

## COMPANY NOTE

Rating | Target Change

USA | Healthcare | Pharmaceutical Svcs.

September 1, 2015

# Jefferies

## INC Research (INCR) Pullback and Insight Collide; Raising Rating and PT

### Key Takeaway

**On a recent trip to RTP, NC, we had an opportunity to observe and absorb the Trusted Process in action, giving us a greater appreciation for INC's differentiation and making us incrementally positive on the stock. We see a 21% EPS CAGR over the next three years. Market volatility over the last 6 trading days has afforded an INCR entry point and an opportunity to leverage that insight.**

**Trusted Process Is About Culture.** The linchpin of INCR's Trusted Process is Quick Start. As the name suggests, Quick Start addresses project planning, arm-in-arm with the client, to address complexities and anticipate potential roadblocks. This enables INCR to deliver against time and cost budgets more reliably. INCR's roadshow last year began the discussion about trial complexity, and it has become a talking point across the industry. Our observation is that the menu of process steps is not so unique as INCR's faithful adherence to and belief in the process.

**Most Likely to Benefit Revenue.** Management's focus is expanding INCR's client base by expanding the bidding situations into which it gets invited. Its hit rate and strike rate are strong beyond that point. We agree with this focus both because of channel feedback and because profit growth via margin expansion is likely limited.

**Less Room on Margin, Except for Tax.** INCR has posted EBIT margin above 21% for 1H15, well above industry peers. Management still sees room for improvement in occupancy costs and in IT efficiency as it sunsets redundant clinical trial management systems (CTMS). We think stable EBIT margin is as optimistic as we should be. Our estimate keeps OM at or below the 1H15 level through 2018. Similar to PRXL, INCR does have some room on tax rate. Management targets the low-30% range (~600 bps down) over time.

**Valuation Could Go Higher.** INCR is one of two CROs that can still grow top-line >10%, and should be the fastest top-line and bottom-line grower. We are applying a 23x multiple, though PEG-parity to the group would be >25x, which would require 2-3 high profile client additions, in our opinion.

### Valuation/Risks

Our 12-month PT of \$51 reflects a 23x P/E on our \$2.21 '16 EPSe (6% above consensus on revs and margin). INCR's high recent growth should moderate but continue to lead peers. That moderation should be more gradual than consensus now projects. Risks: 1) Project cancellations, 2) Failure to penetrate new clients, 3) Pricing pressure from new or existing clients, 4) Scale investments.

USD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	652.4	--	809.7	--	907.0	--	1,032.3
EBITDA (MM)	--	103.1	--	150.9	--	202.7	--	231.2
Cons. EPS	--	--	--	--	1.62	1.77	1.90	2.09
<b>EPS Non-GAAP</b>								
Mar	--	(0.03)	--	0.13	--	0.41A	--	--
Jun	--	0.06	--	0.25	--	0.46A	--	--
Sep	--	0.15	--	0.33	--	0.47	--	--
Dec	--	0.07	--	0.26	--	0.46	--	--
FY Dec	--	0.25	--	0.97	--	1.78	2.17	2.21
EV/Rev		4.2x		3.4x		3.0x		2.7x

**BUY**

(from HOLD)

Price target \$51.00

(from \$50.00)

Price \$41.01

### Financial Summary

Book Value (MM):	\$280.4
Net Debt (MM):	\$376.5
Long-Term Debt (MM):	\$475.0
Cash & ST Invest. (MM):	\$98.5
Backlog:	1,700

### Market Data

52 Week Range:	\$51.69 - \$18.50
Total Entprs. Value (MM):	\$2,759.2
Market Cap. (MM):	\$2,382.7
Shares Out. (MM):	58.1
Float (MM):	25.9
Avg. Daily Vol.:	431,894

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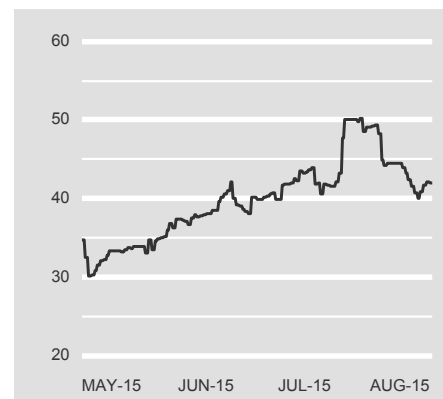
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### Price Performance



## Scenarios

### Target Investment Thesis

- Bookings growth accelerates slightly; BtB averages 1.21x for the rest of 2015; averages 1.23x for 2016
- Revenue grows 13-15%
- Disciplined approach to trial management and fixed-cost leverage drive '16 adj. EBITDA margin to over 22%
- INCR is successful at expanding client base to drive LT backlog and revenue growth
- 2016 EPS: \$2.21; Target Multiple: 23x; Target Price \$51.00

### Upside Scenario

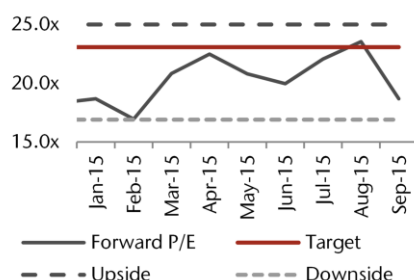
- Bookings growth accelerates; BtB exceeds 1.30x for remainder of 2015 and 2016
- Astellas relationship leads to increased share of wallet; Otsuka returns to low-teens % of revenue
- Revenue grows >15%
- Facility utilization and other SG&A goals achieved quickly
- EBITDA margin improves to >23%
- 2016 EPS: \$2.35; Target Multiple: 25x; Target Price \$58.75

### Downside Scenario

- New business wins slow, BtB averages ~1.1x in 2016
- Slower backlog growth trails peers
- INCR experiences the lengthening backlog duration that is common in the sector; burn rate slows, revenue grows sub-8%
- Slower revenue growth limits margin improvements; costs tightly controlled to mitigate impact
- 2016 EPS: \$1.95; Target Multiple: 17x; Target Price: \$33.00

## Long Term Analysis

### 1 Year Forward P/E



Source: FactSet and Jefferies LLC

### Long Term Financial Model Drivers

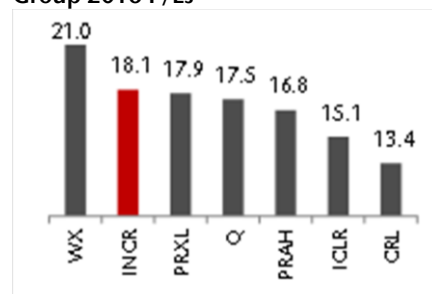
LT EPS CAGR	19-21%
Revenue Growth	13-15%
Operating Margin	21-23%
Effective Tax Rate	35%
Leverage Ratio	<2.5x

### Other Considerations

INCR has been very successful at acquiring, integrating and turning around lagging competitors. MDS and KNDL are examples. We would view the announcement of a similar, large transaction as an opportunity for the company to diversify its currently-narrow therapeutic focus and lengthen its revenue growth runway.

## Peer Group

### Group 2016 P/Es



### Earnings Growth vs P/E



### Recommendation / Price Target

Ticker	Rec.	PT
CRL	BUY	\$88.00
ICLR	BUY	\$89.00
<b>INCR</b>	<b>BUY</b>	<b>\$51.00</b>
PRAH	BUY	\$48.00
PRXL	HOLD	\$66.00
Q	BUY	\$87.50
WX	HOLD	\$46.00

## Catalysts

- Announcement of additional large acquisitions
- Growth in pharma R&D budgets and/or the amount of clinical work being outsourced
- Additional margin improvement
- Signing of strategic partnerships

## Company Description

INC Research is a contract research organization (CRO) that provides various clinical development services for the biopharmaceutical and medical device industries. The company offers a range of services focusing on Phase I to Phase IV clinical trials in the areas of central nervous system, oncology, and other complex diseases, such as genetic disorders and infectious diseases. INC was incorporated in 1998 and is headquartered in Raleigh, North Carolina.

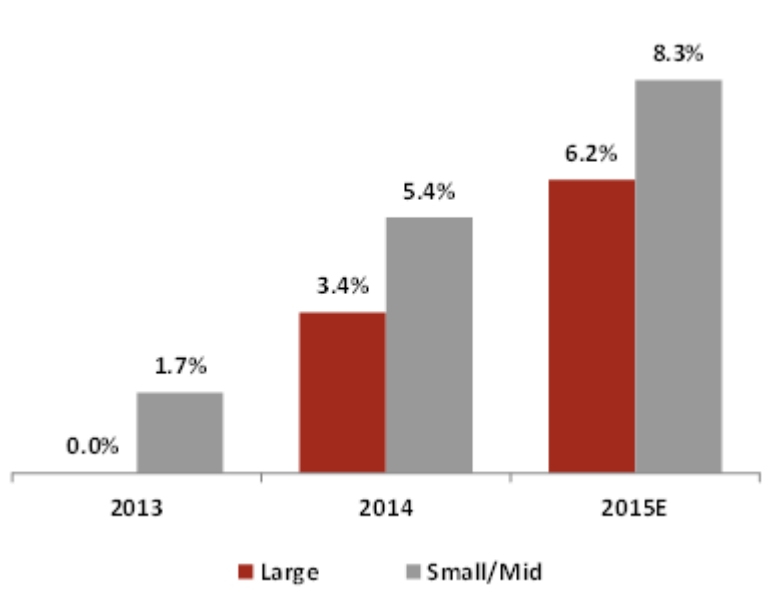
## Supportive Industry Tailwinds

Our research shows three key industry trends favoring CROs in INC Research's position:

- Biopharma R&D spending is accelerating, driven by solid top-lines, successes at the FDA, and promising new drug classes in the pipeline.
- Within that growth, our survey work shows small and mid-size sponsors growing R&D incrementally faster.
- Finally, survey responses show that affinity for large CROs continues to rise, but the preponderance of small and mid-sized investors still prefer to work with "mid-sized" CROs. We would suggest that the mid-sized tier is a group of about 10 CROs ranging from \$200M to \$1.5B, which would include INCR and PRAH.

For more detailed discussion on these points, please refer to our report, [Pharma Services: Accelerating Growth: Magnifying Glass Reveals Pockets of Opportunity](#).

**Chart 1: R&D Budget Growth for Small/Mid and Large Pharma**



Source: Jefferies estimates

**Chart 2: “Most Likely” Future Strategic Partner**


Source: Jefferies estimates

## The Trusted Process Is About Culture

INCR management provided us an opportunity to sit in on a Trusted Process session (specifically a Quick Start Camp) at its corporate headquarters in Raleigh, NC. The goal was to understand how the Trusted Process differentiates INCR from other leading CROs.

### Hypothesis

Our preconceived notion was that the Trusted Process was/is a robust checklist of steps to follow over the course of a clinical trial. Relatable analogies might be an audit checklist for a public accounting audit team (which I’ve experienced) or a building plan for a large home or commercial building. In the auditing example, we also know that every major firm (in fact, any firm worth the paper the partner signs) has a version of the audit checklist. Similarly, we believe and expect that every CRO has a trial planning checklist. In fact, many of them have or are in the process of memorializing parts of those checklists in web portals.

The Trusted Process is a culture, a culture of planning rigorously and executing precisely against those plans.

We learned that view misses the point. The Trusted Process is a culture, a culture of planning rigorously and executing precisely against those plans. Don’t wander down a random path, don’t stray from the plan, don’t create rework (which leads to change orders and late delivery). INCR sticks to the process.

### Are We Clear? Crystal

To borrow a quote from a favorite movie,

“We follow orders, or people die.” – Colonel Nathan R. Jessup, *A Few Good Men*

While the example is, perhaps, a little sensational and the impact not nearly as immediate, a delayed trial, or worse a failed trial, prevents life-saving medicines from getting to patients swiftly. Not by accident, the Trusted Process was designed by retired Army Officer, Jeff Kueffer, who honed his operational skills leading an Army tank battalion to consistent outperformance. (Mr. Kueffer currently serves as Senior Vice President, Global Operations). That creation was under the watchful eye of INC’s CEO at that time, Jim Ogle...himself a West Point grad and a retired Lieutenant Colonel US Army.

The Trusted Process® is an attempt to reduce variability in an inherently ambiguous, long-term project business.

Introducing the client into that face-to-face meeting to finalize and sign off on the many planning documents establishes agreement on process and accountability on both sides.

We do not want to hyperbolize the military analogy, but running a clinical trial can be managed chaos. Investigational science is inherently unpredictable. We know that even everyday medical practice varies widely across the United States, and that is in an environment where “best practice” is already established. Medical research is attempting to invent new best practices and, thus, is necessarily more erratic. As we said in our initiation, the Trusted Process® is an attempt to reduce variability in an inherently ambiguous, long-term project business.

In our TP visit, we learned and were awakened to several important aspects of this approach. First, a single trial **plan** is a shallow way to conceptualize this. The planning process includes: a communication plan, project management plan, trial master file plan, monitoring plan, regulatory plan, risk management plan, and the list went on. Second, clinical trials are geographically dispersed projects, unlike a construction project. Team members can go long periods of time without meeting face-to-face.

The Trusted Process seems to rely on a few key tenets: 1) complex projects require rigorous, specific planning...every time, no matter how experienced the personnel might be, 2) building team cohesion will improve outcomes, and 3) establishing buy-in and accountability up-front, among and between the project team and client, reduces finger pointing and improves client satisfaction.

#### Testimonials: I Want the Truth

The following statements impacted our thinking and drove home the importance of adhering to the process:

- Mr. Kueffer said (paraphrasing), ‘I can’t have a project manager disregarding elements of the checklist because he/she did it differently on the last study. That sends up warning flags.’
- Project Director: In prior experience as the client of another CRO...“the study got three months in and still hammering out plans.”
- Project Director: After 15 years on the sponsor side, I was only going to join INC on the CRO side, and that was because of the Trusted Process.
- Project manager: [in the industry] Project plans are often cut and pasted from previously completed studies, which makes them not very valuable.
- Clinical lead: I have worked on trials where I never saw another team member in person [at previous CROs].
- Lead CRA: My prior CRO did not produce these kinds of plans.
- Quick Start Camp was the first one for many junior members of the project team.

#### Takeaways:

Bringing the project team together face-to-face builds camaraderie and underscores each member’s strengths. Introducing the client into that face-to-face meeting to finalize and sign off on the many planning documents establishes agreement on process and accountability on both sides.

The Camp places more travel burden on both the project team and the client. When we asked why they are willing to do it, the answer was consistent. The output of the Camp reduces headache and anxiety downstream. It is an investment they are willing to make.

**Bottom line:** The ink on the page of the Trusted Process is not the magic, not the differentiator. It is the corporate and individual belief in the process that is different. The culture expects discipline and adherence to the process.

“By failing to plan, you are planning to fail.” – Benjamin Franklin

## Thesis: Must Believe INCR Can Outgrow

INC Research quickly has garnered the darling position among equity investors. At 18.8x 2016, it trades at a higher multiple than all CROs, except WX with a \$46 take-out now confirmed. At its recent all-time high (\$51.69), its multiple was an eye-popping 23.1x. Current multiples for the group are 17.2x for all CROs, 16.6x excluding WX, and 17.3x for Late-stage CROs. Any way we cut it, INCR trades at a solid premium.

Individual CROs become the market's favored play for one of two reasons: 1) higher multi-year growth – PPDI, ICLR, PRXL, or 2) leadership position and diversified business model – QTRN (first time public), CVD, and Q (second time public). INCR fits in the former category – higher growth. To maintain, or potentially expand, INCR's premium multiple, we believe INCR must grow earnings faster than its current guidance. So far, it has exceeded quarterly expectations by 2.2% on average (3 quarters) and raised guidance twice. Can that continue? Let's examine the levers.

### Margins at Industry Highs

INC Research generated adjusted EBIT margin of >21% for 1H15. That tops the publicly-traded peer group where the next closest player is Q at 19% and the average is 16.9%. This sector has seen wide margin disparities persist over long time periods. Among the leading players, PPDI carried EBIT margin above 19% from 2002 to 2008 (excluding the Furiex-related R&D), while PRXL has never posted a fiscal year above 11% EBIT margin.

In the middle, a couple of players have dramatically improved margin over the last 3-4 years. At ICLR, the PFE onboarding depressed margin to near break-even before revenue and resources got back in balance by the end of 2012. Within a year (end of 2013), ICLR's margin was approaching historical "norms", yet ICLR still has increased EBIT another 630 bps over the last six quarters.

INCR has expanded operating margin in a similar fashion, arriving at an even higher peak. The feat is pretty remarkable, in light of INC's component parts. While private, INC Research merged with Kendle International in July 2011. Kendle's TTM EBIT margin prior to sale was ~3.5%. Two years prior to that, INC acquired MDS Pharma Services' late-stage segment. That one was also racing toward break-even...the wrong way. Prior to these acquisitions, INC had been a solid company, but sub-scale and investing in growth. Thus, its margins were below industry averages at the time, as well.

INCR's current margin is in uncharted territory for the company. Having said that, our channel checks have identified two private CROs that generate margin well-above INCR's 21%...the highest is above 30%.

Thus, INCR's current margin is in uncharted territory for the company. Having said that, our channel checks have identified two private CROs that generate margin well-above INCR's 21%...the highest is above 30%. In that context, our concern about margin pressure at INCR is allayed. The magic is in executing consistently, only the work that needs to be done, and no more. That doesn't work for all sponsors, but can be very profitable when it does work. We think the Trusted Process has similarities to this competitor's successful approach.

**Bottom line:** We think some unique examples help to explain how INCR, as a lesser scaled player in this industry, can generate margin performance above its larger peers. One of those is simply tighter execution. That said, we believe the bulk of the context suggests that INCR margin is near its ceiling, making margin an unlikely source for multi-year EPS outperformance.

**Revenue Growth Outperformance More Likely**

Management has described a land and expand strategy (our words, not theirs). Client satisfaction and recurring work with existing clients are both high. To build visibility to sustainably high revenue growth, management believes that it needs to win a trial mandate with a new, reasonably large client each year. Then, the model, driven by the Trusted Process, delivers high quality results...leading to expanded business.

Having absorbed the testimonials of the Trusted Process, we now have higher conviction in INCR's ability to grow its share of wallet once it has broken into a new client. INCR's aspirations for penetrating new large clients are appropriately gauged. In our channel checks, INC Research does not come up...positively or negatively. It is not yet a well-known name. That is not true for the rest of our coverage. Thus, seeking to land only one big fish a year is an appropriate expectation, in our opinion.

This is consistent with management's own assessment. Mr. Macdonald affirms that the company's hit rate and strike rate on new business are very solid. He believes improvement needs to come in the numbers of RFPs they see. Thus, marketing and sales investments should be an emphasis for INCR.

Management has guided to a long-term revenue growth target of 10-12%. To support INCR's premium valuation and drive return for shareholders from this level, we think that needs to be 12-14% to yield, in turn, a ~20% EPS growth.

**Bottom line:** INCR's TTM book-to-bill of 1.3x ranks near the top end of the CRO group. Only Q is higher at 1.36. INCR's foci include fast-growing therapeutic areas in the industry – oncology and CNS (important to be clear that many peers emphasize these areas as well). Finally, INCR management really has led the discussion about intensifying complexity in clinical trials. Where INCR's intense planning seems to navigate trials through this complexity, peers seem to be blaming revenue shortfalls and slower conversion on the issue. INCR's ability to continue to simplify the complexity and maintain conversion is a key element to our thesis.

**INC Research Holdings, Inc. and Subsidiaries**  
*Earnings Model*

Source: Jefferies &amp; Co.

**FY December**

(\$ in 000s, except for EPS)

Source: Securities & Co.																
FY December	2013-A					2014-A					2015E					
(\$ in 000s, except for EPS)	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4	2014	Q1-A	Q2-A	Q3	Q4	2015	2016
Net service revenue	\$ 149,743	\$ 159,202	\$ 169,108	\$ 174,365	\$ 652,418	\$ 184,700	\$ 203,540	\$ 207,763	\$ 213,725	\$ 809,728	\$ 211,514	\$ 227,376	\$ 229,092	\$ 238,977	\$ 906,959	\$ 1,032,337
Direct costs	104,768	106,497	108,917	112,080	432,262	120,764	130,781	129,557	133,957	515,059	125,448	138,010	140,204	149,122	552,784	633,122
SG&A	27,313	28,312	27,418	34,011	117,054	31,890	33,616	37,763	40,494	143,763	35,579	37,014	38,258	40,626	151,477	167,996
FOREX	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adj EBITDA	17,662	24,393	32,773	28,274	103,102	32,046	39,143	40,443	39,274	150,906	50,487	52,352	50,629	49,229	202,697	231,219
Depreciation	4,446	4,758	4,730	5,241	19,175	6,869	5,025	4,734	4,991	21,619	4,766	4,420	4,590	4,754	18,530	20,721
Total expenses	136,527	139,567	141,065	151,332	568,491	159,523	169,422	172,054	179,442	680,441	165,793	179,444	183,052	194,502	722,791	821,840
Adj EBITA	13,216	19,635	28,043	23,033	83,927	25,177	34,118	35,709	34,283	129,287	45,721	47,932	46,039	44,475	184,167	210,497
Interest income (expense)	(14,817)	(14,772)	(14,769)	(16,131)	(60,489)	(15,901)	(12,823)	(12,903)	(11,160)	(52,787)	(5,305)	(4,188)	(2,569)	(2,533)	(14,594)	(9,454)
Other income (expense)	(1,035)	(30)	(371)	(213)	(1,649)	1,378	(337)	5,136	1,512	7,689	-	-	-	-	-	-
Pretax income	(2,636)	4,833	12,903	6,689	21,789	10,654	20,958	27,942	24,635	84,189	40,416	43,744	43,470	41,943	169,573	201,044
Taxes	(844)	1,923	4,896	3,054	9,029	4,138	8,085	10,665	9,509	32,397	14,805	16,077	15,629	15,079	61,590	69,705
Adj Net income	(1,792)	2,910	8,007	3,635	12,760	6,516	12,873	17,277	15,126	51,792	25,611	27,667	27,842	26,863	107,983	131,338
Adj EPS b/f charges	\$ (0.03)	\$ 0.06	\$ 0.15	\$ 0.07	\$ 0.25	\$ 0.13	\$ 0.25	\$ 0.33	\$ 0.26	\$ 0.97	\$ 0.41	\$ 0.46	\$ 0.47	\$ 0.46	\$ 1.78	\$ 2.21
Diluted shares	52,008	52,038	52,017	51,973	52,009	51,947	52,185	52,514	57,504	53,538	63,103	60,464	58,774	58,835	60,677	59,551
Common Size:																
Direct costs	70.0%	66.9%	64.4%	64.3%	66.3%	65.4%	64.3%	62.4%	62.7%	63.6%	59.3%	60.7%	61.2%	62.4%	60.9%	61.3%
Gross margin	30.0%	33.1%	35.6%	35.7%	33.7%	34.6%	35.7%	37.6%	37.3%	36.4%	40.7%	39.3%	38.8%	37.6%	39.1%	38.7%
SG&A	18.2%	17.8%	16.2%	19.5%	17.9%	17.3%	16.5%	18.2%	18.9%	17.8%	16.8%	16.3%	16.7%	17.0%	16.7%	16.3%
Adj EBITDA	11.8%	15.3%	19.4%	16.2%	15.8%	17.4%	19.2%	19.5%	18.4%	18.6%	23.9%	23.0%	22.1%	20.6%	22.3%	22.4%
Depreciation	3.0%	3.0%	2.8%	3.0%	2.9%	3.7%	2.5%	2.3%	2.3%	2.7%	2.3%	1.9%	2.0%	2.0%	2.0%	2.0%
Total expenses	91.2%	87.7%	83.4%	86.8%	87.1%	86.4%	83.2%	82.8%	84.0%	84.0%	78.4%	78.9%	79.9%	81.4%	79.7%	79.6%
Adj EBITA	8.8%	12.3%	16.6%	13.2%	12.9%	13.6%	16.8%	17.2%	16.0%	16.0%	21.6%	21.1%	20.1%	18.6%	20.3%	20.4%
Interest income (expense)	-9.9%	-9.3%	-8.7%	-9.3%	-9.3%	-8.6%	-6.3%	-6.2%	-5.2%	-6.5%	-2.5%	-1.8%	-1.1%	-1.1%	-1.6%	-0.9%
Other income (expense)	-0.7%	0.0%	-0.2%	-0.1%	-0.3%	0.7%	-0.2%	2.5%	0.7%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax income	-1.8%	3.0%	7.6%	3.8%	3.3%	5.8%	10.3%	13.4%	11.5%	10.4%	19.1%	19.2%	19.0%	17.6%	18.7%	19.5%
Taxes	32.0%	39.8%	37.9%	45.7%	38.9%	38.8%	38.6%	38.2%	38.6%	38.5%	36.6%	36.8%	36.0%	36.0%	36.3%	34.7%
Adjusted net income	-1.2%	1.8%	4.7%	2.1%	2.0%	3.5%	6.3%	8.3%	7.1%	6.4%	12.1%	12.2%	12.2%	11.2%	11.9%	12.7%



**INC Research Holdings, Inc. and Subsidiaries**

Source: Jefferies &amp; Co.

FY December, \$000	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4	2014	Q1-A	Q2-A	Q3	Q4	2015	2016
Balance Sheet																
Cash & equivalents	\$60,410	\$68,811	\$77,910	\$96,972	\$96,972	\$114,159	\$155,549	\$185,803	\$126,453	\$126,453	\$156,349	\$98,511	\$127,672	\$156,267	\$156,267	\$227,839
Restricted cash	1,277	1,565	1,528	569	569	569	581	539	505	505	480	478	482	502	502	569
Accounts receivable																
Billed, net	123,744	112,580	120,098	129,628	129,628	117,261	154,913	130,433	130,270	130,270	149,745	143,617	144,701	150,945	150,945	170,882
Unbilled services	119,773	126,491	124,910	99,207	99,207	100,177	108,503	107,375	118,101	118,101	122,701	132,650	133,651	139,418	139,418	157,833
Deferred income taxes	9,352	9,346	9,405	14,378	14,687	14,687	14,688	14,667	16,177	16,177	17,082	16,965	17,093	17,831	17,831	20,186
Other current assets	37,731	36,747	34,635	35,428	35,428	35,080	37,496	39,802	35,393	35,393	30,965	34,466	34,726	36,225	36,225	41,009
Total current assets	352,287	355,540	368,486	376,182	376,182	381,933	471,730	478,619	426,899	426,899	477,322	426,687	458,324	501,187	501,187	618,317
Property & equipment, net	41,111	39,918	40,825	40,947	40,947	38,839	41,963	41,515	43,725	43,725	41,813	40,469	40,929	44,237	44,237	51,066
Goodwill	565,188	563,749	563,581	563,365	563,365	566,883	556,980	556,336	556,863	556,863	553,597	553,584	553,584	553,584	553,584	553,584
Intangible assets, net	260,858	250,738	240,952	231,051	231,051	223,621	209,783	200,051	190,359	190,359	180,801	171,323	171,323	171,323	171,323	171,323
Deferred income taxes	4,047	4,733	4,755	3,780	3,780	3,319	25,229	25,491	15,665	15,665	11,355	12,221	12,221	12,221	12,221	12,221
Other long-term assets	19,225	18,130	16,935	17,786	17,786	15,030	14,836	14,029	11,576	11,576	11,615	11,460	11,460	11,460	11,460	11,460
Total assets	1,242,716	1,232,808	1,235,534	1,233,111	1,233,111	1,229,625	1,320,521	1,316,041	1,245,087	1,245,087	1,276,503	1,215,744	1,247,841	1,294,011	1,294,011	1,417,971
Liabilities & Equity																
Accounts payable & accrued expenses	30,547	27,120	20,686	9,594	9,594	8,748	17,222	15,221	16,548	16,548	14,010	14,756	14,867	15,509	15,509	17,557
Accrued liabilities	77,313	76,776	80,831	94,221	94,221	85,599	105,057	108,112	111,655	111,655	97,026	100,271	101,028	105,387	105,387	119,307
Deferred revenue	197,335	204,411	210,990	207,188	207,188	219,484	268,845	257,254	246,902	246,902	282,510	297,093	299,335	312,251	312,251	353,494
Current portion, L-T debt	3,000	980	1,730	4,713	4,713	-	-	-	4,250	4,250	4,250	-	-	-	-	-
Current portion, capital lease obligations	2,980	2,982	2,964	2,292	2,292	1,986	1,367	628	441	441	254	111	112	117	117	132
Total current liabilities	311,175	312,269	317,201	318,008	318,008	315,817	392,491	381,215	379,796	379,796	398,050	412,231	415,341	433,264	433,264	490,490
L-T debt, less current	588,232	587,932	587,630	587,202	587,202	587,265	587,481	587,728	415,277	415,277	414,450	475,000	475,000	475,000	475,000	435,000
Capital lease obligations, less current	1,972	1,321	580	272	272	333	151	49	11	11	-	-	-	-	-	-
Deferred taxes	21,194	21,634	21,993	29,233	29,233	29,288	27,893	29,470	30,368	30,368	28,526	27,236	27,236	27,236	27,236	27,236
Other long-term liabilities	19,931	19,720	20,472	22,189	22,189	23,461	23,478	24,091	27,426	27,426	26,523	20,909	20,909	20,909	20,909	20,909
Shareholders' equity	300,212	289,932	287,658	276,207	276,207	273,461	289,027	293,488	392,209	392,209	408,954	280,368	309,355	337,603	337,603	444,336
Total liabilities & equity	1,242,716	1,232,808	1,235,534	1,233,111	1,233,111	1,229,625	1,320,521	1,316,041	1,245,087	1,245,087	1,276,503	1,215,744	1,247,841	1,294,011	1,294,011	1,417,971
check	0	0	0	0		0	0	0	0		0	0	0	0		
Ratios:										\$415,288						
Net Cash/Share	\$(10.21)	\$(10.03)	\$(9.86)	\$(9.48)		\$(9.15)	\$(8.30)	\$(7.67)	\$(5.03)		\$(4.09)	\$(6.23)	\$(5.91)	\$(5.42)		
DSO	75.2	64.4	65.3	68.4		57.8	69.3	57.1	56.1		64.4	57.5	58.1	58.1		
Net A/R + Unbilled - Adv. Bills	46,182	34,660	34,018	21,647		(2,046)	(5,429)	(19,446)	1,469		(10,064)	(20,826)	(20,983)	(21,889)		
Net DSO	28.1	19.8	18.5	11.4		(1.0)	(2.4)	(8.5)	0.6		(4.3)	(8.3)	(8.4)	(8.4)		
Book value	\$5.77	\$5.57	\$5.53	\$5.31		\$5.26	\$5.54	\$5.59	\$6.82		\$6.48	\$4.64	\$5.26	\$5.74		
Tangible book value	\$(5.09)	\$(5.26)	\$(5.30)	\$(5.53)		\$(5.65)	\$(5.13)	\$(5.01)	\$(2.86)		\$(2.29)	\$(4.52)	\$(4.16)	\$(3.67)		
Debt/total capitalization	66.3%	67.1%	67.2%	68.1%		68.3%	67.1%	66.7%	51.5%		50.3%	62.9%	60.6%	58.5%		
ROE					9.2%					15.5%					29.6%	33.6%

**INC Research Holdings, Inc. and Subsidiaries**

Source: Jefferies &amp; Co.

Source: Jefferies & Co.		2013-A					2014-A					2015E						
FY December, \$000		Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4	2014	Q1-A	Q2-A	Q3	Q4	2015	2016	
<b>Cash Flow Statement</b>																		
<b>Operating cash flow</b>																		
Net income (loss)	\$ (16,746)	\$ (10,634)	\$ (1,170)	\$ (12,979)	\$ (41,529)	\$ (1,552)	\$15,307	\$12,555	\$ (49,780)	\$ (23,470)	\$25,256	\$23,321	\$27,842	\$26,863	\$103,282	\$131,338		
Depreciation	4,446	4,758	4,730	5,241	19,175	6,869	5,025	4,734	4,991	21,619	4,766	4,420	4,590	4,754	18,530	20,721		
Amortization	9,834	9,830	9,823	9,811	39,298	7,502	6,238	9,597	9,587	32,924	9,478	9,473						
Debt issuance/extinguishment	1,334	1,366	1,330	3,043	7,073	2,944	900	974	47,632	52,450		9,795			9,795	-		
Stock-based compensation	355	364	134	1,566	2,419	531	893	881	1,065	3,370	707	913	1,145	1,385	4,150	5,395		
Foreign currency adjustments	1,735	665	(1,402)	(589)	409	(2,328)	(2,613)	(5,756)	3,307	(7,390)	(2,389)	(2,074)	-	-	(4,463)	-		
Other	267	(339)	(641)	4,913	4,200	1,088	(4,518)	1,641	8,256	6,467	5,406	(735)			4,671	-		
Changes in working capital					-					-			634	3,654	4,289	11,669		
Restricted cash	(298)	(289)	146	918	477	-	(6)	26	11	31	-	-						
A/R & unbilled services	(22,163)	4,536	(3,168)	18,258	(2,537)	12,176	(46,321)	22,772	(12,886)	(24,259)	(28,001)	(807)	-	-	(28,808)	-		
Other	(3,229)	908	3,214	794	1,687	2,743	(3,109)	(1,749)	3,335	1,220	2,683	(8,672)	-	-	(5,989)	-		
Current liabilities	6,759	3,065	2,887	(6,113)	6,598	1,237	77,390	(8,743)	(1,399)	68,485	25,725	16,010	-	-	41,735	-		
<b>Total operating cash flow</b>	<b>(17,706)</b>	<b>14,230</b>	<b>15,883</b>	<b>24,863</b>	<b>37,270</b>	<b>31,210</b>	<b>49,186</b>	<b>36,932</b>	<b>14,119</b>	<b>131,447</b>	<b>43,631</b>	<b>51,644</b>	<b>34,211</b>	<b>36,656</b>	<b>147,192</b>	<b>169,123</b>		
Capital expenditures	(3,703)	(3,538)	(5,318)	(5,155)	(17,714)	(4,624)	(8,315)	(4,800)	(7,812)	(25,551)	(4,870)	(2,799)	(5,050)	(8,062)	(20,781)	(27,551)		
Acquisitions/Divestitures	-	-	-	-	-	(2,302)	-	-	-	(2,302)	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
<b>Total investing cash flow</b>	<b>(3,703)</b>	<b>(3,538)</b>	<b>(5,318)</b>	<b>(5,155)</b>	<b>(17,714)</b>	<b>(6,926)</b>	<b>(8,315)</b>	<b>(4,800)</b>	<b>(7,812)</b>	<b>(27,853)</b>	<b>(4,870)</b>	<b>(2,799)</b>	<b>(5,050)</b>	<b>(8,062)</b>	<b>(20,781)</b>	<b>(27,551)</b>		
Net changes in debt	1,296	(3,418)	(890)	(980)	(3,992)	(6,266)	(800)	(842)	(206,887)	(214,795)	(1,262)	45,933	-	-	44,671	(40,000)		
Net changes in equity	(112)	157	(550)	(1,078)	(1,583)	(125)	(132)	(48)	152,766	152,461	-	(151,163)	-	-	(151,163)	(30,000)		
Payment of M&A contingent consideration	-	-	(1,266)	-	(1,266)	-	-	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	(5,364)	(5,364)	-	(901)	-	-	(901)	-		
<b>Total financing cash flow</b>	<b>1,184</b>	<b>(3,261)</b>	<b>(2,706)</b>	<b>(2,058)</b>	<b>(6,841)</b>	<b>(6,391)</b>	<b>(932)</b>	<b>(890)</b>	<b>(59,485)</b>	<b>(67,698)</b>	<b>(1,262)</b>	<b>(106,131)</b>	<b>-</b>	<b>-</b>	<b>(107,393)</b>	<b>(70,000)</b>		
FX impact	(728)	970	1,240	1,412	2,894	(706)	1,451	(988)	(6,172)	(6,415)	(7,603)	(552)	-	-	(8,155)	-		
Net increase(decrease) in cash	(20,953)	8,401	9,099	19,062	15,609	17,187	41,390	30,254	(59,350)	29,481	29,896	(57,838)	29,161	28,594	10,863	71,572		
Beginning cash	81,363	60,410	68,811	77,910	81,363	96,972	114,159	155,549	185,803	96,972	126,453	156,349	98,511	127,672	126,453	137,316		
<b>Ending cash</b>	<b>60,410</b>	<b>68,811</b>	<b>77,910</b>	<b>96,972</b>	<b>96,972</b>	<b>114,159</b>	<b>155,549</b>	<b>185,803</b>	<b>126,453</b>	<b>126,453</b>	<b>156,349</b>	<b>98,511</b>	<b>127,672</b>	<b>156,267</b>	<b>137,316</b>	<b>208,888</b>		

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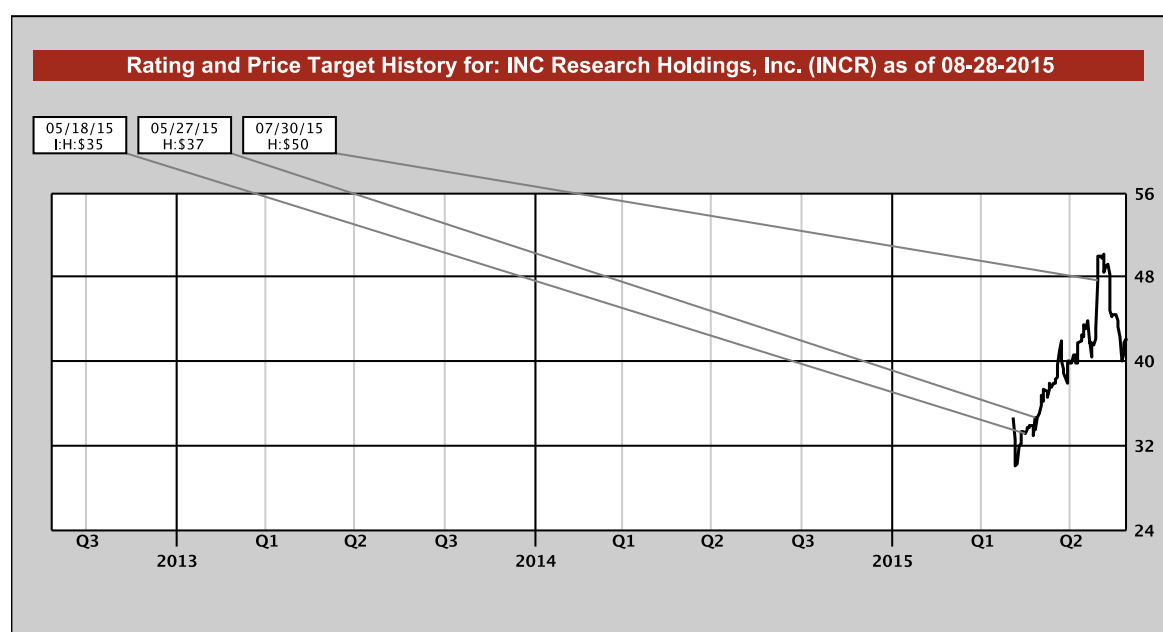
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- ICON plc (ICLR: \$77.00, BUY)
- PAREXEL International Corporation (PRXL: \$65.72, HOLD)
- PRA Health Sciences (PRAH: \$37.63, BUY)
- Quintiles Inc. (Q: \$74.51, BUY)
- WuXi PharmaTech Inc. (WX: \$42.26, HOLD)



## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	831	39.76%	165	19.86%
UNDERPERFORM	144	6.89%	15	10.42%

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