

INC Research, Inc (INCR)

SMALL & MID CAP RESEARCH

Adjusting Estimates Post 4Q14 Earnings

- **Bottom Line:** Following INCR's 4Q14 earnings, we have revisited our financial model. Our latest forecasts incorporate initial F15 guidance, strong demand trends for clinical CRO services, and the profitability/topline outlook for the business. We are increasing our F15-F16 estimates to \$1.24 and \$1.48 from \$1.20 and \$1.45 respectively. We are introducing our F17 estimate of \$1.77. Our new PT of \$32 (from \$29) is based on an equal weighting of P/E & EV/EBITDA methodologies (P/E target multiple of 21.6x and EV/EBITDA target multiple of roughly 12x).

Rating **OUTPERFORM* [V]**
Price (24 Feb 15, US\$) 27.55
Target price (US\$) (from 29.00) 32.00¹
52-week price range 27.59 - 20.49
Market cap. (US\$ m) 1,686.99
Enterprise value (US\$ m) 1,897.35

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	0.83	1.24	1.48	1.77
Prev. EPS (US\$)	—	1.20	1.45	—
P/E (x)	33.1	22.2	18.7	15.6
P/E rel. (%)	183.7	125.8	119.3	111.9
Revenue (US\$ m)	800.7	886.2	979.7	1,080.1
EBITDA (US\$ m)	145.3	165.8	188.1	212.5
OCFPS (US\$)	1.89	1.76	2.23	2.61
P/OCF (x)	13.6	15.7	12.3	10.6
EV/EBITDA (current)	13.6	11.4	9.5	7.7
Net debt (US\$ m)	293	210	94	-43
ROIC (%)	11.20	13.65	16.35	19.52
Number of shares (m)	61.23	IC (current, US\$ m)		685.28
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 24-Feb-2015)

INC Research, Inc (INCR.OQ, \$27.55, OUTPERFORM[V], TP \$32.0)

Disclosure Appendix

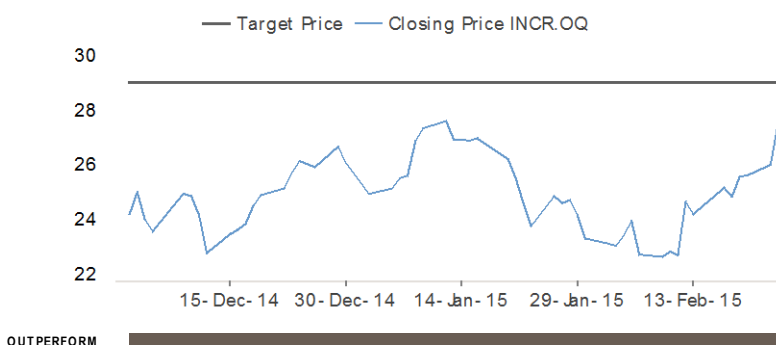
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3-Year Price and Rating History for INC Research, Inc (INCR.OQ)

INCR.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
02-Dec-14	24.20	29.00	O *

* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	15%	(44% banking clients)
Restricted	3%	

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Price Target: (12 months) for INC Research, Inc (INCR.OQ)

Method: We arrived at our \$32 target price for INC Research using an equal weighting of P/E & EV/EBITDA valuation. Our price to earnings valuation yields a price target of \$32 applying a multiple of 21.6x our F16 EPS estimate of \$1.48. Our EV/EBITDA analysis applies a roughly 12x multiple to our F16 EBITDA of \$188.1M. Our target valuation multiples are roughly in-line with target multiples at industry-leading clinical peers in light of slightly smaller scale & shorter public history balanced by a healthy growth outlook at the high end of industry growth rates. In valuing the contract research organization (CRO) stocks and INC Research, we primarily utilize P/E & EV/EBITDA multiples to assess the risk/reward profile of the individual stocks and the group as a whole since multiples provide both a historical and relative perspective. We evaluate multiples relative to historic averages to ensure that the stocks are trading in-line with our assessment of how current fundamentals fit into historical context. Multiples relative to a benchmark or to other industry peers sheds light on competitive positioning and performance.

Risk: Risks to INC Research's achievement of our \$32 target price: 1) favorable biotech funding environment could moderate; 2) smaller revenue footprint and scale; 3) controlled company status & PE ownership could represent overhang; and 4) high expectations for CRO group. With the CROs trading at elevated valuations we would acknowledge that earnings disappointments could result in contraction in group valuation multiples. Similarly, strong biotech funding environment has been viewed as a tailwind and to the extent that moderates it could impact sentiment as well as pose a revenue headwind. Finally, with a smaller revenue footprint & scale INC could be exposed to greater volatility due to the cancellation of individual trials relative to peers which could in turn negatively impact sentiment.

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See the Companies Mentioned section for full company names

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