8**	**$226.0**	**$72.3**	**$73.8**	**$80.2**	**$81.4**	**$307.7**	**$356.0**
EPS (excl. nonrecurring items, incl. options beg Q105, diluted)	**$1.37**	**$1.62**	**$1.76**	**$2.10**	**$0.56**	**$0.58**	**$0.62**	**$0.63**	**$2.40**	**$2.72**
EPS (as reported)	**$1.34**	**$2.04**	**$1.48**	**$1.76**	**$0.54**	**$0.56**	**$0.60**	**$0.61**	**$2.32**	**$2.68**
Weighted average shares outstanding (basic)	116.4	116.2	115.7	124.1	128.9	128.6	128.4	128.1	128.5	128.8
Weighted average shares outstanding (diluted)	118.0	117.9	117.8	127.9	132.8	132.7	132.6	132.5	132.7	132.8
MARGIN ANALYSIS:										
Gross profit	35.8%	34.7%	33.4%	35.1%	35.4%	35.3%	35.8%	35.5%	35.5%	35.8%
SG&A	20.3%	19.8%	18.6%	19.0%	19.1%	19.3%	18.9%	19.1%	19.1%	19.0%
EBITDA	15.4%	14.9%	14.8%	16.1%	16.3%	16.0%	16.9%	16.3%	16.4%	16.8%
Depreciation & amortization	2.8%	2.8%	2.7%	2.8%	2.7%	2.8%	2.9%	2.9%	2.9%	3.0%
Operating income	12.62%	12.1%	12.1%	13.2%	13.5%	13.1%	14.0%	13.4%	13.5%	13.8%
Tax rate	34.4%	34.0%	35.3%	29.9%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net income	5.4%	5.8%	5.6%	7.0%	7.5%	7.5%	8.1%	7.7%	7.7%	8.1%
GROWTH RATES:										
Revenue		**9.9%**	**12.1%**	**3.1%**	**7.1%**	**7.5%**	**8.9%**	**8.0%**	**7.9%**	**7.9%**
Revenue (excl. foreign exchange effect)				3.8%	7.2%	7.6%	8.0%	8.1%	7.8%	
Revenue (organic)				3.4%	4.0%	4.5%	5.9%	8.1%	5.7%	7.9%
Product Development Revenue (as reported)		9.7%	11.9%	7.0%	8%	8%	10%	9%	8.8%	8.1%
I.H.S. Revenue (as reported)		10.6%	12.4%	-7.8%	3%	5%	7%	5%	4.9%	7.0%
Gross profit		7%	8%	8.4%	11.2%	9.7%	9.5%	6.2%	9.1%	8.7%
SG&A		7%	5%	5.5%	9.8%	10.5%	11.2%	2.7%	8.3%	7%
EBITDA		6%	11%	12.1%	12.9%	8.8%	7.7%	10.7%	10.0%	11%
Operating income		**5%**	**12%**	**13.2%**	**13.4%**	**7.3%**	**7.6%**	**12.6%**	**10%**	**10%**
Net income (excl. non-recurring items)		18%	9%	28.6%	29.8%	21.4%	15.0%	9.8%	19%	14%
EPS (exlc. non-recurring items, incl. options)		**18%**	**9%**	**19.3%**	**16.1%**	**15.8%**	**15.6%**	**10.2%**	**14%**	**14%**

E=William Blair & Company, L.L.C. estimate

IMPORTANT DISCLOSURES

William Blair was a manager or co-manager of a public offering of equity securities for Quintiles Transnational Holdings Inc. within the prior 12 months.

William Blair is a market maker in the security of Quintiles Transnational Holdings Inc. and may have a long or short position.

William Blair intends to seek investment banking compensation in the next three months from Quintiles Transnational Holdings Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with Quintiles Transnational Holdings Inc.

Additional information is available upon request.

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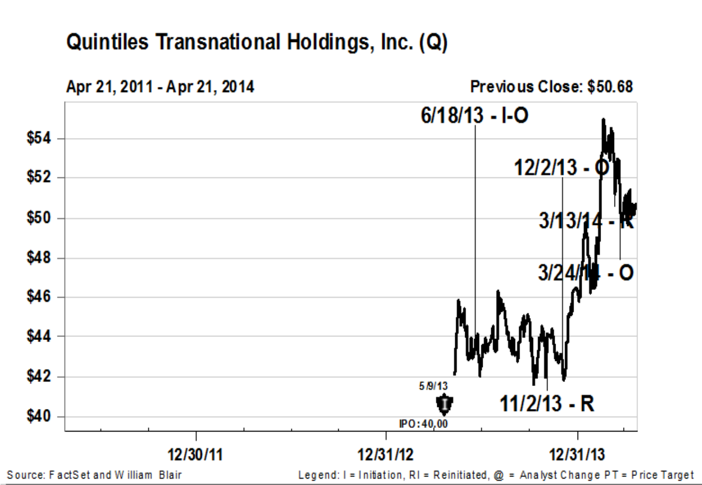
DOW JONES: 16,501.65
S&P 500: 1,878.61
NASDAQ: 4,148.34



Current Rating Distribution (as of 03/31/14)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	65	Outperform (Buy)	13
Market Perform (Hold)	32	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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