Initiation of Coverage

Ticker	Company	Rating	Price Target	2013	2014	2015	2016	Analyst
INCR	INC Research Holdings, Inc.	HOLD	NA	0.30	0.96E	1.19E	--	Donald Hooker, CFA, John Gagliardi, CFA

Price Target Changes: Increases

Ticker	Company	Old Price Target	New Price Target
AXL	American Axle & Manufacturing Holdings, Inc.	$22.00	$24.00
OCR	Omnicare, Inc.	$70.00	$80.00

Estimate Changes: Decreases

Ticker	Old 2014E	New 2014E	Old 2015E	New 2015E	Old 2016E	New 2016E
AXL	2.25	2.25	2.70	2.63	--	2.76
BWA	3.27	3.27	3.75	3.67	--	4.27
DAN	1.95	1.94	2.18	2.01	--	2.40
LEA	8.01	8.01	9.60	9.25	--	10.17
MGA	8.80	8.80	10.25	10.11	--	11.64
DLPH	5.10	5.10	5.76	5.67	--	6.65

INDUSTRIAL: Automotive: Bullish Longer Term; '15 Guidance Could Create Buying Opportunities — Hoselton, CFA 4

INDUSTRY UPDATE: Given our bullish long-term outlook for auto suppliers, we reiterate our BUY ratings on AXL (PT from $22 to $24), BWA ($67PT), DLPH ($79PT), GNTX ($43PT), LEA ($120PT), MGA ($130PT), & TEN ($63PT) heading into the upcoming Detroit Auto Show (begins next week), though see the potential for disappointing guidance (primarily due to FX), which we believe could present an attractive near-term buying opportunity for the group.

- At the upcoming Detroit Auto Show, we expect many suppliers (potentially AXL, DAN, DLPH, BWA, LEA, & MGA) to provide 2015 guidance, which we believe has the potential to disappoint given currency headwinds that we do not believe have been fully factored into Street expectations. As a result, we have lowered our '15 EPS estimates across the group.
- Despite near-term headline risk for the space as expectations are appropriately recalibrated heading into 2015, we remain bullish on the longer-term outlook as positive industry fundamentals trump the short-term concerns. Overall, we expect continued strong revenue growth supported by light vehicle production combined with sustainable higher margins. We highlight BWA, TEN, & DLPH as favorably positioned given robust new business backlogs w/ new business CAGR's of ~11%, ~10%, & ~7%, respectively.
- Capital deployment remains a material driver of earnings growth, and we believe presents compelling potential EPS upside driven by share repurchases and/or accretive acquisitions. Out of our covered names, we particularly highlight BWA with the potential for as much as 19% upside to '15 consensus expectations.

HEALTHCARE: OCR: Solid Near-Term Growth Prospects; Raising PT to $80/Share — Gurda, CFA 8

COMPANY UPDATE: We reiterate our BUY rating on OCR and increase our PT from $70 to $80 as we remain positive on the Company's near-term growth prospects from which we believe OCR should see accelerating EPS growth.

- Looking forward, we expect accelerating EPS growth from OCR, with the LTC Care Group benefiting from increased brand-generic conversions and a moderating Medicare Part D headwind, and with continued strong performance from the Specialty Care Group as OCR continues to convert its pipeline into customers and expand into different therapeutic categories.
- We are encouraged by OCR's distribution agreement with McKesson Corp. as OCR began purchasing generic drugs through McKesson's OneStop generic purchasing program this month. We believe this agreement could yield savings on OCR's ~$1B generic drug spend of at least 5% and represents a source of potential upside to estimates going forward. We highlight recent positive commentary from Rite Aid (RAD, Not Covered), with RAD noting its generic sourcing agreement with McKesson was performing much better than expected.
- We highlight OCR as a potential take-out candidate given the Company is a well-performing and fast growing asset in the highly desired specialty pharmacy sector, with substantial leverage with manufacturers of drugs for the elderly and an exclusive distribution channel to 40% of the nursing homes in the U.S.
- EST: '16E+ from $4.50 to $4.55 (FC $4.60). New '17E of $4.98 (FC $5.07).
- Valuation: 16.0x P/E on our '16E vs. the Co.'s 3-yr. FTM avg. of 13.4x. PT=17.5x.
- Ratings: 9/1/0. Short Interest (12/15): 7.7d, 6.8%.

HEALTHCARE: INCR: Premium Growth Play in the CRO Space — Hooker, CFA 10

COVERAGE INITIATION: We initiate coverage of INCR with a HOLD rating. We believe INCR's premium valuation is justified by its superior growth (unique therapeutic focus and strong alignment with faster-growing small/mid-sized biopharma firms) and profitability metrics (EBITDA margins ~200bps above group) relative to its CRO peers, yet its risk/reward profile appears rather balanced at current levels, given (1) outperformance since its Nov. '14 IPO, (2) uncertainty with respect to its Apr. '15 contract renewal with Astellas, and (3) near-term margin erosion from unsustainable prior-year performance (on elevated change order activity) and added public company costs.

- EST: New '14-16 adj. EPS / EBITDA of $0.96 / $149.9M (FC $0.88 / $146.7M), $1.19 / $158.7M (FC $1.20 / $162.3M), and $1.40 / $179.4M (FC $1.45 / $183.9M), respectively.
- Valuation: 10.8x EV/EBITDA on our '16E vs. its CRO peers at ~10x (8% premium).
- Ratings: 4/3/0. Short Interest (12/15): 0.2d, 0.3%.

CONSUMER: Hardlines: CES Takeaways – 4K Poised for Wider Adoption? — Thomas, CFA 11

INDUSTRY UPDATE: Following our attendance at the annual Consumer Electronics Show in Las Vegas, we come away incrementally positive on HOLD-rated BBY and HGG given increased optimism around the potential wider consumer adoption of Ultra HD (or 4K) televisions, and additionally are incrementally positive on HOLD-rated SCSS given the introduction of the Company's new SleepIQ Kids bed.

- While the television category has been challenged for several years, we believe sales in the category are bottoming and could inflect positively with wider consumer adoption of Ultra HD TVs. We are encouraged by positive results from early adopters, and believe vendors/retailers are positively positioning for wider adoption of 4K technology by facilitating the creation and distribution of more 4K content and establishing new quality standards. Importantly, entry level TVs are approaching $1000, a sweet spot for consumers.
- At CES, Select Comfort introduced its new SleepIQ Kids bed which will retail for ~$1,000 and be available at Select Comfort stores later this year. We believe this should be an entirely additive category with SCSS's technology differentiating the product from other youth lines. Additionally, SCSS should be able to leverage its install base of 9 million customers for marketing purposes. We note the SleepIQ Kids bed was selected as an Honoree in the 2015 CES Innovations Awards.

INDUSTRIAL: Auto Parts & Equipment — Brett D. Hoselton, CFA (216) 689-0237 bhoselton@key.com, Anthony Deem (216) 689-0294 adeem@key.com, Irina Hodakovsky (216) 689-5374 ihodakovsky@key.com

Heading into the upcoming Detroit Auto Show, we remain bullish on the longer-term outlook for auto suppliers and would use any pullback in the stocks as a buying opportunity based on our belief that: 1) many auto suppliers will be providing 2015 guidance at the upcoming Detroit auto show, which has the potential to disappoint due primarily to currency headwinds; we believe investors should view this as a buying opportunity given the longer-term fundamentals appear solid; and 2) we remain bullish on the longer-term outlook as: a) revenue growth prospects remain solid, driven by low to mid single-digit light vehicle production and new business growth; b) margin expansion will likely continue for many suppliers as EBIT contribution margins are generally trending above current EBIT margin levels; and c) capital deployment is a material driver of earnings growth, and in many cases, represents the most likely catalyst for upward EPS revisions driven by share repurchase and/or accretive acquisitions.

We are selectively reducing our 2015 EPS estimates and introducing 2016 EPS estimates in conjunction with this note. Driven by foreign currency headwinds, we are reducing our 2015 EPS estimates by 3% on average for AXL, BWA, DAN, DLPH, LEA and MGA. We are reiterating our **BUY** ratings on BorgWarner Inc. (BWA-NYSE), Tenneco Inc. (TEN-nyse), Magna International Inc. (MGA-NYSE), Lear Corporation (LEA-NYSE), Delphi Automotive PLC (DLPH-NASDAQ), Gentex Corporation (GNTX-NASDAQ) and American Axle & Manufacturing Holdings, Inc. (AXL-NYSE). Driven by valuation based on the introduction of 2016 estimates, we are raising our price target on AXL to $24 from $22.

	Cur	Prv	Cur	Prv	FC	FC	Current EPS			Previous EPS		
Sym	Rtg	Rtg	Target	Target	2014	2015	2014	2015	2016	2014	2015	2016
AXL	BUY	BUY	$24.00	$22.00	$2.24	$2.55	$2.25	$2.63	$2.76	$2.25	$2.70	--
BWA	BUY	BUY	$67.00	$67.00	$3.27	$3.74	$3.27	$3.67	$4.27	$3.27	$3.75	--
DAN	HOLD	HOLD	NA	NA	$1.93	$2.10	$1.94	$2.01	$2.40	$1.95	$2.18	--
DLPH	BUY	BUY	$79.00	$79.00	$5.07	$5.71	$5.10	$5.67	$6.65	$5.10	$5.76	--
LEA	BUY	BUY	$120.00	$120.00	$7.96	$9.23	$8.01	$9.25	$10.17	$8.01	$9.60	--
MGA	BUY	BUY	$130.00	$130.00	$8.74	$10.13	$8.80	$10.11	$11.64	$8.80	$10.25	--
TEN	BUY	BUY	$63.00	$63.00	$4.60	$5.08	$4.59	$5.08	$5.98	$4.59	$5.08	--

Heading into the upcoming Detroit Auto Show, we remain bullish on the longer-term outlook for auto suppliers and would use any pullback in the stocks as a buying opportunity, based on our belief that:

1) Many auto suppliers will be providing 2015 guidance at the upcoming Detroit auto show, which has the potential to disappoint due primarily to currency headwinds; we believe investors should view this as a buying opportunity given the longer-term fundamentals appear solid as follows:

- There will likely be a proportional decline in European sales within each supplier's exposure as a result of a weaker Euro currency that may not be fully factored into Street expectations. As a result, we have lowered our 2015 EPS forecasts and believe consensus expectations could move lower too as suppliers may guide below expectations next week. This recalibration poses headline risk to supplier stocks next week at the Detroit Auto Show, which we believe could provide investors with an attractive near-term buying opportunity on any potential pullback. We expect 2015 guidance from AXL, DAN, DLPH, BWA, LEA and MGA. The positive news is that industry fundamentals appear strong and EPS risk vs. consensus appears isolated to currency headwinds. While not presenting, it is worthwhile to mention GNTX as the exception as it prices its contracts in U.S. dollar terms, and despite Europe accounting for 30% of revenue, it has limited exposure to the currency.

Table 1. 2015 KBCM EPS Estimates vs. Consensus

	KBCM Estimate	Consensus Estimate	% Difference
AXL	$2.63	$2.55	3%
TEN	$5.08	$5.08	0%
DLPH	$5.67	$5.70	-1%
MGA	$10.11	$10.29	-2%
BWA	$3.67	$3.74	-2%
LEA	$9.25	$9.44	-2%
DAN	$2.01	$2.10	-4%

Source: FactSet, KeyBanc Capital Markets, Inc. Estimates

2) We remain bullish on the longer-term outlook as: a) revenue growth prospects remain solid, driven by low to mid single-digit light vehicle production and new business growth; b) margin expansion will likely continue for many suppliers as EBIT contribution margins are generally trending above current EBIT margin levels; and c) capital deployment is a material driver of earnings growth and, in many cases, represents the most likely catalyst for upward EPS revisions, driven by share repurchase and/or accretive acquisitions as follows:

- **Revenue:** Positive industry fundamentals trump the short-term currency concerns, in our view. We see end markets developing positively on a global basis, with IHS's light vehicle production forecasted up 3.4% in 2015 vs. up 2.8% in 2014. The revenue headwind from currency averages ~4% for the average supplier at the current EUR/USD rate, which could fully offset the benefit of higher light vehicle production globally. As a result, we favor companies with the most robust new business backlogs, such as BWA's ~11% new business CAGR, TEN's ~10% new business CAGR and DLPH's ~7% new business CAGR.
- **Europe:** Europe is likely to stay controversial this year with reemerging concerns over the European macro outlook. The same concerns over Europe proved to shift sentiment more than earnings in 2014, which could be the case in 2015 as well. Economic and currency risks are mixed at best, yet downside risk to production continues to look minimal to us, and recent sales results in the region, as well as IHS's positive European production outlook for 2015, support this view. To the first point, the 2014 Western European SAAR was 12.9 million, and if we assume the recent 13.6 million rolling 3-month SAAR rate through December holds flat through 2015, overall sales would increase by ~5%, which is a couple hundred basis points ahead of IHS's current outlook for Western European sales growth (see Table 2). Overall, IHS data in Table 2 below shows the most recent production outlook, indicating Central/Eastern Europe growing 0.7% and Western Europe growing 1.8%, combining to total 1.4% growth for European production overall.

Table 2. European Production / Sales Outlook

Production Outlook

	2014E	2015E	2016E
Central/East Europe	-1.3%	0.7%	2.3%
Western Europe	4.7%	1.8%	1.8%
Total Europe	2.6%	1.4%	2.0%

Sales Outlook

	2014E	2015E	2016E
Central/East Europe	-9.1%	-5.1%	1.5%
Western Europe	5.2%	2.5%	2.5%
Total Europe	1.2%	0.6%	2.3%

Source: IHS

- **Margins:** EBIT contribution margins in 2014 have been trending above current EBIT margin levels for suppliers, with the only major exception being ALV, driven by company-specific issues. We believe the trend of higher margins should be sustainable in 2015, driven by primarily by operating leverage, stable or potentially lower commodity costs, and ongoing cost savings and restructuring efforts. Favorable mix could prove to be a tailwind as well as it had been through 2014, driven in part by strong truck and SUV sales.

- **Capital Deployment:** Capital deployment is a material driver of earnings growth and, in many cases, represents the most likely catalyst for upward EPS revisions, driven by share repurchase and/or accretive acquisitions.
  - **BWA:** We believe as much as 19% upside to EPS vs. consensus is possible in 2015, stemming from capital deployment as the Company still has a strong M&A pipeline and an active share repurchase program. Based on the Company's net debt-to-capital target range of 15-30%, BWA has as much as $1.1 billion available to deploy toward strategic acquisitions and/or share repurchases as of 3Q14. As much as 19% upside to 2015 EPS expectations is possible, in our view, driven by M&A activity. This assumes $1.1 billion earning a 15% after-tax return on invested capital. The leverage target of 15-30% net debt-to-capital could be reached with M&A activity as deals in the pipeline could be up to $500 million-$600 million, according to recent management commentary. As much as 5% upside to 2015 EPS expectations is possible, driven by share repurchase activity. This assumption assumes $1.1 billion of share repurchases evenly through 2015 at ~$60/share. In the absence of M&A, the Company maintains it will be active with share repurchases, but the likelihood of repurchase activity of this magnitude is low as M&A remains the priority.
  - **DAN:** We believe additional shareholder-friendly actions are likely in the future given excess liquidity following management's recent $400 million share repurchase authorization. We estimate access available liquidity of ~$1.0 billion on the balance sheet following 3Q14. DAN's acquisitions strategy has not changed, and management remains focused on the smaller bolt-on targets in the range of $200 million-$400 million in revenue, leaving a substantial amount of excess cash, and the latest increase in the share buyback authorization reiterates management's commitment to return capital to shareholders.
  - **DLPH:** As much as 9% EPS upside vs. consensus is possible, in our view, in 2015, driven primarily by M&A as DLPH is citing several opportunities around a $1 billion purchase price; when assuming a 15% return on capital, M&A could lead to as much as 9% upward EPS revision. Share repurchase accretion is already factored into expectations.
  - **LEA:** Capital deployment continues to drive EPS upside as evidenced by this week's closing of the Eagle Ottawa acquisition, which should be 5% accretive to 2015 earnings before synergies. The Company's active share repurchase program could generate incremental EPS upside—as much as 2-3% should the Company complete the $491 million (6% of market cap) remaining on its authorization by the end of 2015.
  - **MGA:** We believe as much as 6% upside vs. consensus is possible in 2015 from M&A as management's leverage target permits another 0.5x leverage, or ~$1 billion following the buyback last quarter that reduced the float 10% and generated $0.35, or 4%, incremental upside to our 2015 EPS estimate.

VALUATION AND RISKS

AXL is currently trading at 8.1x our 2016 EPS estimate of $2.76. From 2010-2012, AXL traded at an average P/E of 7x. Our $24 price target is 8.7x our 2016 estimated EPS of $2.76. On an EV/Sales basis, AXL is trading at 0.65x our 2015 estimate. From 2010-2012, AXL traded at an EV/sales of 0.70x. The most significant risk that could impede the stock from reaching our price target is a substantial decline in North American light truck production.

BWA is currently trading at 12.5x our 2016 EPS estimate of $4.27. Over the past four years, BWA has traded at an average 12-month forward P/E of 15x. Our $67 price target is 15.7x our 2016 estimated EPS of $4.27. On an EV/Sales basis, BWA is trading at 1.6x vs. 1.5x historically. The most significant risk that could impede the stock from achieving our price target is a large decline is global vehicle production.

On an EV/EBITDA basis, DAN is trading at 4.0x our 2016 EBITDA estimate of $849 million. From 2009-2011, DAN has traded at an average EV/EBITDA of 4x. On an EV/Sales basis, DAN is currently trading at 0.38x our 2016 sales estimate of $7.1 billion. During 2010-2011, DAN has traded at an average EV/Sales ratio of 0.38x. The largest risk that could impede the stock is a decline in global vehicle production

DLPH's shares are currently trading at 10.4x our 2016 EPS estimate of $6.65. Our $79 price target is 11.9x our 2016 estimated EPS. Over the past two years, DLPH has traded at an average forward 12-month P/E multiple of 11.7x. On an EV/sales basis, DLPH is trading 1.3x vs. 1.2x on average the past two years. The most significant risk that could impede the stock from achieving our price target is a large decline in global vehicle production.

LEA is currently trading at 9.4x our 2016 EPS estimate of $10.17. Over the past two years, LEA traded at an average forward 12-month P/E of 10.5x. Our $120 price target is 11.8x our 2016 estimated EPS of $10.17. On an EV/sales basis, LEA is trading at 0.4x vs. 0.4x historically over the past two years. The most significant risk that could impede the stock from reaching our price target is a substantial decline in global vehicle production.

MGA is currently trading at 10.1x our 2015 EPS estimate of $10.11. From 2005-2008, MGA traded at an average 12-month forward P/E of 11x. Our $130 price target is 12.7x our 2015 estimated EPS of $10.11. On an EV/sales basis, MGA is trading at 0.5x our 2014 estimate. From 1994-2012, MGA traded at an EV/sales of 0.4x. The most significant risk that we believe could impede the stock from achieving our price target is a large decline in global vehicle production.

TEN is currently trading at 8.9x our 2015 EPS estimate of $5.08. Over the past two years, TEN has traded at an average 12-month forward P/E of 11.7x. Our $63 price target is 10.5x our 2016 estimated EPS of $5.98. On an EV/Sales basis, TEN is trading at 0.5x vs. 0.5x historically over the past two years. The most significant risk to our price target would be a substantial decline in global vehicle production.

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BUY, Price Target: $80.00 from $70.00

2014: $3.71 from $3.71, 2015: $4.13 from $4.13

We are reiterating our **BUY** rating on Omnicare, Inc. (OCR-NYSE) shares, raising our 2016 EPS estimate slightly, introducing our 2017 estimate, and rolling forward our 12-month target price. Our **BUY** rating is based on: 1) our expectation of accelerating EPS growth over the next few years; 2) the Company's historical track-record, consistency, and shareholder friendly use of cash flow; and 3) the Company's potential to be a take-out candidate over the next few years. We are raising our 2016 EPS estimate to $4.55, which is based on our belief that the Company can achieve at least low (10%) double-digit EPS growth over the next two years, and introducing our 2017 EPS estimate of $4.98, reflecting 9.5% growth.

Rating	BUY	2015E	$4.13	Next Quarter	December
Price	$72.55	2015 P/E	17.6x	Next Quarter E	$0.95
12-Mo. Price Target	$80.00	2014E	$3.71	FC Mean Quarter	$0.95
Market Cap	$7,654.0	2014 P/E	19.6x	FC Mean 2015E	$4.14
Trading Volume	1,160	2013A	$3.58	FC Mean 2014E	$3.71
Revenues(mm)	$6,013.4	Book Value/Share	$25.15	Yield	0.8%

- **Accelerating EPS Growth.** We model cash adjusted EPS growth of nearly 4% in 2014, accelerating to 11% in 2015 and approximately 10% in both 2016 and 2017. Key earnings growth drivers include: 1) a new prime vendor agreement, which we believe could yield savings on OCR's roughly $1B generic drug spend of at least 5% or $50M over several years; 2) continued double-digit Specialty Care Group (SCG) EBITDA growth; 3) increased brand-generic conversions in the Long Term Care (LTC) business; and 4) a moderating Medicare Part D headwind.
- **Recent Rite Aid Purchasing Comments a Positive for OCR.** We are encouraged by recent comments from Rite Aid Corp. (RAD-NYSE; Not Covered) management that its new generic sourcing agreement with McKesson Corp. (MCK-NYSE; Not Covered) has performed much better than expected. OCR began purchasing generic drugs through McKesson's OneStop generic purchasing program this January and we believe it could represent a source of upside to our estimates over the next few years. Furthermore, although initially OCR continues to use its own generic distribution centers, we believe there will be an opportunity to reduce operating and inventory costs by shifting to McKesson's distribution system down the road.
- **Specialty Pharmacy Performance.** The SCG business continues to convert its pipeline into customers and expand into different therapeutic categories (SCG currently services more than half of the top 10 specialty disease states). Physician referrals were up 49% YOY last quarter, which is a positive indicator for manufacturing partners looking at limited distribution networks. Within the category of limited distribution products, OCR reported that it has a 70% win ratio among commercialized products.
- **Improved LTC Pharmacy Environment in 2015.** The LTC pharmacy business improved significantly in 2014, including winning the Kindred Healthcare (KND-NYSE; Not Covered) business from PharMerica Corporation (PMC-NYSE; BUY). In 2015 we expect continued LTC results improvement helped by increased brand-generic conversions and a moderating Medicare Part D headwind, which impacted 2014 from higher contractual pricing adjustments with Part D plans and other payers.
- **Attractive Asset for Acquirers.** OCR could potentially be a take-out candidate over the next few years, given: 1) an exclusive distribution channel to 40% of the nursing homes in the United States; 2) substantial leverage with manufacturers of drugs for the elderly; and 3) a well-performing and fast growing asset in the highly desired specialty pharmacy sector.

VALUATION

Our 12-month price target of $80 is based on a P/E of 17.5x our 2016 cash EPS estimate of $4.55. We are using a higher multiple range than where the stock has traded on average historically due to its growing specialty pharmacy contribution, improved LTC retention, upside opportunities from a new sourcing contract and potential as a takeout candidate. OCR currently trades at 17.6x and 16.0x our 2015 and 2016 EPS estimates, respectively, above the three-year forward 12-month average of 13.4x.

RISKS

Risks that could impede the stock from reaching our price target include: bed losses, cuts in reimbursement rates, and a changing regulatory landscape.

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HOLD, Price Target: NA from
2014: 0.96, 2015: 1.19

We are initiating coverage of INC Research (INCR-NASDAQ) with a HOLD rating reflecting the balance of a strong 10% + top-line growth profile with a premium valuation (~10.8x 2016 EBITDA; peer group: ~10.0x). Since its November 2014 IPO, INCR's shares have appreciated by 38% (peer group: 2%), so we think it is appropriate to be initially balanced on valuation and wait for a pull-back to consider becoming more bullish.

Also, **we are monitoring INCR's evolving relationship with two large clients: Otsuka Holdings (~14% of revenues) and Astellas Pharma (~12%).** In December 2014, Otsuka announced the acquisition of Avanir Pharmaceuticals, which we think could create new outsourcing opportunities for INCR. However, at the same time, INCR's three-year contract with Astellas is scheduled for renewal in April 2015.

Rating	HOLD	2015E	1.19	Next Quarter	December
Price	$25.51	2015		Next Quarter E	0.21
12-Mo. Price Target	NA	2014E	0.96	FC Mean Quarter	$0.21
Market Cap	$1,561.2	2014		FC Mean 2015E	$1.20
Trading Volume	294	2013A	0.30	FC Mean 2014E	$0.88
Revenues(mm)	$995.1	Book Value/Share	$7.32	Yield	0.0%

INC Research is a global contract research organization (CRO) providing clinical trial outsourcing for drug companies, health systems, governments and academic institutions. In our view, the Company is unique due to its therapeutic focus and thought leadership in central nervous system (CNS) disorders, oncology and other complex diseases (we estimate ~75% of revenues vs. peer group of ~50%).

Looking ahead, **we model INCR generating 10%+ revenue growth in 2015 and 2016, which is a substantial premium** to the other publicly-traded, late-stage CROs (average: ~8%). Our premium growth expectation reflects the Company's focus on high growth therapeutic verticals. INCR is further well aligned with the more rapidly growing small/mid-sized biopharmaceutical space (~43% of revenues), which has been the source of much of the new innovation (and R&D investment) in recent years.

However, **our outlook for EBITDA growth (~12% in 2016) is more in line.** We expect EBITDA growth to be unusually deflated at only ~6% in 2015 due to a difficult 2014 comp that included ~100 bps of EBITDA margin benefit (we estimate) from elevated change orders and incremental public company costs. Post-2015, our models assume margin expansion to be limited to ~50 bps annually since INCR's margins are already ~200 bps above the peer group and the Company operates with a relatively variable cost structure (late-stage clinical trial services: ~96% of revenues).

VALUATION
INCR is trading at 10.8x our 2016 EBITDA estimate of $179 million, which is a ~8% premium to the CRO average of 10.0x. In our view, a premium valuation is appropriate given INCR's alignment with rapidly growing therapeutic and client verticals.

RISKS
INCR operates in a highly competitive environment, and growth is contingent on broader trends in global biopharmaceutical R&D spending and clinical trial outsourcing.

CONSUMER: Computer & Electronics Retail — Bradley B. Thomas, CFA (917) 368-2216

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On Tuesday and Wednesday, we attended annual Consumer Electronics Show in Las Vegas, which is still going on and features newly launched and prototype products for the category. We also met with management from Select Comfort Corporation (SCSS-NASDAQ), which showcased its new line of children's beds. Overall, while this year highlighted improvements to many existing technologies, we are optimistic that some could be approaching their sweet spot for wider consumer adoption. We believe the category that deserves the most attention is televisions. Following a long stretch of weakness, we believe sales in the category are bottoming and could inflect positively with wider consumer adoption of Ultra HD (or 4K) televisions. Every manufacturer that we met with has a wider assortment of 4K TVs and we believe prices could come down to roughly $1,000, which is a sweet spot for increased consumer adoption. Lastly, we note the continued growth of the "internet of things" with nearly every device imaginable boasting internet connectivity.

SCSS Introduces New Youth Bed with SleepIQ Technology. At CES, Select Comfort introduced its new SleepIQ Kids bed. This follows the introduction of the x12 at last year's CES and leverages many of the same technologies that were unveiled at last year's event. In addition to the Company's SleepIQ technology, the new kids bed features a dashboard that can be monitored by parents (including alerting parents when the child is out of bed or restless), rewards and incentives for good sleeping habits, and the ability for parents to control the bed remotely. We believe this is a natural extension of the Company's technology and allows the bed to adapt as children grow (distinguishing the bed from other youth lines). The bed will retail for roughly $1,000 and will be available at Select Comfort stores later this year. SCSS should be able to leverage its install base of 9 million customers for marketing purposes. Furthermore, the Company estimates that at any time, 2.5 million parents are shopping for a bed for a six- to 12-year-old. Otherwise, the market is undefined, but should be an entirely additive category. Similar to the x12 in 2014, the SleepIQ Kids bed was selected as an Honoree in the 2015 CES Innovations Awards. Also, the head of the bed can adjust upward, much like when using an adjustable foundation. This is the first that we have seen of this technology and we believe that it could be applied to Select's other beds down the road.

4K Taking the Next Step Toward Wider Adoption. As expected, Ultra HD Televisions (also known as "UHD" and "4K") were one of the hottest product categories at this year's CES. The television category has been challenged for several years; however, recent results suggest trends could be improving (at least partially due to early successes for 4K). Best Buy Co., Inc. (BBY-NYSE) highlighted that comps in the TV category have increased in the 2Q and the 3Q. Additionally, comps in hhgregg, Inc.'s (HGG-NYSE) CE category (which include televisions) posted significant acceleration in the holiday quarter. The improvement in TV sales at both BBY and HGG has been largely driven by favorable mix to larger-screen and more feature-rich models (such as 4K). Based on our conversations at CES and in recent weeks, many in the industry are cautiously optimistic about the prospects of 4K in 2015 (and beyond). While results among early adopters are encouraging, market participants remain scarred from their experience with 3-D (which followed a similar early trajectory, but failed to gain mass market appeal). One way that stakeholders are pushing for wider adoption of 4K technology is by facilitating the creation and distribution of more 4K content and establishing new quality standards. This week, several manufacturers (including Samsung, LG and Panasonic) and video providers (including Netflix, Walt Disney Studios and Twentieth Century Fox) announced the formation of the UHD Alliance, which was created to "encourage the development of high-quality UHD content while distinguishing TVs that provide the most premium UHD viewing experience." In addition to the formation of the alliance, Dish announced its own 4K Programming plan (as well as 4K Video On-Demand) that will launch this summer. We believe vendors and retailers learned a number of valuable lessons from the failure of 3-D and are better positioning 4K for wider adoption, which would provide a much needed shot in the arm for the much-maligned category. At CES, essentially every manufacturer expanded its assortment of 4K TVs while lowering entry level prices, which could reach as low as $1,000 at launch and we estimate could potentially be down to $700-$800 by next holiday season.

VALUATION – BBY

Shares of BBY trade at 15.9x and 14.5x our 2014 and 2015 EPS estimates of $2.43 and $2.65, respectively. Over the past five years, the stock has traded at a mean consensus P/E of 10.1x. The stock has traded as low as 4.7x and as high as 16.4x consensus P/E. BBY trades at 5.7x and 5.3x our 2014 and 2015 EBITDA estimates, respectively. This compares to a five-year average EV/EBITDA of 6.8x. On an EV/Sales basis, shares trade at 0.3x our 2014 estimate vs. a five-year average of 0.2x. We rate the shares **HOLD**.

RISKS – BBY

Risks that could affect the price of the stock:

- Increased competition from mass merchants, internet retailers or other CE companies.
- Limited product allocation from key suppliers such as Apple.
- Weakness in the maturing television product cycle.
- Pressure on consumer spending from lower confidence or higher gasoline prices.

VALUATION – HGG

Shares of HGG trade at an EV/EBITDA of 17.3x and 8.6x our FY15 and FY16 estimates, respectively. This compares to an average of 6.1x over the last five years. On an EV/Sales basis, shares trade at 0.1x our FY14 estimates. This compares to an average EV/Sales of 0.2x in the last five years. We maintain our **HOLD** rating.

RISKS – HGG

Risks that could affect the stock:

- Consumer spending could be negatively affected by higher gasoline prices.
- Housing market weakness could negatively impact appliance sales.
- A slowdown in the pace of unit growth could lower the Company's earnings growth rate.
- The competitive threat of mass merchants could intensify, particularly as the television product cycle matures.

VALUATION – SCSS

Shares of SCSS trade at a P/E of 23.6x and 20.4x our 2014 and 2015 EPS estimates of $1.14 and $1.32, respectively. Excluding $177 million in net cash and investments, SCSS trades at 20.7x our 2014 EPS estimate. This compares to a four-year average of 16.1x. Over that time, the Company has traded as high as 23.7x and as low as 10.7x. On an EV/EBITDA basis, SCSS shares trade at 9.4x and 8.2x our 2014 and 2015 estimates, respectively. This compares to the four-year average of 9.5x. On an EV/Sales basis, SCSS trades at 1.1x our 2014 estimate vs. a four-year average EV/Sales of 1.3x.

RISKS – SCSS

Risks that may impede the shares from achieving our earnings estimates include:

- **Mattress industry end market performance.** While the mattress industry has benefited from a recovery in consumer spending and housing, difficult comparisons or general softness could negatively affect SCSS results.
- **Investments.** SCSS is making investments in advertising, R&D and stores in order to drive growth. Diminishing returns on these investments, or deleverage from slower sales, could pressure earnings.
- **Significant flow-through margin.** We estimate that – all else being equal – SCSS generates a significant 40-50% flow-through margin on an incremental sale. This generates positive upside potential when sales perform well without additional investment, but creates relatively higher earnings downside risk if revenues do not meet internal plans.
- **Competition.** While SCSS has historically dominated the air mattress industry, Tempur-Pedic is launching beds with adjustable features in 2014. If Tempur-Pedic is successful, new competition could also emerge.

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Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [BUY]	257	44.85	63	24.51
HOLD [HOLD]	301	52.53	58	19.27
SELL [UND]	15	2.62	2	13.33

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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