

INC Research (INCR)

Jefferies 2015 Global Healthcare Conference

Key Takeaways

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Presenter: Jamie Macdonald, CEO. We hosted Mr. Macdonald and Ronnie Speight, VP of Investor Relations, for dinner on June 2 and then the June 3 presentation at our conference.

Margin Opportunities Remain. Management sees the potential for meaningful margin expansion over the long-term. Twenty percent EBITDA margin is no longer the ceiling for the industry that some observers once thought. Its more tangible intermediate-term goal would see facilities utilization and sunseting of duplicative CTMS (IT) systems driving 50-100 bps of expansion. Management also highlighted that efforts to weed-out poorly priced business inherited through acquisitions have been successful. Still, the portfolio has ~10% of revenue in poor margin studies (~20% GM). This implies that margins could improve nicely by bringing the bottom up, though we believe that avoiding underperformers completely is a tough proposition.

Differentiated Specialization. Management continues to emphasize the executional benefits of its therapeutic specialization deep into the organization. Project staff down to the CRA level spend the vast majority of their time in one therapeutic area, and in some cases in a sub-specialization (i.e., solid tumors within oncology). As a result, the investigator facing staff know the terminology, operational pitfalls, and clinical risks common to that space. This also endears INCR to the study investigators (physicians) because the customer doesn't have to train the service provider. Other CROs have therapeutically knowledgeable staff, but the departments are organized functionally not therapeutically.

Growing Client Relationships. INCR delivers a consistent message of focusing on top-line growth and expanding its addressable market/client audience to facilitate that. The company added 50+ new clients in each of the last two years to a base of about 200 (bringing the total over 300 now). Those clients start small and typically in one of INCR's therapeutic focus areas (oncology, CNS). INCR looks to deliver well, instill confidence through the Trusted Process, and gain repeat work. So far, that approach is working.

Labor Inflation Is an Area of Some Concern. With the multi-year growth in outsourcing and now improving R&D spending overall, labor inflation for certain functions and in certain regions is heating up. India, Ukraine/Russia, and Argentina were mentioned. Management analyzes costs per FTE, labor rates for new adds versus recent attrition, and turnover rates on a regular basis. It believes INCR's pay rates are slightly above industry average, taking some steps intentionally to benefit retention.

Long-Term Growth Guidance Reaffirmed. The company continues to target 10-12% constant-currency revenue growth, 13-15% EBITDA growth, and 20% adjusted net income growth. The initiatives we describe above are expected to contribute to the former two, and debt repayment and tax initiatives to the latter. INCR's current weighted cost of capital is 2.6%, and through planned changes to its tax structure is expected to reduce its effective rate from 37-38% currently down to the 32% range.

HOLD

Price target \$37.00

Price \$35.92

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Company Description

INC Research (Nasdaq:INCR) is a leading global contract research organization (CRO) providing the full range of Phase I to Phase IV clinical development services for the biopharmaceutical and medical device industries. With significant breadth of service offerings and depth of therapeutic expertise across multiple patient populations, INC Research connects customers, clinical research sites and patients to accelerate the delivery of new medicines to market. The Company was ranked "Top CRO to Work With" among large global CROs in the 2015 CenterWatch Global Investigative Site Relationship Survey. INC Research is headquartered in Raleigh, N.C., with staff in 50 countries and experience spanning more than 100 countries.

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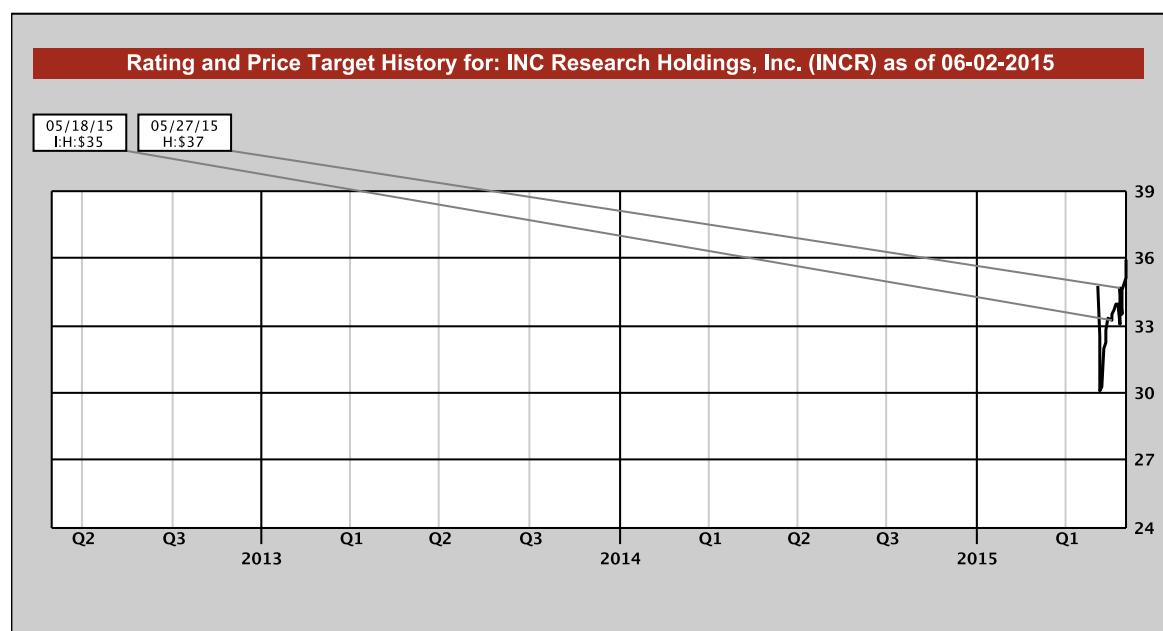
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Other Companies Mentioned in This Report

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			Count	Percent
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