

## ICON plc

# Initial 2024 guide largely as expected as demand remains steady

Reiterate Rating: BUY | PO: 305.00 USD | Price: 272.83 USD

## '24 sales and adj. EPS guides largely inline with expectations

Ahead of an investor conference presentation later today, ICON (ICLR) reiterated its prior FY'23 financial targets and provided initial FY'24 guidance.

For FY'24, the company sees revenues in the range of \$8.40-8.80bn (\$8.60bn at the midpoint) which implies growth of 3.2%-8.1% vs. the midpoint of the FY'23 guide. This outlook is roughly in line with BofAe/Street of \$8.62/8.68bn. Management noted that they continue to expect a healthy demand environment despite lingering macro weakness.

ICLR sees its FY'24 interest expense in the range of \$200-230mn (vs. BofAe's \$230mn), a 16.5% tax rate (vs. BofAe's 15.5%), CapEx of \$150-200mn (vs. BofAe's \$163mn), FCF of \$1.1bn (vs. BofAe \$1.3bn) and embeds no M&A or share repurchases in the guide. Of note, the adj. EBITDA margin is expected to expand +50bps yoy, which is better than our +30bps est. All in, ICLR sees FY'24 Adj EPS in the range of \$14.50-15.30 (\$14.90 at the midpoint), which is slightly ahead of BofAe/Street of \$14.75/\$14.74.

## Survey shows 60% of biotechs to increase R&D spend

On the end market, yesterday ICLR issued a press release and discussed a survey of biotechs. In the survey, 60% of respondents said that they were looking to increase R&D budgets, with only 2% looking for budget reduction. Similarly, on the challenging macro environment, 47% of respondents noted that the rising cost of capital will bear the biggest impact on its operations. The survey alongside the 2024 guide shows that, as the biotech funding levels stabilize and drug development pipelines progress, ICLR is executing well in an uncertain environment. We maintain our Buy rating given ICLR's strong market position, operational stability, and undemanding valuation.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.69	11.75	12.77	14.75	16.90
GAAP EPS	2.27	6.13	7.17	9.91	11.50
EPS Change (YoY)	48.4%	21.3%	8.7%	15.5%	14.6%
Consensus EPS (Bloomberg)			12.77	14.74	16.86
DPS	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	28.2x	23.2x	21.4x	18.5x	16.1x
GAAP P/E	120.2x	44.5x	38.1x	27.5x	23.7x
EV / EBITDA*	28.1x	19.0x	16.7x	15.0x	14.6x
Free Cash Flow Yield*	3.3%	1.9%	4.5%	5.9%	6.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

09 January 2024

### Equity

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### Stock Data

Price	272.83 USD
Price Objective	305.00 USD
Date Established	12-Dec-2023
Investment Opinion	B-1-9
52-Week Range	181.92 USD - 288.50 USD
Mrkt Val (mn) / Shares Out (mn)	22,461 USD / 82.3
Free Float	99.3%
Average Daily Value (mn)	131.25 USD
BofA Ticker / Exchange	ICLR / NAS
Bloomberg / Reuters	ICLR US / ICLR OQ
ROE (2023E)	11.0%
Net Dbt to Eqty (Dec-2022A)	51.4%
ESGMeter <sup>TM</sup>	Medium

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Timestamp: 09 January 2024 09:33AM EST

# iQprofile<sup>SM</sup> ICON plc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.6%	7.4%	8.3%	8.2%	8.1%
Return on Equity	13.3%	11.7%	11.0%	10.4%	9.9%
Operating Margin	16.2%	18.4%	19.9%	19.4%	20.5%
Free Cash Flow	735	432	1,001	1,320	1,381

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	0.6x	1.1x	1.2x	1.2x
Asset Replacement Ratio	0.3x	0.2x	0.3x	0.3x	0.3x
Tax Rate	16.5%	20.5%	19.5%	18.7%	17.9%
Net Debt-to-Equity Ratio	58.1%	51.4%	31.0%	15.3%	11.1%
Interest Cover	9.4x	9.1x	6.2x	9.9x	11.0x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,481	7,741	8,150	8,615	9,200
% Change	95.9%	41.2%	5.3%	5.7%	6.8%
Gross Profit	1,514	2,235	2,424	2,565	2,777
% Change	85.3%	47.6%	8.5%	5.8%	8.3%
EBITDA	966	1,430	1,630	1,815	1,867
% Change	103.1%	48.0%	14.0%	11.3%	2.9%
Net Interest & Other Income	(95)	(150)	(250)	(170)	(165)
<b>Net Income (Adjusted)</b>	<b>658</b>	<b>969</b>	<b>1,058</b>	<b>1,224</b>	<b>1,346</b>
<b>% Change</b>	<b>89.1%</b>	<b>47.1%</b>	<b>9.2%</b>	<b>15.7%</b>	<b>10.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	658	969	1,058	1,224	1,346
Depreciation & Amortization	315	570	588	612	614
Change in Working Capital	135	(540)	(99)	(24)	(45)
Deferred Taxation Charge	(61)	(125)	0	0	0
Other Adjustments, Net	(219)	(300)	(396)	(328)	(349)
Capital Expenditure	(94)	(142)	(150)	(163)	(184)
<b>Free Cash Flow</b>	<b>735</b>	<b>432</b>	<b>1,001</b>	<b>1,320</b>	<b>1,381</b>
<b>% Change</b>	<b>42.2%</b>	<b>-41.3%</b>	<b>131.8%</b>	<b>31.9%</b>	<b>4.6%</b>
Share / Issue Repurchase	118	(64)	40	40	(1,000)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	5,027	(800)	(1,000)	(250)	(100)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	752	289	330	1,440	1,721
Trade Receivables	1,343	1,731	1,712	1,809	1,932
Other Current Assets	846	1,209	1,068	1,129	1,206
Property, Plant & Equipment	336	350	350	350	350
Other Non-Current Assets	14,109	13,606	14,670	15,507	16,560
<b>Total Assets</b>	<b>17,387</b>	<b>17,185</b>	<b>18,130</b>	<b>20,235</b>	<b>21,769</b>
Short-Term Debt	55	55	135	135	135
Other Current Liabilities	2,424	2,635	2,376	2,511	2,665
Long-Term Debt	5,381	4,599	3,519	3,269	3,169
Other Non-Current Liabilities	1,460	1,398	1,386	1,465	1,564
<b>Total Liabilities</b>	<b>9,320</b>	<b>8,687</b>	<b>7,416</b>	<b>7,380</b>	<b>7,534</b>
<b>Total Equity</b>	<b>8,067</b>	<b>8,498</b>	<b>10,714</b>	<b>12,856</b>	<b>14,235</b>
<b>Total Equity &amp; Liabilities</b>	<b>17,387</b>	<b>17,185</b>	<b>18,130</b>	<b>20,235</b>	<b>21,769</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Healthcare Technology & Distribution

## Company Description

ICON plc (ICLR) is a global contract research organization (CRO) providing clinical drug development and commercialization solutions to the pharmaceutical, biotech and medical device industries. The company offers solutions, from compound selection to Phase I-IV clinical studies, across all major therapeutic classes with the goal of accelerating the development of drugs and devices that save lives and improve the quality of life.

## Investment Rationale

We are positive on ICLR as CRO industry fundamentals remain healthy and the company is executing well in the wake of the PRA Health acquisition. As such, we are more confident in ICLR's ability to deliver on its mid-term (2022-25) financial targets and valuation is attractive relative to peers.

## Stock Data

Average Daily Volume 481,068

## Quarterly Earnings Estimates

	2022	2023
Q1	2.76A	2.90A
Q2	2.86A	3.11A
Q3	3.00A	3.30A
Q4	3.13A	3.46E

## Price objective basis & risk

### ICON plc (ICLR)

Our PO of \$305 is based on 16x our 2024E adj. EBITDA estimate, which is in line with the company's CRO (contract research organization) peer group median given favorable industry fundamentals and similar performance in key metrics.

Downside risks are slower-than-expected PRA Health revenue synergies, customer concentration, biopharma customer consolidation, soft drug R&D spend, downturn in biotech financing, competitive and technology risks, larger FX headwinds, execution risk and regulatory risk.

## Analyst Certification

I, Derik de Bruin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
<b>NEUTRAL</b>				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Rewity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
<b>UNDERPERFORM</b>				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Catalent, Inc.	CTLT	CTLT US	Derik de Bruin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin



## US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

**IQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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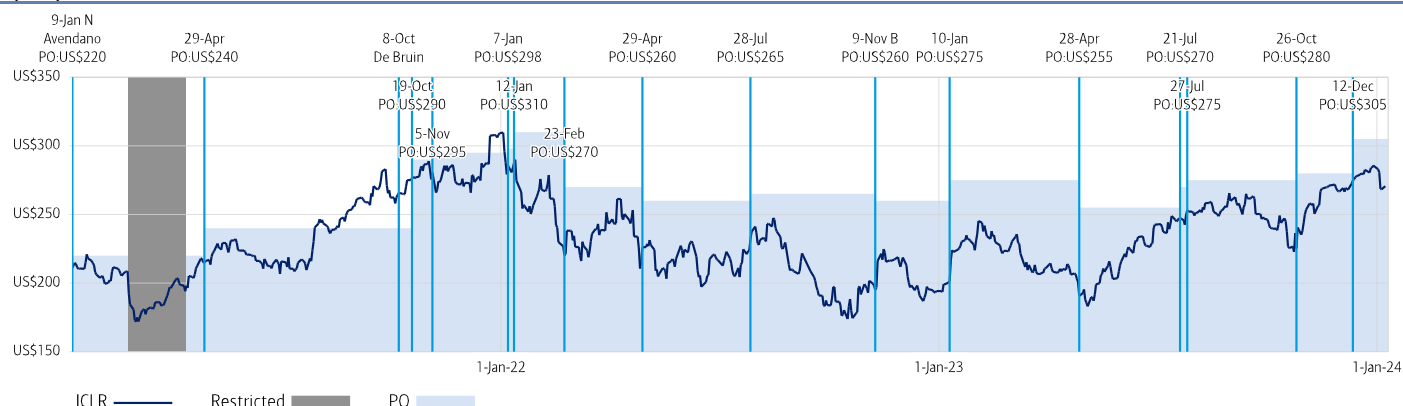
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### ICON (ICLR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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