December 2, 2014

WELLS FARGO SECURITIES

Equity Research

INC Research Holdings, Inc.

INCR: Smaller Boat In Rising Tide--Initiating At Outperform

Outperform / V

Sector: Pharmaceutical Services
Market Weight

Initiation of Coverage

- **Summary.** We are initiating coverage of INC Research, Inc. (NASDAQ: INCR) at Outperform with a DCF-derived 12-month valuation range of $27-28. As a pure-play clinical CRO, INCR--the seventh largest clinical CRO, by our estimate--benefits from the secular growth trends driving clinical research providers. Within this rising tide, INCR's size positions it well for growth: small enough to leverage higher-growth niches but large enough to compete for global trials. However, INCR's size could also mean more volatile bookings, which is the chief risk to our thesis, in our view. We set our 2014/2015E EPS at $0.90 and $1.20.

- **Clinical pure-play.** INCR derives 100% of its revenue from clinical (phase I-IV) development, which we view as the portion of the drug development value chain with the best fundamentals. We believe clinical CROs can meaningfully outgrow the low- to mid-single-digit growth of overall drug development spending due to persistent increases in outsourcing penetration. The penetration driver makes the industry a secular growth industry, in our view. Barring significant pharma M&A, we believe the industry can grow 6-8% (half from growth in development spending and half from increases in penetration). Larger CROs should be able to add another 100-200 bps of growth from market share gains. Growth beyond 7-9% could come from a focus on higher-growth niches or higher-growth client segments, which is true for INCR, in our view.
- **Kendle and MDS turnarounds demonstrate strong execution**. INC gained approximately half of its scale with the acquisitions of MDS Pharma (2009) and Kendle International (2011), both of which were financially distressed assets when acquired. Kendle was a transformative acquisition, and while it had respectable clinical operations, it also had poor financial control and a questionable backlog, which resulted in customer attrition. We think INC has done an admirable job turning these assets around and bringing its consolidated margin to the top of the industry range.
- **Below-the-line items offer clear path to 20%+ EPS growth**. We believe INCR should be able to grow its operating income 10-15% on average. We believe de-leveraging and a declining tax rate will boost EPS growth above 20% through at least 2017.

Valuation Range: $27.00 to $28.00 **from NE to NE**
Our valuation range is DCF-based (WACC = 8.5%; terminal NOPLAT growth = 2%) and represents 23x our 2015 EPS 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) regulatory risks;(4) limited track record in public equity markets; and (5) controlled company status.

Investment Thesis:
We believe INCR should be able to grow revenue and EPS at a CAGR of about 10% and 20%, respectively, over the next few years. While we also expect higher-than-average bookings volatility, we believe the strong growth potential tilts the risk/reward profile in a favorable direction.

	2013A	2014E		2015E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	($0.03)	$0.13 A	NC	$0.28	NE
Q2 (June)	0.06	0.25 A	NC	0.28	NE
Q3 (Sep.)	0.16	0.34 A	NC	0.31	NE
Q4 (Dec.)	0.08	0.21	NE	0.32	NE
FY	$0.27	$0.90	NE	$1.20	NE
CY	$0.27	$0.90		$1.20	
FY P/EPS	88.9x	26.7x		20.0x	
Rev.(MM)	$652	$805		$891	

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

Non-GAAP EPS excludes amortization of intangibles and non-recurring items.

Ticker	INCR
Price (12/01/2014)	$24.00
52-Week Range:	$19-25
Shares Outstanding: (MM)	61.3
Market Cap.: (MM)	$1,471.2
S&P 500:	2,053.44
Avg. Daily Vol.:	0
Dividend/Yield:	$0.00/0.0%
LT Debt: (MM)	$421.0
LT Debt/Total Cap.:	51.0%
ROE:	37.0%
3-5 Yr. Est. Growth Rate:	21.0%
CY 2014 Est. P/EPS-to-Growth:	1.3x
Last Reporting Date:	10/02/2014

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

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Please see page 14 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 12/02/14 unless otherwise stated.

Investment Thesis

Summary. We are initiating coverage of INC Research, Inc. (NASDAQ: INCR) at Outperform with a DCF-derived 12-month valuation range of $27-28. As a pure-play clinical CRO, INCR--the seventh largest clinical CRO, by our estimate--benefits from the secular growth trends driving clinical research providers. Within this rising tide, we think INCR's size positions it well for growth: small enough to leverage higher-growth niches but large enough to compete for global trials. However, INCR's size could also mean more volatile bookings, which is the chief risk to our thesis, in our view.

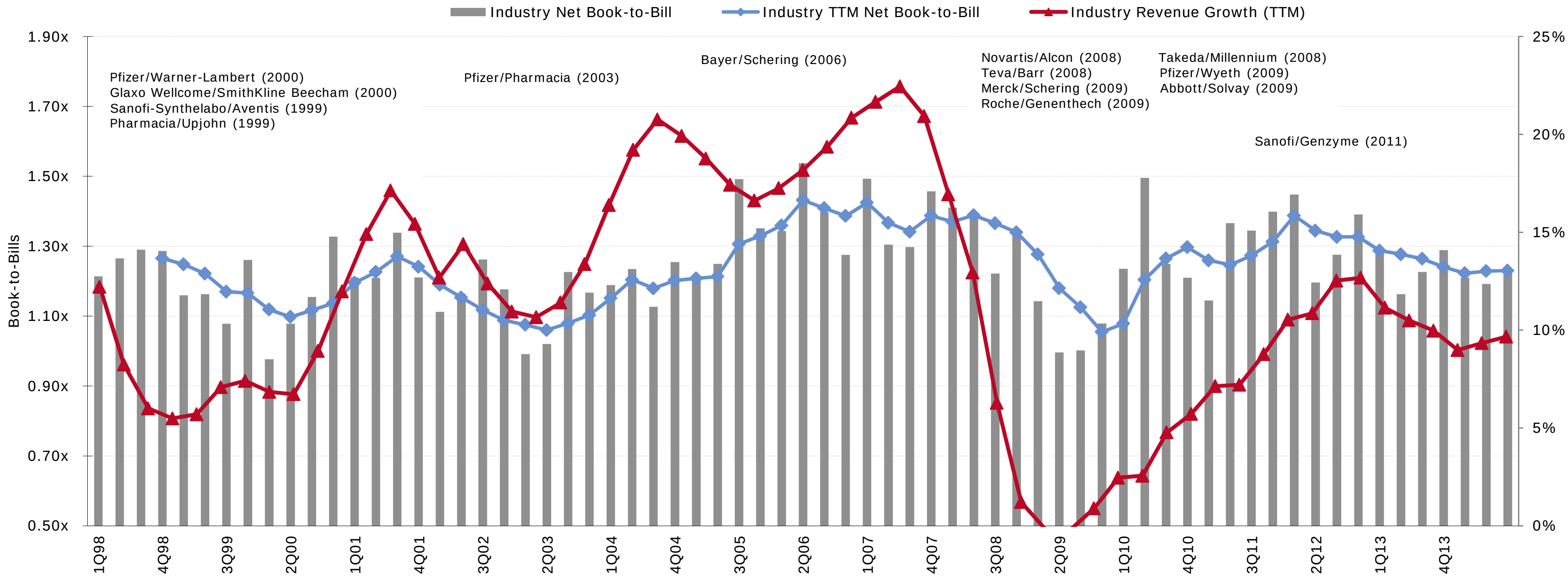
Clinical pure-play. INCR derives 100% of its revenue from clinical (phase I-IV) development, which we view as the portion of the drug development value chain with the best fundamentals. We believe clinical CROs can meaningfully outgrow the low- to mid-single-digit growth of overall development drug spending due to persistent increases in outsourcing penetration. The penetration driver makes the industry a secular growth industry, in our view. As evidence, Exhibit 1 shows quarterly and trailing twelve months (TTM) industry book-to-bills going back to 1998. It is clear that book-to-bills decline during waves of big pharma M&A, but we think the fact that industry TTM book-to-bills trough at about 1.1 during each M&A wave supports a secular growth view of the industry. Barring significant pharma M&A, we believe the industry can grow 6-8% (half from growth in development spending and half from increases in penetration). Larger CROs should be able to add another 100-200 bps of growth from market share gains. Growth beyond 7-9% could come from a focus on higher-growth niches or higher-growth client segments, which is true for INCR, in our view.

Well-positioned for growth. We believe INCR's size positions it well for growth. INC is small enough to leverage higher-growth niches--in this case predominantly Central Nervous System (CNS), which makes up over 40% of backlog, by our estimate and is significantly higher than peers as a percentage of revenue. We also believe INCR is just large enough to compete for global trials, although likely not the type of $100 million per year partnerships that have been a major growth driver for the largest CROs in recent years. Finally, INCR's client base is heavily focused on mid-size pharma, with a particular emphasis on Japanese pharma companies (about 25% of revenue in 2013), which tend to have lower penetration (and therefore a longer growth runway) than counterparts based in the U.S.

Kendle and MDS turnarounds demonstrate strong execution. INC gained approximately half of its scale with the acquisitions of MDS Pharma (2009) and Kendle International (2011), both of which were financially distressed assets when acquired. Kendle was a transformative acquisition, and while it had respectable clinical operations, it also had poor financial control and a questionable backlog, which resulted in customer attrition. We think INC has done an admirable job turning these assets around and bringing its consolidated margin to the top of the industry range.

Below-the-line items offer clear path to 20%+ EPS growth. We believe INCR should be able to grow its operating income 10-15% on average. We believe de-leveraging and a declining tax rate will boost EPS growth above 20% through at least 2017.

Exhibit 1. Long-Term Industry Book-to-Bill Trends



Source: Company Filings, Wells Fargo Securities, LLC

Investment Risks

Cancellations and delays. In our view, the greatest risks to a clinical CRO (including INC) are cancellations of backlog, negative scope modifications to booked contracts, delays in starting new projects, and delays in signing new orders. Cancellations and delays can occur for numerous reasons, including (1) the failure of experimental drugs for scientific reasons, (2) a restructuring or reprioritization of pipeline at a pharma customer, (3) disruptive mergers and acquisitions (M&A) in the customer base, (4) lack of financing, and (5) competitive losses.

More volatile bookings. INC's smaller size relative to peers creates the risk that its bookings will be more volatile, in our view, which could be exacerbated by a management team more used to operating under the long-term watch of private equity than under the shorter-term oriented public equity markets.

Renewal of large client contract. INC has a functional service provider (FSP) partnership with Astellas, which was the company's second largest client in 2013 (approximately 10% of revenue). This contract currently extends through Q2 2015 and is in the midst of renewal negotiations. Should the contract not be renewed, should Astellas demand contractual concessions, or should it fail to give INC a level of business consistent with expectations, INC's revenue growth and margins could be negatively impacted.

Foreign exchange exposure. INC has exposure to foreign exchange fluctuation, since the currency mix of revenue and costs are not necessarily matched. The company receives 70-75% of revenue in USD and has about 60% of costs in USD. Meanwhile, EUR makes up 20% of revenue but only 10% of costs, while GBP is a minor amount of revenue but 10% of costs.

Controlled company status. Following the IPO, Avista and Ontario Teachers' Pension Plan (OTPP) will continue to own over 80% of shares outstanding, effectively limiting the ability of other shareholders to exert influence on management. As such, the company is classified as a "controlled company" under NASDAQ rules, which permits the company certain exemptions from corporate governance requirements, such as director independence.

Reduced disclosure under the JOBS Act. According to the Jumpstart Our Business Startups Act of 2012 (JOBS Act), for which INC currently qualifies, the company is an emerging growth company, which permits reduced reporting and other regulatory requirements, which may offer investors reduced visibility or reduced assurances regarding the effectiveness of financial control.

Company Overview

INC Research is a pure-play clinical (phase I-IV) contract research organization (CRO). By clinical revenue, we believe the company is seventh largest, with a clinical revenue run-rate close to that of Covance and inVentiv Health. With investors now choosing among five public companies deriving a significant majority of revenues from clinical contract research, we believe differentiation becomes a key question. Exhibit 2 shows some of the key quantitative measures to consider when differentiating CROs (setting aside valuation for a later section in this report).

- **Financial**. INCR is the smallest of the public CROs by revenue, but it has the highest EBITDA margin. Its pro forma leverage ratio is the median of the five public companies.
- **Business mix**. Only INC and PRA can claim to be true clinical pure-plays, but the ancillary businesses for ICON and PAREXEL (central lab and informatics, respectively) are small, so we do not believe business mix is a significant differentiator among these four players. Quintiles has a large contract sales business, which is a space where the other public CROs do not compete, but we view the contract sales business as more of a negative than a positive for Quintiles.
- **Customer concentration**. INC's top five client concentration (34% of revenue in 2013) is the lowest of the public group, slightly edging out Quintiles. However, the top client (15% of revenue in 2013) is the median of the five public companies. The company's top client is Otsuka.
- **Therapeutic mix**. We believe INC derives over 40% of business from trials related to compounds in the Central Nervous System (CNS) therapeutic category, a percentage that is much higher than peers. Together with Oncology, which makes up over 20% of INC's revenue (by our estimate), the company derives 65% of revenue from two of the industry's highest-growth therapeutic categories. We believe this is the most important differentiator for INC.
- **Geographic mix**. We do not believe geographic mix is a significant differentiator among INC, PRA, ICON, and PAREXEL. In our view, only Quintiles can claim to have a truly more global footprint than the other public companies.

The bottom line in terms of quantitative differentiation is that true differentiation for INC is mostly a matter of therapeutic specialization.

Exhibit 2. A Comparison Of Metrics Across Public Clinical CROs

	INCR	PRAH	ICLR	PRXL	Q
Financial Profile					
TTM Revenue (MM)	$ 770	$ 1,242	$ 1,458	$ 1,982	$ 4,106
TTM EBITDA Margin	18.2%	13.1%	16.5%	14.8%	16.7%
Leverage	2.8x	5.3x	-	1.3x	3.0x
Employees	5,400	10,300	10,700	15,980	32,100
Revenue per employee (000s)	$ 154	$ 121	$ 145	$ 123	$ 132
Business Mix					
Phase I	4%	10%	5%	8%	2%
Phase II-IV Full Service	89%	57%	80%	73%	67%
Phase II-IV Functional	7%	33%	8%	5%	5%
Central Lab	-	-	7%	-	6%
Stand Alone Technology	-	-	-	14%	-
Contract Sales	-	-	-	-	20%
Preclinical/Other	-	-	-	-	-
Total	100%	100%	100%	100%	100%
Customer Mix					
Top Client	15%	8%	31%	17%	8%
Top Five Clients	34%	38%	52%	47%	35%
Therapeutic Mix					
Oncology/Hematology	20%	37%	26%	30%	21%
CNS	45%	20%	16%	12%	26%
Other	35%	43%	58%	58%	53%
Total	100%	100%	100%	100%	100%
Geographic Mix					
Europe	38%	32%	42%	36%	40%
U.S.	48%	58%	46%	46%	35%
APAC & ROW	14%	10%	12%	18%	25%
Total	100%	100%	100%	100%	100%

Source: Wells Fargo Securities, LLC estimates and Company data

Strategy. INC's strategy is somewhat dictated by the company's dedication to therapeutic expertise. At many CROs, clinical research associates (CRAs), which make up the majority of a CRO's employee base, are not therapeutically specialized, which allows the CRO some workforce flexibility. At INC, 70% of CRAs are focused solely on their area of expertise. We believe this focus allows INC to execute well, although it may not be the most efficient or flexible structure. We think the company's large focus on CNS allows therapeutic specialization down to the front line employees. We think specialization also helps INC's employee retention (turnover declined 450 bps over two years to 13.9% in 2014 from 18.4% in 2012, according to the company).

INC's strong site and investigator relationships also help differentiate the company's strategy. We believe the company's therapeutic area focus as well as its roots as a site management organization both contribute to strong investigator relationships. The company cites a 2013 site relationship survey in which INC was the top-ranked CRO.

On the operational side, INC tries to differentiate itself with a model it calls "The Trusted Process," which is intended to reduce the time involved in various elements of the clinical trial process, while creating more consistent results. INC indicates it has reduced median study start-up time on new projects by 26% since the operating model was implemented in 2006. The company believes the process has resulted in strong client retention, with 90% of new business awards in 2013 coming from existing customers.

From a technology standpoint, INC prefers to use off-the-shelf solutions rather than in-house, proprietary technology. The company has long-established relationships with leading technology providers, including Medidata and Oracle.

Addressable market. As shown in Exhibit 3, we believe the total addressable market (TAM) for clinical CROs is about $40 billion and is about 50% penetrated, making the clinical CRO market about $20 billion. We believe the top nine CROs in total account for about 60% of the market, and within that group, INC Research is the seventh largest, with market share of about 4%.

Exhibit 3. Phase I-IV Market Share And Size (2014E)

Company	2014E Mkt Share
Quintiles	15%
PAREXEL	10%
Pharmaceutical Product Development (PPD)	9%
ICON	7%
PRA Health Sciences	6%
inVentiv Health	4%
INC Research	4%
Covance	4%
Medpace	2%
Others	40%
Total	100%
Total CRO Market (MM)	$ 20,000
Total Addressable Market (MM)	$ 40,000
Penetration	**50%**

Source: Company filings; Wells Fargo Securities, LLC Estimates

Facilities and operations. The vast majority of operations are conducted out of 75 offices in 43 countries, all except one of which are leased. The company also leases one Phase I clinic in Toronto with about 90 beds. The company's headquarters are located in Raleigh, North Carolina. The company indicates that its facility utilization stood at 76% as of September 30, 2014, up from 66% at the end of 2013 (ideal utilization is 75-80%).

As of September 30, 2014, the company had 5,500 full-time equivalent employees, 48% of which are in the U.S. and Canada, 35% of which are in Europe, and 9% of which are in the Asia-Pacific region, with the remaining 8% predominantly in Latin America.

Sales and marketing. INC has a standard sales and marketing team of about 100 individuals reporting to Neil Ferguson, Executive Vice President of Global Business Development. The company segments its accounts into three groups: (1) strategic accounts, (2) corporate accounts, and (3) core accounts. Strategic and corporate accounts are those with executive-level relationships, where INC provides services across therapeutic areas. Core accounts tend to be smaller customers with more price sensitivity, where INC competes with other mid-size CROs, primarily on therapeutic expertise.

Company history. The company has its roots as an academic research organization founded in 1985 to conduct CNS studies at the University of Virginia's Brain Injury Research Program. In 1998, the organization merged with the Integrated Neuroscience Consortium (INC), a CNS-specific site management organization to form INC Research--a company focused on developing an exclusive network of investigator sites for neurology, psychiatry, and pain trials (the major areas within CNS).

During the 2000s, the company expanded its service offerings both organically and through acquisitions to include additional geographies and therapeutic areas--most notably oncology and pediatrics. The company's acquisitions are listed in Exhibit 4. The largest acquisitions were the Phase II-IV business of MDS Pharma as well as Kendle International, both of which were in financial distress at the time of acquisition. These two acquisitions gave INC the size and scale of a global CRO capable of delivering full Phase I-IV study services.

In 2010, Avista Partners and Ontario Teachers' Pension Plan acquired INCR for $600MM.

Exhibit 4. Recent Acquisitions.

Transaction	Date Closed	Type	Payment (MM)	& Consideration	Location	Annual Rev (MM)	Notes
MEK Consulting	Mar-14	A	~$6	Cash	Lebanon	~$3	Access to Middle East and North Africa
Kendle	Jul-11	A	$356	NA	Ohio	$327	Expanded TRx areas & geographic reach to Asia & LatAm
Trident	Jun-11	A	$13	Cash	Australia	$6	Expertise in Australia, New Zealand, and India
AVOS Life Sciences	Jan-11	A	NA	Cash	N. Carolina	NA	Consulting firm w/ access to big pharma
MDS (Phase II-IV biz)	Jul-09	A	$50	Cash	Canada	~$100	Phase II-IV CRO w/vaccine, resp., CV, & endo
GVK Biosciences	Apr-07	JV	NA	Cash	India	NA	50/50 JV; Full service Phase I-IV trials in India
Advanced biologics	Apr-07	A	NA	Cash	Pennsylvania	NA	Infectious Disease expertise; First foray into general med.
Pharmaceutical Resource	Sep-06	A	NA	Cash	Pennsylvania	NA	Presence in the Northeast U.S.
NDDO Oncology	Dec-05	A	NA	Cash	Netherlands	NA	European oncology CRO
Vujaklija	Nov-02	A	NA	Cash	Hungary	NA	Central and Eastern Europeean exposure
Tanistry	Feb-01	A	NA	Cash	Texas	NA	Presence in the SouthWest and further CNS capabilities

Source: Facset; Company filings; Wells Fargo Securities, LLC
A=Acquisition; D=Divestitures; L=License; JV=Joint Venture

Leadership. We believe INCR has a strong management team characterized by a notable amount of management experience at Quintiles. Consistent with INCR's status as a controlled company, the company has currently found that only two directors are independent, although we expect the board to become more independent over time.

Exhibit 5. Senior Management

Name and Current Responsibilities	Age	Background
D. Jamie Macdonald *CEO (since 2013)*	46	*INC Research - COO (2011-2013) *Kendle - COO (2011) *Quintiles - Various roles (1996-2011) *Syntex
Gregory S. Rush *CFO (since 2013)*	47	*Tekelec, Inc. - Various roles including CFO (2005-2013) *Siebel Systems - Various roles *Quintiles - Various roles *PwC
Alistair Macdonald *COO (since 2013)*	44	*INC Research - Various roles (2002-2013)
Christopher L. Gaenzle *Chief Administrative Officer (since 2013)* *General Counsel & Secretary (since 2012)*	47	*Pfizer - Various legal roles (2008-2012) *Hunton & Williams, LLP - Partner (1998-2007)
Neil Ferguson *EVP, Global Business Dev. (since 2012)*		*Quintiles *Innsight Medical Devices *Caremark
Jean Chitwood *SVP Corporate Strategy (since 2006)*		*Quintiles *GlaxoSmithKline *Erminos

Source: Compay filings; Wells Fargo Securities, LLC
Current as of December 2014

Exhibit 6. Board

Name & Current Responsibilities	Age	Class*	Primary Association(s)	Other Current Boards
D. Jamie Macdonald *Director (since 2013)*	46	No Class Not Independent	*INC Research - President & CEO	
James T. Ogle *Chairman (since 2010)* *Director (since 2003)*	70	No Class Not Independent	*INC Research - Former CEO (2003-2012)	
James A. Bannon *Director (since 2010)*	61	No Class Not Independent	*Fomer management positions at Covance	*IndiPharm
Robert W. Breckon *Director (since 2011)*	57	No Class	*Breckon Consultants - President *Teachers' Private Capital - Sr. Advisor	
David F. Burgstahler *Director (since 2010)*	46	No Class Not Independent	*Avista - President & Founding partner	*AngioDynamics, Inc. *Armored AutoGroup, Inc. *ConvaTec, Inc. *Several others
Steve Faraone *Director (since 2011)*	40	No Class Not Independent	*Teachers' Private Capital - VP	*Flynn Restaurant Group *Heartland Dental *Plano Synergy *Shearer's Foods
Charles C. Harwood, Jr. *Director (since 2010)*	61	No Class	*Avista - Advisor *BioReliance - Former CEO	
Terry Woodward *Director (since 2011)*	47	No Class Not Independent	*Teachers' Private Capital - Director	*Heartland Dental *Insight Pharmaceuticals

Source: Company filings; Wells Fargo Securities, LLC
**Directors are re-elected each year; Directors are Independent unless stated otherwise*
Current as of December 2014

Recent Financials and Outlook

Revenue. Under the JOBS Act, investors are only privy to three years of historical information, which means we can only consider historical growth patterns in 2012, 2013, and year-to-date 2014. In 2012, INCR's total revenue growth was about 33%, but stripping out foreign exchange and an estimated contribution from the Kendle and Trident acquisitions, we believe constant dollar organic growth was about 4%. Constant dollar organic growth improved to about 12% in 2013 as the company began to regain footing in H2 2013 following the messy acquisition of Kendle. Growth in 2014 has been particularly strong (over 20%), even after adjusting for approximately $9 million of extraordinary change orders in Q2 and Q3.

The company targets 10-11% organic revenue growth between 2014 and 2016, which is consistent with our estimates, and which we think is achievable with book-to-bills of 1.20 and a quarterly backlog burn rate of about 13%.

Bookings and backlog. INC recognizes backlog upon signed contract or receipt of written commitment, and if projects meet the following criteria: (1) already have internal funding approval from customer, (2) are not contingent on other events, and (3) are expected to start within 12 months. We believe this is a relatively conservative policy.

INC's bookings have been somewhat volatile, ranging from a net book-to-bill of 0.5 in Q2 2014 to 1.8 in Q3 2013. In Q2 2014, the company had a large cancellation (about $130 million) from a top 5 customer related to the drug's safety or efficacy profile (i.e., not related to INC's performance). Without the cancellation, Q2 2014 book-to-bill would have been about 1.15.

We believe bookings volatility is partially a function of INC's size. In the long run, INC believes it can post average book-to-bills of 1.20, which we believe is reasonable. We forecast a steady 1.20 level, but we expect quarter-to-quarter variance around this average.

Gross margin. We believe reported gross margin will be about 36% in 2014, which also is the level the company expects in 2016. However, we believe extraordinary change orders provided a 70 bps lift to 2014 gross margin, implying that the company will need to generate 70 bps of operational efficiency over the next two years to reach its goal. We expect most of this to come in 2015 as the company optimizes its global footprint and improves its facility utilization.

Operating margin. Based on our methodology (including stock comp), we believe the company's operating margin in 2014 will be 15.8%, which includes about 100 bps tailwind from extraordinary change orders. Excluding the change orders, our 2014 operating margin estimate is 190 bps higher than 2013.

In 2015, we expect the reported margin to remain flat at 15.8%, although the apples-to-apples comparable margin in 2014 is 14.8% due to the extraordinary change orders mentioned above. INC's operating margins are at the higher end of the industry, and we believe margin expansion after 2015 will be 30-40 bps per year, driven primarily by SG&A leverage.

Interest and other expense. We expect interest expense to decline dramatically as INC de-levers its balance sheet following the IPO. We project $21 million of interest and other expense in 2015, down from $47 million in 2014 (which includes about $6 million of foreign exchange-related gains in other income).

Tax rate. INC's tax rate in 2014 and 2015 has hovered around 37%. The company expects to bring this down over time due to an expected change in the geographic distribution of revenue. We model 36% in 2015 and 34% in 2016 before settling into a long-term level of about 32%.

Share count. Including the over-allotment, 9.3 million Class A shares were issued on the IPO, making the outstanding Class A share count 51.2 million. The company also has 10.0 million Class B shares outstanding, which differ from Class A shares only in that Class B may not vote on the election of directors. Class A and Class B shares are convertible into each other.

We are estimating an average diluted share count of 55.9 million in 2014 and 63.7 million in 2015.

Earnings per share. Rolling all these items together, we forecast non-GAAP EPS of $0.90 in 2014 and $1.20 in 2015. Our estimates include about $0.04 of stock-based compensation, which we believe the company will exclude from its own non-GAAP EPS figures.

Balance sheet and cash flow. As of September 30, 2014, INC had outstanding term loans of $291 million (under a $375 million credit agreement), as well as $300 million principal of 11.5% Senior Notes. Concurrent with the IPO, INC refinanced its credit facility, which now consists of a $425 million term loan facility and $100 million revolver. Management intends to use the IPO proceeds, borrowings under the new credit facility, and cash on hand to redeem all of the Senior Notes. We expect the company to close 2014 with about $420 million of debt and about $150 million of cash and equivalents, translating to a Debt/TTM EBITDA ratio of 2.8x and a Net Debt/TTM EBITDA ratio of 1.8x, by our estimates.

We are forecasting operating cash flow of $103 million and $149 million in 2015 and 2016, respectively, with capital expenditures of $28-29 million.

We expect the company to use its cash to aggressively pay down its term loan. We believe secondary uses of cash are likely to be focused on bolt-on acquisitions. We believe additional bolt-on acquisitions could be geographically motivated, with Asia in focus.

Valuation

Relative valuation. Relative valuation for INCR shows the stock trading a very slight premium (2%) to the closest comparable public peers on both 2015 P/E and 2015 EV/EBITDA

Exhibit 7. Comparable Valuation Table For Clinical CROs.

In millions			Price	Market	Ent.	EV / EBITDA		P / E	
Company Name	Ticker	Rating	12/1/14	Cap	Val	2014E	2015E	2014E	2015E
ICON	ICLR	1	$ 52.44	$ 3,229	$ 2,980	11.5x	10.4x	18.9x	16.8x
PAREXEL	PRXL	1	$ 57.65	$ 3,172	$ 3,235	10.9x	9.6x	23.5x	19.9x
Quintiles	Q	1	$ 56.75	$ 7,011	$ 8,410	12.0x	11.5x	21.5x	19.6x
					MEDIAN	11.5x	10.4x	21.5x	19.6x
INC Research	INCR	1	$ 24.00	$ 1,469	$ 1,722	11.6x	10.7x	26.6x	20.0x
					INCR PREMIUM / (DISCOUNT)	1%	2%	24%	2%

Source: Wells Fargo Securities, LLC estimates for covered companies; FactSet for all others

Absolute valuation. Our $27-28 valuation range is derived from a ten-year DCF model using a WACC of 8.5% and a terminal growth rate of 2%. Exhibit 8 shows the details of our DCF model.

Exhibit 8. Discounted Cash Flow Summary

In millions expect per share FY ending December	1 2015E	2 2016E	3 2017E	4 2018E	5 2019E	6 2020E	7 2021E	8 2022E	9 2023E	10 2024E	Term Yr 2025E
Revenue	$ 891	$ 982	$ 1,094	$ 1,209	$ 1,324	$ 1,437	$ 1,545	$ 1,645	$ 1,736	$ 1,788	$ 1,823
Revenue growth		*10.2%*	*11.4%*	*10.5%*	*9.5%*	*8.5%*	*7.5%*	*6.5%*	*5.5%*	*3.0%*	*2.0%*
Adjusted EBITA	$ 146	$ 165	$ 187	$ 209	$ 231	$ 254	$ 276	$ 297	$ 317	$ 330	$ 337
EBITA margin	*16.4%*	*16.8%*	*17.0%*	17.2%	17.4%	17.6%	17.8%	18.0%	18.2%	18.4%	18.5%
Adjusted taxes	$ (53)	$ (56)	$ (60)	$ (75)	$ (83)	$ (91)	$ (99)	$ (107)	$ (114)	$ (119)	$ (121)
NOPLAT	$ 94	$ 109	$ 127	$ 133	$ 148	$ 162	$ 176	$ 190	$ 203	$ 211	$ 216
Depreciation	$ 21	$ 24	$ 28	$ 29	$ 29	$ 30	$ 30	$ 29	$ 28	$ 26	$ 24
Gross cash flow	$ 114	$ 132	$ 155	$ 162	$ 177	$ 192	$ 206	$ 219	$ 230	$ 237	$ 240
Investment in working capital	$ (24)	$ (15)	$ (18)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)
Net capital expenditures	$ (28)	$ (29)	$ (30)	$ (30)	$ (30)	$ (30)	$ (28)	$ (26)	$ (24)	$ (22)	$ (24)
Investment in capitalized op. leases	$ (5)	$ (6)	$ (6)	$ (6)	$ (6)	$ (7)	$ (7)	$ (7)	$ (6)	$ (6)	$ (5)
Free cash flow	**$ 57**	**$ 83**	**$ 100**	**$ 111**	**$ 126**	**$ 140**	**$ 156**	**$ 171**	**$ 185**	**$ 194**	**$ 195**
Ending PP&E	$ 54	$ 59	$ 62	$ 63	$ 63	$ 64	$ 62	$ 59	$ 55	$ 52	$ 52
Dep as % of beg. PP&E		43.7%	46.7%	*46.7%*	*46.7%*	*46.7%*	*46.7%*	*46.7%*	*46.7%*	*46.7%*	*46.7%*
Discounted at:											
7.5%	$ 53	$ 72	$ 81	$ 83	$ 87	$ 91	$ 94	$ 96	$ 96	$ 94	$ 1,450
8.5%	$ 52	$ 70	$ 78	$ 80	$ 84	$ 86	$ 88	$ 89	$ 88	$ 86	$ 1,155
9.5%	$ 52	$ 69	$ 76	$ 77	$ 80	$ 81	$ 82	$ 83	$ 81	$ 78	$ 937

WACC	7.5%	8.5%	9.5%
Explicit period	$ 846	$ 801	$ 760
Continuing value	1,450	1,155	937
Value of operations	$ 2,296	$ 1,956	$ 1,697
Adjusted for mid-year	$ 2,468	$ 2,123	$ 1,858
Non-operating assets	$ 111	$ 111	$ 111
Non-equity claims	(530)	(530)	(530)
Equity value	$ 2,049	$ 1,704	$ 1,439
Per share	**$ 32**	**$ 27**	**$ 23**
Implied terminal EV / NOPLAT	13.9x	12.1x	10.8x
% of value in explicit period	*34%*	*38%*	*41%*

Source: Wells Fargo Securities, LLC estimates

Continuing Value Assumptions	
Perpetuity NOPLAT growth rate	2.0%
RONIC in perpetuity = Year 10 WACC plus:	1.0%
Cash tax rate	36.0%
Implied terminal EV / NOPLAT multiple	12.1x
Other Data	
Non-operating assets	$ 111
Non-equity claims (including op. leases)	$ 530
Diluted shares	64
Current month	12

RONIC = return on newly invested capital

Exhibit 9. Earnings Model

In millions, except per share

INCOME STATEMENT	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4E	2014E	2015E	2016E
Total revenues	$ 437	$ 579	$ 150	$ 159	$ 169	$ 174	$ 652	$ 185	$ 204	$ 208	$ 209	$ 805	$ 891	$ 982
Cost of revenues	280	389	105	106	109	112	432	121	131	130	134	515	571	628
Gross profit	157	190	45	53	60	62	220	64	73	78	75	290	321	354
Selling, general & administrative	95	110	27	28	27	34	117	32	34	38	38	141	159	172
Depreciation	16	20	4	5	5	5	19	7	5	5	5	22	21	24
Operating income	47	60	13	20	28	23	84	25	34	36	32	127	141	159
Interest expense and other, net	54	57	16	15	15	16	62	15	13	8	12	47	21	18
Pretax income	(7)	3	(3)	5	13	7	22	11	21	28	20	80	119	141
Provision for income taxes	(3)	1	(1)	2	5	2	8	4	8	10	8	30	43	48
Net income	$ (4)	$ 2	$ (2)	$ 3	$ 8	$ 4	$ 14	$ 7	$ 13	$ 18	$ 13	$ 50	$ 76	$ 93
Non-GAAP EPS	**$ (0.10)**	**$ 0.04**	**$ (0.03)**	**$ 0.06**	**$ 0.16**	**$ 0.08**	**$ 0.27**	**$ 0.13**	**$ 0.25**	**$ 0.34**	**$ 0.21**	**$ 0.90**	**$ 1.20**	**$ 1.46**
Non-GAAP EPS (company method)	$ (0.08)	$ 0.05	$ (0.03)	$ 0.06	$ 0.16	$ 0.10	$ 0.30	$ 0.14	$ 0.26	$ 0.35	$ 0.22	$ 0.94	$ 1.24	$ 1.49
Diluted shares outstanding	43.9	52.2	52.0	52.1	52.0	52.0	52.0	51.9	52.2	52.5	60.6	55.9	63.7	64.0
EBITDA	**$ 63**	**$ 80**	**$ 18**	**$ 24**	**$ 33**	**$ 28**	**$ 103**	**$ 32**	**$ 39**	**$ 40**	**$ 37**	**$ 149**	**$ 161**	**$ 183**

MARGIN ANALYSIS	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4E	2014E	2015E	2016E
Cost of revenue	*64.0%*	*67.2%*	*70.0%*	*66.9%*	*64.4%*	*64.3%*	*66.3%*	*65.4%*	*64.3%*	*62.4%*	*64.2%*	*64.0%*	*64.0%*	*63.9%*
Gross margin	*36.0%*	*32.8%*	*30.0%*	*33.1%*	*35.6%*	*35.7%*	*33.7%*	*34.6%*	*35.7%*	*37.6%*	*35.8%*	*36.0%*	*36.0%*	*36.1%*
SG&A / revenue	*21.6%*	*18.9%*	*18.2%*	*17.8%*	*16.1%*	*19.5%*	*17.9%*	*17.3%*	*16.5%*	*18.2%*	*18.1%*	*17.5%*	*17.8%*	*17.5%*
Depreciation / revenue	*3.6%*	*3.4%*	*3.0%*	*3.0%*	*2.8%*	*3.0%*	*2.9%*	*3.7%*	*2.5%*	*2.3%*	*2.4%*	*2.7%*	*2.3%*	*2.4%*
Operating margin	*10.7%*	*10.4%*	*8.8%*	*12.3%*	*16.7%*	*13.2%*	*12.9%*	*13.6%*	*16.8%*	*17.2%*	*15.3%*	*15.8%*	*15.8%*	*16.2%*
Tax rate	*37.0%*	*37.5%*	*35.2%*	*36.9%*	*37.0%*	*36.8%*	*36.9%*	*36.9%*	*37.0%*	*37.0%*	*37.0%*	*37.0%*	*36.0%*	*34.0%*
Net margin	*(1.0%)*	*0.3%*	*(1.1%)*	*1.9%*	*4.9%*	*2.4%*	*2.1%*	*3.6%*	*6.5%*	*8.5%*	*6.2%*	*6.3%*	*8.6%*	*9.5%*
EBITDA margin	*14.3%*	*13.9%*	*11.8%*	*15.3%*	*19.5%*	*16.2%*	*15.8%*	*17.4%*	*19.2%*	*19.5%*	*17.7%*	*18.5%*	*18.1%*	*18.6%*

CHANGE ANALYSIS YR / YR	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4E	2014E	2015E	2016E
Total revenues		*32.5%*	*5.7%*	*12.1%*	*17.9%*	*14.6%*	*12.7%*	*23.3%*	*27.9%*	*22.9%*	*19.6%*	*23.3%*	*10.8%*	*10.2%*
Gross profit		*20.9%*	*(2.1%)*	*15.6%*	*30.0%*	*19.2%*	*15.8%*	*42.2%*	*38.0%*	*29.9%*	*19.9%*	*31.5%*	*10.7%*	*10.5%*
SG&A		*16.0%*	*(15.4%)*	*7.1%*	*3.9%*	*37.3%*	*6.5%*	*16.8%*	*18.7%*	*38.7%*	*11.0%*	*20.7%*	*12.8%*	*7.9%*
Depreciation		*26.8%*	*(19.0%)*	*(7.5%)*	*(3.0%)*	*18.8%*	*(3.7%)*	*54.5%*	*5.6%*	*0.1%*	*(4.9%)*	*12.7%*	*(3.4%)*	*12.9%*
Operating income		*28.9%*	*62.2%*	*40.0%*	*85.6%*	*(0.2%)*	*39.1%*	*90.5%*	*73.8%*	*26.4%*	*38.7%*	*50.9%*	*10.7%*	*13.1%*
Net income		*NA*	*NA*	*NA*	*368.2%*	*(6.3%)*	*607.4%*	*NA*	*333.4%*	*113.4%*	*204.4%*	*263.4%*	*51.6%*	*21.9%*
EPS		*NA*	*NA*	*NA*	*370.6%*	*(6.1%)*	*610.2%*	*NA*	*332.5%*	*111.5%*	*161.4%*	*238.4%*	*32.9%*	*21.3%*
Diluted shares outstanding		*19.1%*	*(0.5%)*	*(0.4%)*	*(0.5%)*	*(0.2%)*	*(0.4%)*	*(0.1%)*	*0.2%*	*0.9%*	*16.5%*	*7.4%*	*14.0%*	*0.5%*
EBITDA		*28.4%*	*29.5%*	*27.3%*	*64.1%*	*2.8%*	*28.5%*	*81.4%*	*60.5%*	*22.7%*	*30.6%*	*43.8%*	*8.7%*	*13.1%*

REVENUE ANALYSIS	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4E	2014E	2015E	2016E
Total revenue	**$ 437**	**$ 579**	**$ 150**	**$ 159**	**$ 169**	**$ 174**	**$ 652**	**$ 185**	**$ 204**	**$ 208**	**$ 209**	**$ 805**	**$ 891**	**$ 982**
Growth: core		*4.3%*	*5.7%*	*11.9%*	*17.3%*	*14.0%*	*12.3%*	*22.6%*	*26.2%*	*22.7%*	*20.7%*	*23.0%*	*11.7%*	*10.2%*
Growth: FX		*(2.2%)*	*0.1%*	*0.2%*	*0.6%*	*0.6%*	*0.4%*	*0.6%*	*1.2%*	*(0.2%)*	*(1.5%)*	*(0.0%)*	*(1.0%)*	*0.0%*
Growth: acquisitions		*30.4%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.1%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.1%*	*0.0%*
Growth: total		*32.5%*	*5.7%*	*12.1%*	*17.9%*	*14.6%*	*12.7%*	*23.3%*	*27.9%*	*22.9%*	*19.6%*	*23.3%*	*10.8%*	*10.2%*
Beginning backlog		$ 1,222	$ 1,321	$ 1,303	$ 1,240	$ 1,373	$ 1,321	$ 1,491	$ 1,594	$ 1,493	$ 1,506	$ 1,491	$ 1,542	$ 1,721
Revenue		(579)	(150)	(159)	(169)	(174)	(652)	(185)	(204)	(208)	(209)	(805)	(891)	(982)
Net bookings		676	136	95	298	285	814	281	103	249	250	884	1,070	1,179
Other adjustments		2	(3)	1	3	7	9	7	(1)	(28)	(5)	(28)	-	-
Ending backlog	$ 1,222	$ 1,321	$ 1,303	$ 1,240	$ 1,373	$ 1,491	$ 1,491	$ 1,594	$ 1,493	$ 1,506	$ 1,542	$ 1,542	$ 1,721	$ 1,917
Net book-to-bill		1.17	0.91	0.60	1.76	1.64	1.25	1.52	0.51	1.20	1.20	1.10	1.20	1.20
Backlog burn rate		*47.4%*	*11.3%*	*12.2%*	*13.6%*	*12.7%*	*49.4%*	*12.4%*	*12.8%*	*13.9%*	*13.9%*	*54.0%*	*57.8%*	*57.1%*

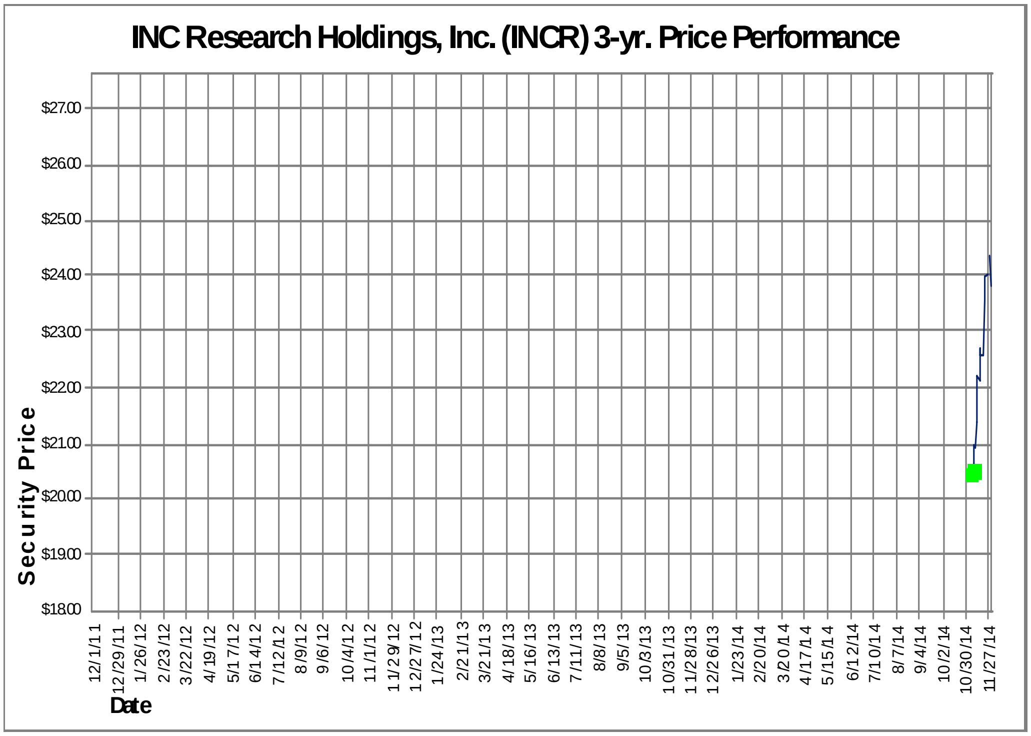
OTHER	2011	2012	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4E	2014E	2015E	2016E
Cash and equivalents		$ 81					$ 97	$ 114	$ 156	$ 186	$ 153	$ 153	$ 156	$ 152
Total debt		594					594	590	589	588	421	421	351	229
Net cash (debt)		$ (513)					$ (498)	$ (475)	$ (433)	$ (403)	$ (269)	$ (269)	$ (195)	$ (77)
Debt to TTM EBITDA		0.0x					4.8x	4.0x	3.3x	2.9x	1.8x	1.8x	1.2x	0.4x
Cash flow from operations		$ 43					$ 37	$ 31	$ 49	$ 37	$ 1	$ 118	$ 103	$ 149
Capital expenditures		(10)					(18)	(5)	(8)	(5)	(10)	(28)	(28)	(29)
Free cash flow		$ 33					$ 20	$ 27	$ 41	$ 32	$ (9)	$ 90	$ 75	$ 120
Headcount (actual)		4,890					4,850			5,500	5,500	5,500	6,000	6,500
Book value per share		$ 6					$ 5	$ 5	$ 6	$ 6	$ 7	$ 7	$ 8	$ 9
Tangible book value per share		$ (10)					$ (10)	$ (10)	$ (9)	$ (9)	$ (6)	$ (6)	$ (4)	$ (1)

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

Company Description:

Raleigh, North Carolina-based INC Research Holdings, Inc. (NASDAQ: INCR) is a mid-size clinical contract research organization. The company is a pure play in clinical (phase I-IV) development. The company is differentiated by its specialization in trials related to central nervous system therapies. It operates in one segment.

Required Disclosures



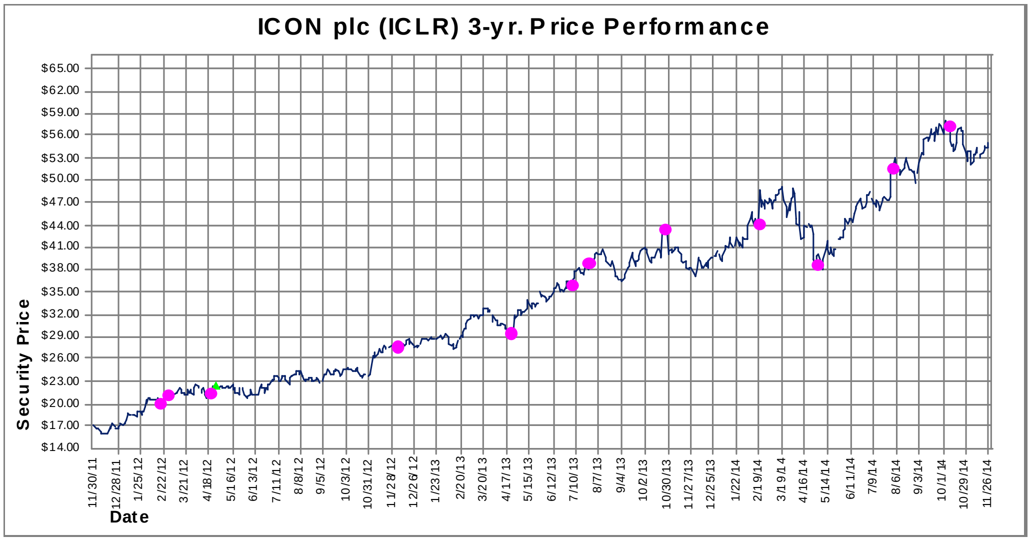
	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
❐	11/7/2014		IPO at $18.50			

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ❐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	11/30/2011		Evans			
	11/30/2011	NA	2	17.00	18.00	17.01
●	2/17/2012	20.45	2	17.00	19.00	20.25
●	2/28/2012	20.70	2	19.00	21.00	21.08
●	4/19/2012	21.57	2	21.00	22.00	21.51
▲ ●	4/25/2012	22.39	1	28.00	30.00	22.44
●	12/4/2012	27.66	1	31.00	33.00	27.66
●	4/19/2013	31.88	1	36.00	38.00	29.63
●	7/4/2013	36.24	1	40.00	43.00	36.24
●	7/25/2013	38.66	1	44.00	46.00	38.92
●	10/25/2013	43.78	1	48.00	50.00	43.56
●	2/19/2014	48.70	1	55.00	60.00	44.32
●	4/30/2014	36.66	1	50.00	55.00	38.77
●	7/31/2014	52.11	1	55.00	60.00	51.80
●	10/8/2014	57.44	1	70.00	75.00	57.44

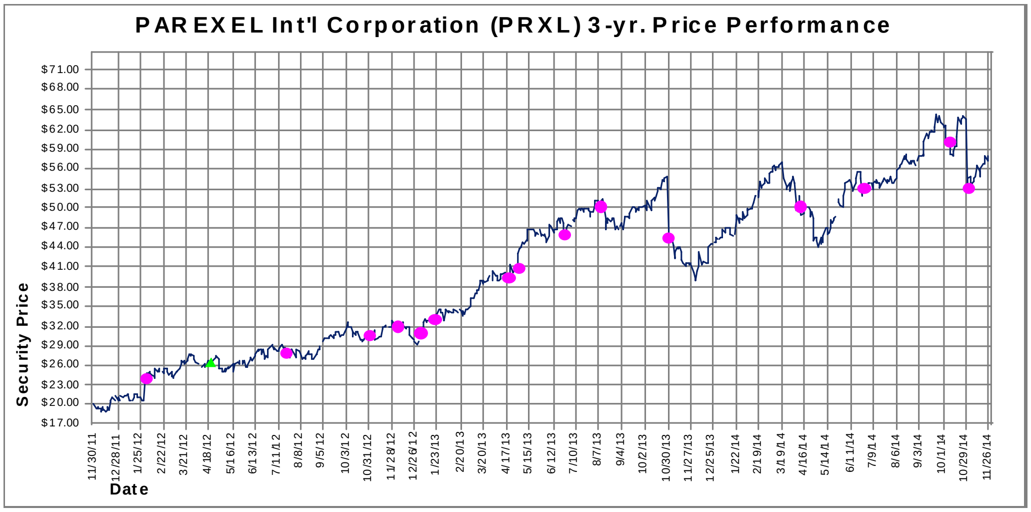
Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- □ Split Adjustment

Rating Code Key

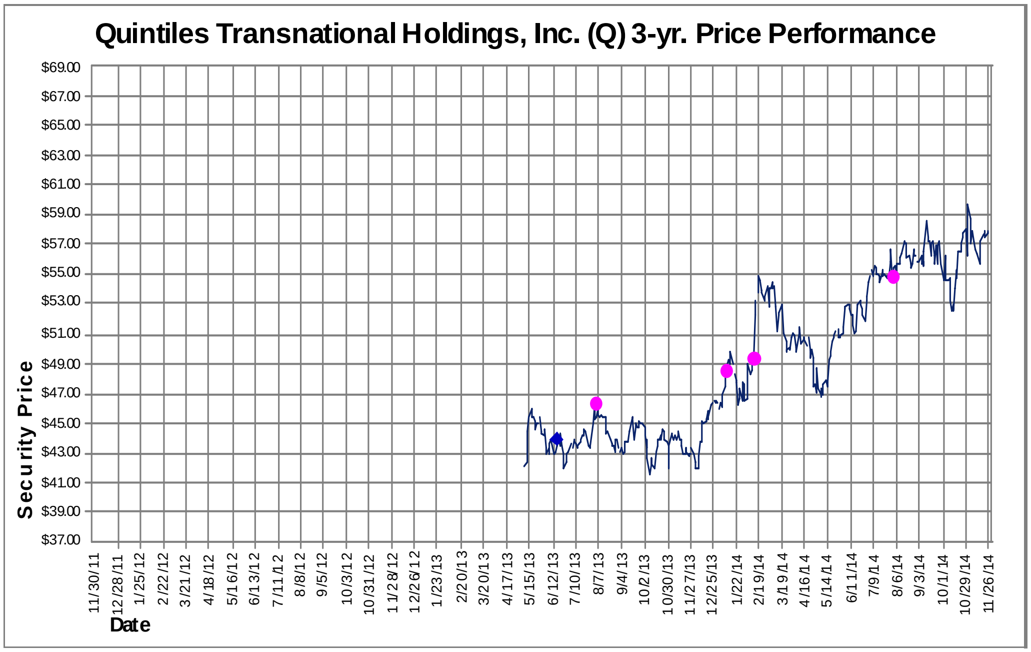
1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	11/30/2011		Evans			
	11/30/2011	NA	2	21.00	22.00	20.05
●	1/31/2012	24.10	2	24.00	25.00	24.10
▲ ●	4/19/2012	26.77	1	30.00	31.00	26.58
●	7/20/2012	28.74	1	32.00	35.00	28.06
●	10/31/2012	32.83	1	35.00	37.00	30.69
●	12/4/2012	32.01	1	34.00	36.00	32.01
●	1/2/2013	30.81	1	35.00	37.00	31.12
●	1/17/2013	32.86	1	34.00	36.00	33.03
●	4/17/2013	39.00	1	42.00	44.00	39.36
●	4/30/2013	43.10	1	46.00	48.00	40.95
●	6/26/2013	46.17	1	52.00	55.00	46.17
●	8/8/2013	50.19	1	55.00	58.00	50.19
●	10/31/2013	46.53	1	53.00	55.00	45.71
●	4/10/2014	50.28	1	55.00	60.00	50.28
●	6/26/2014	51.79	1	63.00	65.00	53.12
●	10/8/2014	60.06	1	70.00	75.00	60.06
●	10/30/2014	53.15	1	65.00	68.00	53.15

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key				Rating Code Key			
▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend	1	Outperform/Buy	SR	Suspended
▲	Rating Upgrade	■	Analyst Change	2	Market Perform/Hold	NR	Not Rated
●	Valuation Range Change	□	Split Adjustment	3	Underperform/Sell	NE	No Estimate



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	6/18/2013		Evans			
◆	6/18/2013	43.53	1	48.00	50.00	43.89
●	8/1/2013	46.29	1	50.00	52.00	46.29
●	1/10/2014	47.84	1	52.00	54.00	48.61
●	2/12/2014	51.55	1	56.00	60.00	49.44
●	7/31/2014	54.93	1	58.00	62.00	54.93

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
□ Split Adjustment

Rating Code Key
1 Outperform/Buy
2 Market Perform/Hold
3 Underperform/Sell
SR Suspended
NR Not Rated
NE No Estimate

Additional Information Available Upon Request

I certify that:
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2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC maintains a market in the common stock of ICON plc, PAREXEL Int'l Corporation, Quintiles Transnational Holdings, Inc.
- Wells Fargo Securities, LLC or its affiliates managed or comanaged a public offering of securities for Quintiles Transnational Holdings, Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from Quintiles Transnational Holdings, Inc.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Quintiles Transnational Holdings, Inc. in the past 12 months.
- Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 1% or more of any class of the common stock of Quintiles Transnational Holdings, Inc.
- Quintiles Transnational Holdings, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to Quintiles Transnational Holdings, Inc.
- Quintiles Transnational Holdings, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided noninvestment banking

securities-related services to Quintiles Transnational Holdings, Inc.

- Wells Fargo Securities, LLC received compensation for products or services other than investment banking services from Quintiles Transnational Holdings, Inc. in the past 12 months.
- Wells Fargo Securities, LLC or its affiliates has a significant financial interest in Quintiles Transnational Holdings, Inc., PAREXEL Int'l Corporation.

ICLR: 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) increasing client concentration; (4) margin pressure from strategic relationships; (5) increased regulatory scrutiny; and (6) underperformance in central lab
INCR: 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) regulatory risks;(4) limited track record in public equity markets; and (5) controlled company status.
PRXL: Risks include: (1) project cancellations or delays due to client M&A, economic weakness, pipeline reprioritization, or compound failure;(2) high client concentration; (3) margin pressure from strategic relationships; (4) increased regulatory scrutiny; and (5) foreign exchange volatility.
Q: 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; (5) foreign exchange volatility; and (6) large insider ownership.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: December 1, 2014

46% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

Wells Fargo Securities, LLC has provided investment banking services for 46% of its Equity Research Outperform-rated companies.

51% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

Wells Fargo Securities, LLC has provided investment banking services for 32% of its Equity Research Market Perform-rated companies.

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Wells Fargo Securities, LLC has provided investment banking services for 21% of its Equity Research Underperform-rated companies.

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