

ICON plc

ICLR sets constructive tone for FY24 as B2B metrics improve

Reiterate Rating: BUY | PO: 355.00 USD | Price: 311.55 USD

Solid end to FY23; FY24 guide reiterated

ICON (ICLR) held its 4Q call this morning after releasing results after the close on 2/21. Key 4Q highlights include: Sales +4.1% constant currency, Adj EPS of \$3.46 (in-line) and book-to-bill (B2B) of 1.22x [See our earlier First Look](#) report for additional color.

B2B outlook ahead as markets show some improvement

While ICLR maintained its initial FY24 guidance, we view Mgmt's commentary on today's call as incrementally more constructive in tone than it was first given in early-January. Request-for-proposal (RFP) growth in 4Q was healthy, and Mgmt has seen these trends continue into 1Q with mid-teens growth in large pharma and +mid-single-digits in biotech. Supported by these customer activity indicators, ICLR now anticipates that the FY24 B2B will average at 1.25x. Considering ongoing concerns that constrained pharma spending and biotech funding may lead to a deterioration in backlog metrics, we see the >1.20x B2B target as particularly encouraging. Although the low-end of the sales guide range is below some expectations given the strong backlog, Mgmt emphasized that this is a function of a lower burn rate as fast-moving vaccine trials roll-off and doesn't reflect a change in underlying demand.

Margins expanding ahead of plan

After achieving its ~21% Adj EBITDA margin goal in 2H23 vs the original target of FY25, Mgmt still sees room for improvement. Adj EBITDA margins are expected to expand a further ~50bps in FY24 (vs our 30bps est.) as SG&A leverage more than offsets gradual negative mix shift from higher functional Service provider (FSP) arrangements.

Updating Model; PO raised to \$355; reiterate Buy

Overall, while 4Q was roughly in-line and the FY24 guide was reiterated, ICLR's commentary on B2B, margins, and demand trends were all incrementally positive. We update our model to incorporate the print and forward commentary, which raises our adj. EBITDA ests. On our new forecasts as well as peer group multiple expansion, our PO increases to \$355 (was \$305), now based on 17x (was 16x) our 2024 adj. EBITDA est, in-line with peers. We reiterate our Buy rating given ICLR's strong competitive position, improving market fundamentals, and undemanding valuation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.69	12.78	14.95	16.90	19.25
GAAP EPS	6.07	7.39	9.74	12.06	14.40
EPS Change (YoY)	20.6%	9.3%	17.0%	13.0%	13.9%
Consensus EPS (Bloomberg)			14.79	16.87	18.75
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.7x	24.4x	20.8x	18.4x	16.2x
GAAP P/E	51.3x	42.2x	32.0x	25.8x	21.6x
EV / EBITDA*	20.6x	17.7x	16.0x	15.1x	13.9x
Free Cash Flow Yield*	1.7%	3.9%	4.1%	5.5%	6.1%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 22 February 2024 03:21PM EST

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	305.00	355.00
2024E EPS	14.75	14.95

Derik de Bruin
Research Analyst
BofAS
+1 646 855 3100
derik.de_bruin@bofa.com

Michael Ryskin
Research Analyst
BofAS
+1 646 855 4373
michael.ryskin@bofa.com

Wolf Chanoff
Research Analyst
BofAS
+1 646 954 8482
wolf.chanoff@bofa.com

John Kim
Research Analyst
BofAS
+1 646 855 3874
john.kim4@bofa.com

Avantika Dhabaria
Research Analyst
BofAS
+1 646 743 0170
avantika.dhabaria@bofa.com

Stock Data

Price	311.55 USD
Price Objective	355.00 USD
Date Established	22-Feb-2024
Investment Opinion	B-1-9
52-Week Range	181.92 USD - 296.68 USD
Mrkt Val (mn) / Shares Out (mn)	25,649 USD / 82.3
Free Float	99.3%
Average Daily Value (mn)	184.74 USD
BofA Ticker / Exchange	ICLR / NAS
Bloomberg / Reuters	ICLR US / ICLR.OQ
ROE (2024E)	11.3%
Net Dbt to Eqty (Dec-2023A)	36.8%
ESGMeter TM	Medium

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iQprofileSM ICON plc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.4%	9.1%	8.6%	8.0%	8.0%
Return on Equity	11.6%	11.9%	11.3%	10.1%	9.9%
Operating Margin	18.4%	19.7%	19.6%	20.3%	20.6%
Free Cash Flow	427	1,011	1,063	1,406	1,561

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	1.1x	1.0x	1.2x	1.2x
Asset Replacement Ratio	0.2x	0.2x	0.3x	0.3x	0.3x
Tax Rate	20.6%	16.3%	18.7%	19.9%	20.2%
Net Debt-to-Equity Ratio	51.4%	36.8%	18.1%	13.4%	7.1%
Interest Cover	8.9x	5.2x	10.5x	11.8x	15.0x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,741	8,120	8,615	9,200	9,850
% Change	41.2%	4.9%	6.1%	6.8%	7.1%
Gross Profit	2,235	2,417	2,572	2,761	2,966
% Change	47.6%	8.1%	6.4%	7.3%	7.5%
EBITDA	1,430	1,658	1,835	1,947	2,112
% Change	48.0%	16.0%	10.7%	6.1%	8.5%
Net Interest & Other Income	(155)	(304)	(161)	(156)	(133)
Net Income (Adjusted)	964	1,058	1,243	1,348	1,486
% Change	46.4%	9.8%	17.4%	8.5%	10.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	964	1,058	1,243	1,348	1,486
Depreciation & Amortization	570	586	622	619	634
Change in Working Capital	(540)	(13)	(250)	(44)	(48)
Deferred Taxation Charge	(125)	(85)	0	0	0
Other Adjustments, Net	(300)	(394)	(373)	(324)	(309)
Capital Expenditure	(142)	(141)	(179)	(193)	(202)
Free Cash Flow	427	1,011	1,063	1,406	1,561
% Change	-41.9%	136.8%	5.1%	32.3%	11.1%
Share / Issue Repurchase	(64)	51	40	(1,000)	(800)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(800)	(895)	(250)	(100)	(100)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	289	378	1,231	1,537	2,198
Trade Receivables	1,731	1,790	1,981	2,116	2,266
Other Current Assets	1,209	1,243	1,215	1,298	1,389
Property, Plant & Equipment	350	361	361	361	361
Other Non-Current Assets	13,606	13,217	15,507	16,560	17,730
Total Assets	17,185	16,990	20,296	21,872	23,945
Short-Term Debt	55	110	135	135	135
Other Current Liabilities	2,635	2,715	2,629	2,801	2,994
Long-Term Debt	4,599	3,665	3,391	3,291	3,191
Other Non-Current Liabilities	1,398	1,258	1,465	1,564	1,675
Total Liabilities	8,687	7,749	7,619	7,791	7,994
Total Equity	8,498	9,241	12,677	14,081	15,950
Total Equity & Liabilities	17,185	16,990	20,296	21,872	23,945

* For full definitions of iQmethodSM 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 592,980

Quarterly Earnings Estimates

	2023	2024
Q1	2.90A	3.41E
Q2	3.11A	3.67E
Q3	3.30A	3.87E
Q4	3.46A	4.00E

Price objective basis & risk

ICON plc (ICLR)

Our PO of \$355 is based on 17x 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
BUY				
	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
NEUTRAL				
	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
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM 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 & 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

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

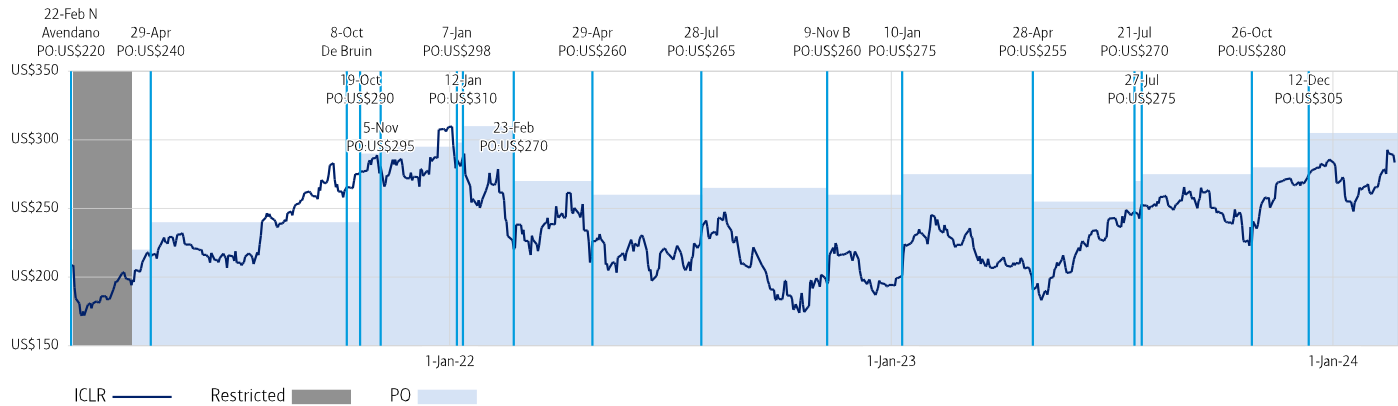
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Important Disclosures

ICON (ICLR) Price Chart



ICLR — Restricted PO
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 ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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