

June 12, 2015

## INC Research Holdings, Inc.

### Highlights From William Blair's 35th Annual Growth Stock Conference

#### Conclusions

- On Thursday morning, June 11, INC Research attended William Blair's Growth Stock Conference, with Chief Executive Officer Jamie Macdonald presenting. The fundamental environment for CROs remains quite strong at present given record funding for small biotech clients, strong growth from midtier pharma, and a gradual improvement in large pharma spending trends. With over 67% of INC's backlog focused on the fastest growing therapeutic areas (CNS, oncology, and other complex disease), we believe a 10%-12% organic revenue growth rate is sustainable. We maintain our EPS estimates of \$1.52 in 2015 (up 63%) and \$1.78 (up 17%) in 2016 and our Outperform rating, as we view INC Research as having the fastest growth trajectory in pharma outsourcing.

#### Key Points

- Similar to commentary from its industry peers, comments regarding demand conditions were positive, driven by all customer categories. Management reiterated its long-term revenue and net income growth targets of 10%-12% and 20%, respectively.
- While margin expansion is a key focus, revenue growth and share gains remain a top priority. As a result, we would not be surprised to see some margin volatility from quarter to quarter. Management repeated a longer-term goal to generate EBITDA margins of 20% or better compared with 19% last year.
- Unlike some of its larger peers who are investing to develop proprietary databases and analytic services, INC is committed to aligning with best-in-class tech providers (e.g., Medidata) and data aggregators (such as IMS Health [IMS \$30.61; Outperform]) to access tools to drive enhanced clinical trial efficiency. Management repeated its view that central lab and reference lab data are not likely to yield a competitive advantage to LabCorp/Covance (LH \$121.14; Outperform) and Quest/Quintiles (DGX \$74.16; Market Perform/Q \$69.86; Outperform).
- While there seems to be disagreement among the CROs over the value of various data sources (as noted above), there is agreement that technology is allowing key drug development processes to be automated. We view this as a very important trend for investors, given the potential for the business model to become less labor-centric and therefore achieve greater scale economies.
- Management noted that its renewal process with Astellas (INC's largest client) is going smoothly with no surprises. As this relationship has historically been functionally based (as opposed to compound specific), it is interesting that management sees some trend across the industry to revert from functional service provider to traditional full service. Conversely, there does not appear to be any notable examples of clients moving in the other direction.
- Valuation.** INC Research trades at 21.3 times our 2016 EPS estimate of \$1.78 (21.7 times if fully burdened by stock-based compensation expense) compared with its clinical peer group of 18.5 times. We believe the expertise and focus in high-growth areas of the market, diverse client base, and 20% bottom-line growth trend suggest that INC can support a valuation slightly ahead of the group.

INC Research is one of the top 10 largest CROs, with an annual revenue base exceeding \$800 million. Founded in 1985 as a niche CRO focused on central nervous system disorders, INC now employs 5,400 associates across 50 countries, and its focus has broadened to include oncology and other complex diseases.

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

Symbol: INCR (NASDAQ)  
Price: \$37.91 (52-Wk.: \$20-\$39)  
Market Value (mil.): \$2,132  
Fiscal Year End: December  
Long-Term EPS Growth Rate: 20%  
Dividend/Yield: None

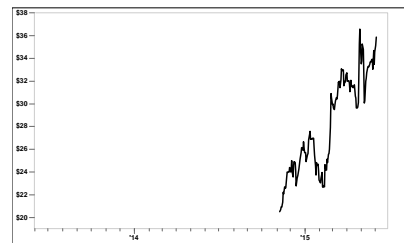
	2014A	2015E	2016E
<b>Estimates</b>			
EPS Q1	\$0.12	A\$0.42	NA
Q2	\$0.27	\$0.34	NA
Q3	\$0.28	\$0.37	NA
Q4	\$0.26	\$0.39	NA
FY	\$0.93	\$1.52	\$1.78
CY		\$1.52	\$1.78

<b>Valuation</b>			
FY P/E	40.8x	24.9x	21.3x
CY P/E		24.9x	21.3x

<b>Trading Data (FactSet)</b>			
Shares Outstanding (mil.)			61
Float (mil.)			26
Average Daily Volume			241,601

<b>Financial Data (FactSet)</b>			
Book Value Per Share (MRQ)			6.7
Return on Equity (TTM)			-8.1

#### Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

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DOW JONES: 18,039.37

S&P 500: 2,108.86

NASDAQ: 5,082.51



## **Current Rating Distribution (as of 05/31/15)**

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	65	Outperform (Buy)	14
Market Perform (Hold)	33	Market Perform (Hold)	3
Underperform (Sell)	1	Underperform (Sell)	0

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

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