

## Equity Research

### INC Research Holdings, Inc.

INCR: All-Around Strong Quarter Positive For Late Stage CROs

Outperform / V

• **All-around strong quarter is encouraging for both INCR and the group.** INCR reported a very strong quarter on all metrics: bookings, revenue, margin, and EPS beat our estimates substantially, and the company raised 2015 guidance by more than the beat. The revenue beat was driven by an uptick in backlog conversion, while the margin beat was driven by improving resource utilization, settlements of certain obligations (essentially one-time in nature), and FX. The clean print should come as a welcome relief for investors in late stage contract research organizations (CROs), which have had a mixed earnings season so far. As for INCR, we believe the company is executing very well, and we expect that trend to continue. Remain Outperform. Raising 2015/2016E to \$1.90/2.18 from \$1.73/2.07 previously.

• **Leverage to smaller companies offers perspective that things are OK for now.** INCR receives about 41% of its revenue from small and mid-sized biopharma, which is likely among the highest "small company" exposures in the public CRO group. Management indicated that companies dependent on the capital markets for funding represented less than 10% of backlog, but that those projects in backlog were already funded. Until very recently, this exposure was seen as a positive, with small companies having high valuations, robust funding, strong pipelines, and products with excellent pricing power. Investor sentiment has now shifted, and we are getting questions about risks to CROs should valuations, funding, and pricing power be less robust in the future. We think INCR's strong 1.4 book-to-bill this quarter signals that things are still going well with small companies. We are not sanguine about the long-term risks to biopharma vendors should drug pricing in the U.S. become less favorable, but we do think this risk is now reflected in group multiples, and for now, "all is well."

• **Margin expansion has been key driver—can it continue?** For the past three quarters, the company has posted an EBITDA margin 300-400 bps in excess of its long-term 20% target. We believe this has been the most significant driver of stock outperformance. Margin expansion has been driven by strong execution against efficiency initiatives (e.g., facility utilization and clinical trial system consolidation), certain one-time items (about 115 bps EBITDA margin tailwind YTD), and FX (about 140 bps TW YTD). Management indicates margin expansion should continue in the long-term, but investors should expect margins to be flat in the near-term as one-time items roll off and the company re-invests savings to drive growth. Given one-time items and FX, we are expecting operating margins to be down slightly in 2016 before resuming expansion.

#### Valuation Range: \$50.00 to \$55.00

Our valuation range is DCF-based (WACC = 8.0%; terminal NOPLAT growth = 2%) and represents 20x our 2017 EPS estimate. Risks include: (1) project cancellations or delays due to client M&A, economic weakness, pipeline reprioritization, or compound failure; (2) a reversal in the trend toward increased outsourcing; (3) regulatory risks; (4) limited track record in public equity markets; and (5) controlled company status.

#### Investment Thesis:

We believe INCR should be able to grow revenue and EPS at a CAGR of at least 10% and 15%, respectively, over the next few years. While we also expect higher-than-average bookings volatility, we believe the strong growth potential tilts the risk/reward profile in a favorable direction.

Please see page 6 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 10/29/15 unless otherwise stated.

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Sector: Pharmaceutical Services  
Overweight

#### Earnings Estimates Revised Up

	2014A	2015E	2016E	
EPS		Curr. Prior	Curr. Prior	
Q1 (Mar.)	\$0.11	\$0.41 A	NC	\$0.52 0.50
Q2 (June)	0.25	0.46 A	NC	0.54 0.51
Q3 (Sep.)	0.27	0.56 A	0.42	0.55 0.52
Q4 (Dec.)	0.25	0.48	0.43	0.57 0.54
FY	\$0.89	\$1.90	1.73	\$2.18 2.07
CY	\$0.89	\$1.90		\$2.18
FY P/EPS	44.6x	20.9x		18.2x
Rev.(MM)	\$810	\$912		\$1,005

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters  
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful  
V = Volatile, \* = Company is on the Priority Stock List

Non-GAAP EPS excludes amortization of intangibles and non-recurring items.

Ticker	INCR
Price (10/29/2015)	\$39.65
52-Week Range:	\$19-52
Shares Outstanding: (MM)	56.5
Market Cap.: (MM)	\$2,240.2
S&P 500:	2,087.15
Avg. Daily Vol.:	333.399
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$475.0
LT Debt/Total Cap.:	60.0%
ROE:	33.0%
3-5 Yr. Est. Growth Rate:	18.0%
CY 2015 Est. P/EPS-to-Growth:	1.2x
Last Reporting Date:	10/29/2015

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Together we'll go far



## Exhibit 1. Variance Table

Report Date: 10/29/2015

FY ending December In MM except EPS	Actual		Est	Actual	Cons	Yr / Yr change	Seq change
	Q3 2014	Q2 2015	Q3 2015	Q3 2015	Q3 2015		
Total revenues	\$ 208	\$ 227	\$ 230	\$ 234	\$ 231	12.9%	3.1%
Cost of revenues	130	138	142	136		4.6%	(1.8%)
Gross profit	78	89	87	99		26.5%	10.7%
Selling, general & administrative	38	37	40	40		7.1%	8.9%
Depreciation	5	4	4	4		(8.0%)	(1.4%)
Operating income	36	48	43	54		51.7%	13.3%
Interest expense and other, net	13	4	4	3		(76.5%)	(27.5%)
Pretax income	23	44	39	51		124.2%	17.2%
Provision for income taxes	8	16	15	18		118.0%	17.1%
Income before equity in affiliate	14	28	\$ 25	\$ 33		127.9%	17.3%
<b>Non-GAAP EPS</b>	<b>0.27</b>	<b>\$ 0.46</b>	<b>\$ 0.42</b>	<b>\$ 0.56</b>		103.7%	20.6%
Non-GAAP EPS (company method)	0.28	\$ 0.47	\$ 0.43	\$ 0.58	\$ 0.44	102.8%	21.9%
Diluted shares outstanding	53	60	59	59			
<b>EBITDA</b>	<b>\$ 40</b>	<b>\$ 52</b>	<b>\$ 47</b>	<b>\$ 59</b>		44.7%	12.0%
<b>MARGIN ANALYSIS</b>							
Cost of revenue	62.4%	60.7%	62.0%	57.8%		(460) bps	(290) bps
<b>Gross margin</b>	<b>37.6%</b>	<b>39.3%</b>	<b>38.0%</b>	<b>42.2%</b>		460 bps	290 bps
SG&A / revenue	18.2%	16.3%	17.5%	17.2%		(90) bps	90 bps
Depreciation / revenue	2.3%	1.9%	1.9%	1.9%		(40) bps	(10) bps
<b>Operating margin</b>	<b>17.2%</b>	<b>21.0%</b>	<b>18.6%</b>	<b>23.1%</b>		590 bps	210 bps
Pretax margin	11.0%	19.2%	17.1%	21.8%		1080 bps	260 bps
<b>Tax rate</b>	<b>37.0%</b>	<b>36.0%</b>	<b>37.0%</b>	<b>35.9%</b>		(100) bps	0 bps
Net margin	<b>6.9%</b>	<b>12.3%</b>	<b>10.8%</b>	<b>14.0%</b>		710 bps	170 bps
<b>EBITDA margin</b>	<b>19.5%</b>	<b>23.0%</b>	<b>20.5%</b>	<b>25.0%</b>		550 bps	200 bps
<b>REVENUE ANALYSIS</b>							
<b>Total revenues</b>	<b>\$ 208</b>	<b>\$ 227</b>	<b>\$ 230</b>	<b>\$ 234</b>	<b>\$ 231</b>	12.9%	3.1%
Growth: core	22.7%	17.3%	15.2%	17.8%			
Growth: FX	(0.2%)	(5.6%)	(4.6%)	(5.0%)			
Growth: acquisitions	0.4%	0.0%	0.0%	0.0%			
Growth: total	22.9%	11.7%	10.5%	12.9%			
Beginning backlog	\$ 1,493	\$ 1,595	\$ 1,676	\$ 1,676			
Revenue	(208)	(227)	(230)	(234)			
Net bookings	249	296	276	328		31.5%	10.7%
Other adjustments	(28)	12	(1)	(3)			
Ending backlog	\$ 1,506	\$ 1,676	\$ 1,721	1766			
Net book-to-bill	1.20	1.30	1.20	1.40			
Backlog burn rate	13.9%	14.3%	13.7%	14.0%			

Source: FactSet; Company data; Wells Fargo Securities, LLC estimates

**Exhibit 2. Estimate Changes**

FY ending December In MM except EPS	2015E			2016E		
	Prior	Current	Change	Prior	Current	Change
Total revenues	\$ 906	\$ 912	0.6%	\$ 1,010	\$ 1,005	(0.5%)
Cost of revenues	553	543	(1.9%)	621	607	(2.2%)
Gross profit	353	369	4.6%	389	398	2.4%
Selling, general & administrative	155	156	1.0%	169	171	1.3%
Depreciation	18	18	(3.0%)	23	18	(19.5%)
Operating income	180	195	8.5%	197	209	5.8%
Interest expense and other, net	17	16	(6.0%)	13	14	1.5%
Pretax income	163	180	10.0%	184	195	6.1%
Provision for income taxes	60	65	9.2%	63	66	6.1%
Income before equity in affiliate	104	\$ 115	10.4%	121	\$ 129	6.1%
<b>Non-GAAP EPS</b>	<b>1.73</b>	<b>\$ 1.90</b>	10.1%	<b>2.07</b>	<b>\$ 2.18</b>	5.6%
Non-GAAP EPS (company method)	1.77	\$ 1.95	10.3%	2.11	\$ 2.23	5.5%
Diluted shares outstanding	60	60		59	59	
<b>EBITDA</b>	<b>\$ 198</b>	<b>\$ 213</b>	7.4%	<b>\$ 220</b>	<b>\$ 227</b>	3.2%
<b>MARGIN ANALYSIS</b>						
Cost of revenue	61.0%	59.5%	(150) bps	61.5%	60.4%	(110) bps
<b>Gross margin</b>	<b>39.0%</b>	<b>40.5%</b>	150 bps	<b>38.5%</b>	<b>39.6%</b>	110 bps
SG&A / revenue	17.1%	17.1%	10 bps	16.7%	17.0%	30 bps
Depreciation / revenue	2.0%	2.0%	(10) bps	2.3%	1.8%	(40) bps
<b>Operating margin</b>	<b>19.9%</b>	<b>21.4%</b>	160 bps	<b>19.5%</b>	<b>20.8%</b>	120 bps
Pretax margin	18.0%	19.7%	170 bps	18.2%	19.4%	120 bps
<b>Tax rate</b>	<b>36.4%</b>	<b>36.2%</b>	(20) bps	<b>34.0%</b>	<b>34.0%</b>	0 bps
Net margin	<b>11.5%</b>	<b>12.6%</b>	110 bps	<b>12.0%</b>	<b>12.8%</b>	80 bps
<b>EBITDA margin</b>	<b>21.9%</b>	<b>23.4%</b>	150 bps	<b>21.8%</b>	<b>22.6%</b>	80 bps
<b>REVENUE ANALYSIS</b>						
<b>Total revenues</b>	<b>\$ 906</b>	<b>\$ 912</b>	0.6%	<b>\$ 1,010</b>	<b>\$ 1,005</b>	(0.5%)
Growth: core	16.3%	17.1%		11.5%	10.3%	
Growth: FX	(4.5%)	(4.6%)		(0.1%)	(0.1%)	
Growth: acquisitions	0.1%	0.1%		0.0%	0.0%	
Growth: total	11.9%	12.6%		11.5%	10.2%	
Beginning backlog	\$ 1,589	\$ 1,589		\$ 1,769	\$ 1,816	
Revenue	(906)	(912)		(1,010)	(1,005)	
Net bookings	1,112	1,165	4.8%	1,212	1,206	-0.5%
Other adjustments	(26)	(27)		-	-	
Ending backlog	\$ 1,769	1816		\$ 1,971	2017	
Net book-to-bill	1.23	1.28		1.20	1.20	
Backlog burn rate	57.0%	57.4%		57.1%	55.4%	

Source: Company data; Wells Fargo Securities, LLC estimates

**Exhibit 3. Guidance Table**

Guidance	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	Notes
<b>Consolidated Revenue (MM)</b>						
10/2/2014					\$869	Targeting 10-12% LT growth
10/23/2014					\$894	
2/24/2015	Flat to down seq				\$870-900	\$32MM FX HW
4/27/2015					\$880-905	\$40MM FX HW
7/30/2015					\$900-910	\$35.5MM FX HW
10/29/2015					\$910-914	\$37.3MM FX HW; 18.3-18.8% cc growth
<b>Non-GAAP EPS</b>						
2/24/2015					\$1.19-1.29	
4/27/2015					\$1.40-1.52	Does not include share repos
5/14/2015					\$1.45-1.57	Includes share repos
7/30/2015					\$1.69-1.80	
10/29/2015					\$1.91-1.97	
<b>Adjusted EBITDA (MM) or EBITDA margin</b>						
10/2/2014					\$156	Targeting 13-15% LT growth
10/23/2014					\$167	
2/24/2015					\$159-169	FX about neutral at midpoint on \$ basis
4/27/2015		18.5-19.5% for Q2-Q4			\$175-185	
7/30/2015					\$195-205	
10/29/2015					\$214-220	
<b>SG&amp;A</b>						
10/29/2015				17.5%-18.5%	16.5-17.5%	
<b>Gross margin</b>						
4/27/2015		36-38% for Q2-Q4				
7/30/2015						
10/29/2015				39-40.5%	40-41%	
<b>Adj. Net Income (MM)</b>						
10/2/2014					\$73	Targeting 20% LT growth
10/23/2014					\$80	
2/24/2015					\$75-82	
4/27/2015					\$89.5-97.0	
5/14/2015					\$87.5-95.0	
7/30/2015					\$102-109	
10/29/2015					\$115-118.5	

Source: Company press releases and transcripts; Wells Fargo Securities, LLC

**Long-term targets**

Revenue growth	10-12%
Adj. EBITDA growth	13-15%
EPS growth	20%

Source: Company press releases and transcripts; Wells Fargo Securities, LLC

**INC Research Holdings (FY Ending December)**

In millions, except per share or where otherwise noted

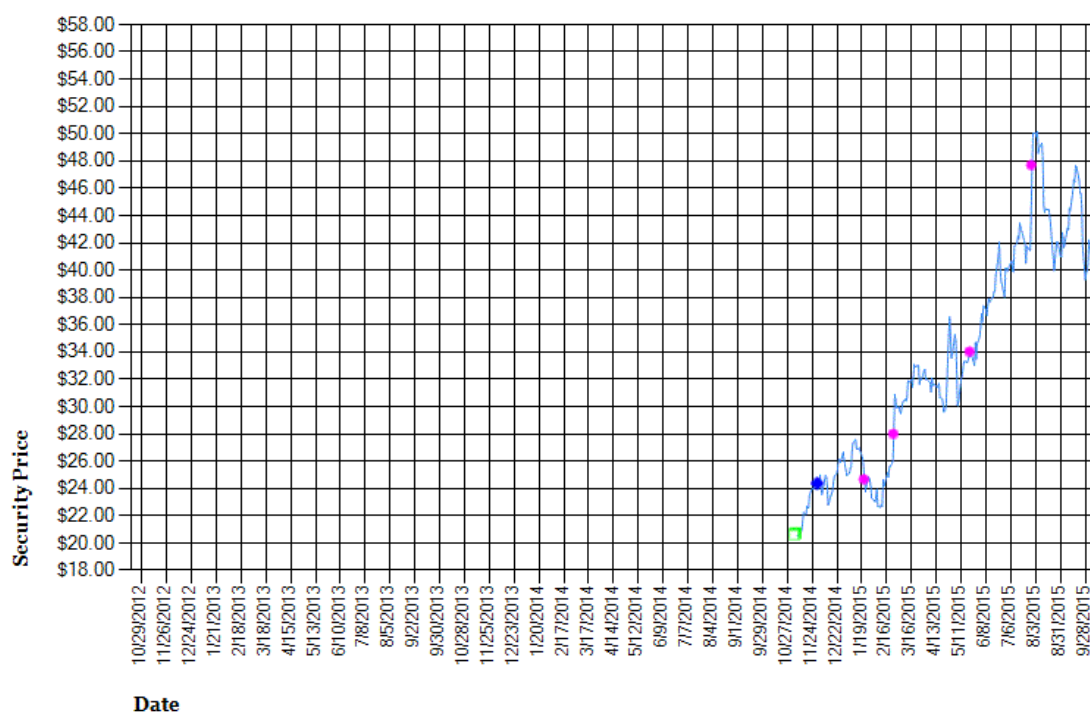
INCOME STATEMENT	2011	2012	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4E	2015E	2016E	2017E
Total revenue	\$ 437	\$ 579	\$ 652	\$ 185	\$ 204	\$ 208	\$ 214	\$ 810	\$ 212	\$ 227	\$ 234	\$ 238	\$ 912	\$ 1,005	\$ 1,125
Cost of revenues	280	389	432	121	131	130	134	515	125	138	136	144	543	607	675
Gross profit	157	190	220	64	73	78	80	295	86	89	99	95	369	398	450
Selling, general & administrative	95	110	117	32	34	38	41	144	36	37	40	43	156	171	188
Depreciation	16	20	19	7	5	5	5	22	5	4	4	4	18	18	22
Operating income	47	60	84	25	34	36	34	129	46	48	54	48	195	209	240
Interest expense and other, net	54	57	60	16	13	13	11	53	5	4	3	3	16	14	12
Pretax income	(7)	3	23	9	21	23	23	76	40	44	51	45	180	195	228
Provision for income taxes	(3)	1	9	3	8	8	8	28	14	16	18	17	65	66	73
Net income	\$ (4)	\$ 2	\$ 15	\$ 6	\$ 13	\$ 14	\$ 14	\$ 48	\$ 26	\$ 28	\$ 33	\$ 28	\$ 115	\$ 129	\$ 155
<b>Non-GAAP EPS</b>	<b>\$ (0.10)</b>	<b>\$ 0.04</b>	<b>\$ 0.28</b>	<b>\$ 0.11</b>	<b>\$ 0.25</b>	<b>\$ 0.27</b>	<b>\$ 0.25</b>	<b>\$ 0.89</b>	<b>\$ 0.41</b>	<b>\$ 0.46</b>	<b>\$ 0.56</b>	<b>\$ 0.48</b>	<b>\$ 1.90</b>	<b>\$ 2.18</b>	<b>\$ 2.61</b>
Non-GAAP EPS (company method)	\$ (0.08)	\$ 0.05	\$ 0.31	\$ 0.12	\$ 0.27	\$ 0.28	\$ 0.26	\$ 0.93	\$ 0.42	\$ 0.47	\$ 0.58	\$ 0.49	\$ 1.95	\$ 2.23	\$ 2.65
Diluted shares outstanding	43.9	52.2	52.0	51.9	52.2	52.5	58.8	53.9	63.1	60.5	58.8	59.0	60.3	59.0	59.4
<b>EBITDA</b>	<b>\$ 63</b>	<b>\$ 80</b>	<b>\$ 103</b>	<b>\$ 32</b>	<b>\$ 39</b>	<b>\$ 40</b>	<b>\$ 39</b>	<b>\$ 150</b>	<b>\$ 50</b>	<b>\$ 52</b>	<b>\$ 59</b>	<b>\$ 52</b>	<b>\$ 213</b>	<b>\$ 227</b>	<b>\$ 262</b>
<b>MARGIN ANALYSIS</b>															
Cost of revenue	64.0%	67.2%	66.3%	65.4%	64.3%	62.4%	62.7%	63.6%	59.3%	60.7%	57.8%	60.2%	59.5%	60.4%	60.0%
<b>Gross margin</b>	<b>36.0%</b>	<b>32.8%</b>	<b>33.7%</b>	<b>34.6%</b>	<b>35.7%</b>	<b>37.6%</b>	<b>37.3%</b>	<b>36.4%</b>	<b>40.7%</b>	<b>39.3%</b>	<b>42.2%</b>	<b>39.8%</b>	<b>40.5%</b>	<b>39.6%</b>	<b>40.0%</b>
SG&A / revenue	21.6%	18.9%	17.9%	17.3%	16.6%	18.2%	19.1%	17.8%	16.9%	16.3%	17.2%	18.0%	17.1%	17.0%	16.7%
Depreciation / revenue	3.6%	3.4%	2.9%	3.7%	2.5%	2.3%	2.3%	2.7%	2.3%	1.9%	1.9%	1.8%	2.0%	1.8%	2.0%
<b>Operating margin</b>	<b>10.7%</b>	<b>10.4%</b>	<b>12.9%</b>	<b>13.6%</b>	<b>16.7%</b>	<b>17.2%</b>	<b>15.9%</b>	<b>15.9%</b>	<b>21.5%</b>	<b>21.0%</b>	<b>23.1%</b>	<b>20.0%</b>	<b>21.4%</b>	<b>20.8%</b>	<b>21.3%</b>
Pretax margin	(1.6%)	0.5%	3.6%	5.0%	10.4%	11.0%	10.7%	9.4%	19.0%	19.2%	21.8%	18.7%	19.7%	19.4%	20.2%
<b>Tax rate</b>	<b>37.0%</b>	<b>37.5%</b>	<b>36.9%</b>	<b>36.9%</b>	<b>37.0%</b>	<b>37.0%</b>	<b>36.9%</b>	<b>37.0%</b>	<b>36.0%</b>	<b>36.0%</b>	<b>35.9%</b>	<b>37.0%</b>	<b>36.2%</b>	<b>34.0%</b>	<b>32.0%</b>
Net margin	(1.0%)	0.3%	2.3%	3.2%	6.5%	6.9%	6.7%	5.9%	12.2%	12.3%	14.0%	11.8%	12.6%	12.8%	13.8%
<b>EBITDA margin</b>	<b>14.3%</b>	<b>13.9%</b>	<b>15.8%</b>	<b>17.4%</b>	<b>19.1%</b>	<b>19.5%</b>	<b>18.2%</b>	<b>18.6%</b>	<b>23.8%</b>	<b>23.0%</b>	<b>25.0%</b>	<b>21.8%</b>	<b>23.4%</b>	<b>22.6%</b>	<b>23.3%</b>
<b>CHANGE ANALYSIS (Y/Y)</b>															
<b>Total revenues</b>		<b>32.5%</b>	<b>12.7%</b>	<b>23.3%</b>	<b>27.9%</b>	<b>22.9%</b>	<b>22.6%</b>	<b>24.1%</b>	<b>14.5%</b>	<b>11.7%</b>	<b>12.9%</b>	<b>11.5%</b>	<b>12.6%</b>	<b>10.2%</b>	<b>11.9%</b>
Cost of revenue		39.0%	11.1%	15.3%	22.8%	19.0%	19.5%	19.2%	3.9%	5.5%	4.6%	7.1%	5.3%	11.9%	11.2%
<b>Gross profit</b>		<b>20.9%</b>	<b>15.8%</b>	<b>42.2%</b>	<b>38.0%</b>	<b>29.9%</b>	<b>28.1%</b>	<b>33.8%</b>	<b>34.6%</b>	<b>22.8%</b>	<b>26.5%</b>	<b>19.0%</b>	<b>25.3%</b>	<b>7.8%</b>	<b>13.1%</b>
SG&A		16.0%	6.7%	16.8%	19.5%	37.7%	19.9%	23.2%	12.3%	9.8%	7.1%	5.3%	8.3%	9.4%	10.0%
Depreciation		26.8%	(3.7%)	54.5%	5.6%	0.1%	(4.8%)	12.7%	(30.6%)	(12.0%)	(8.0%)	(14.3%)	(17.6%)	2.8%	20.1%
<b>Operating income</b>		<b>28.9%</b>	<b>38.8%</b>	<b>90.5%</b>	<b>72.7%</b>	<b>27.3%</b>	<b>47.6%</b>	<b>53.5%</b>	<b>80.7%</b>	<b>41.0%</b>	<b>51.7%</b>	<b>40.2%</b>	<b>51.5%</b>	<b>7.0%</b>	<b>15.0%</b>
Pretax income		NA	646.4%	NA	333.7%	71.8%	231.0%	224.3%	333.3%	106.9%	124.2%	95.5%	136.3%	8.7%	16.6%
Net income		NA	654.1%	NA	333.5%	71.9%	230.1%	224.1%	340.1%	110.2%	127.9%	95.4%	139.1%	12.5%	20.2%
<b>EPS</b>		<b>NA</b>	<b>657.1%</b>	<b>NA</b>	<b>332.6%</b>	<b>70.3%</b>	<b>192.0%</b>	<b>213.1%</b>	<b>262.3%</b>	<b>81.4%</b>	<b>103.7%</b>	<b>94.8%</b>	<b>113.5%</b>	<b>15.0%</b>	<b>19.4%</b>
Diluted shares outstanding		19.1%	(0.4%)	(0.1%)	0.2%	0.9%	13.0%	3.5%	21.5%	15.9%	11.9%	0.3%	12.0%	(2.2%)	0.7%
<b>EBITDA</b>		<b>28.4%</b>	<b>28.3%</b>	<b>81.4%</b>	<b>59.6%</b>	<b>23.4%</b>	<b>37.9%</b>	<b>45.9%</b>	<b>56.9%</b>	<b>34.2%</b>	<b>44.7%</b>	<b>33.3%</b>	<b>41.6%</b>	<b>6.6%</b>	<b>15.4%</b>
<b>REVENUE ANALYSIS</b>															
<b>Total revenue</b>	<b>\$ 437</b>	<b>\$ 579</b>	<b>\$ 652</b>	<b>\$ 185</b>	<b>\$ 204</b>	<b>\$ 208</b>	<b>\$ 214</b>	<b>\$ 810</b>	<b>\$ 212</b>	<b>\$ 227</b>	<b>\$ 234</b>	<b>\$ 238</b>	<b>\$ 912</b>	<b>\$ 1,005</b>	<b>\$ 1,125</b>
Growth: core		4.3%	12.3%	22.6%	26.2%	22.7%	24.9%	24.1%	19.2%	17.3%	17.8%	14.6%	17.1%	10.3%	11.9%
Growth: FX		(2.2%)	0.4%	0.6%	1.2%	(0.2%)	(2.7%)	(0.4%)	(4.9%)	(5.6%)	(5.0%)	(3.1%)	(4.6%)	(0.1%)	0.0%
Growth: acquisitions		30.4%	0.0%	0.1%	0.4%	0.4%	0.4%	0.4%	0.3%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Growth: total		32.5%	12.7%	23.3%	27.9%	22.9%	22.6%	24.1%	14.5%	11.7%	12.9%	11.5%	12.6%	10.2%	11.9%
Beginning backlog	\$ 1,222	\$ 1,321	\$ 1,491	\$ 1,594	\$ 1,493	\$ 1,506	\$ 1,506	\$ 1,491	\$ 1,589	\$ 1,595	\$ 1,676	\$ 1,766	\$ 1,589	\$ 1,816	\$ 2,017
Revenue	(579)	(652)	(185)	(204)	(208)	(214)	(214)	(810)	(212)	(227)	(234)	(238)	(912)	(1,005)	(1,125)
Net bookings	676	814	281	103	249	316	316	950	256	296	328	286	1,165	1,206	1,350
Other adjustments	2	9	7	(1)	(28)	(20)	(20)	(42)	(38)	12	(3)	2	(27)	-	-
Ending backlog	\$ 1,222	\$ 1,321	\$ 1,491	\$ 1,594	\$ 1,493	\$ 1,506	\$ 1,589	\$ 1,589	\$ 1,595	\$ 1,676	\$ 1,766	\$ 1,816	\$ 1,816	\$ 2,017	\$ 2,242
<b>Net book-to-bill</b>		<b>1.17</b>	<b>1.25</b>	<b>1.52</b>	<b>0.51</b>	<b>1.20</b>	<b>1.48</b>	<b>1.17</b>	<b>1.21</b>	<b>1.30</b>	<b>1.40</b>	<b>1.20</b>	<b>1.28</b>	<b>1.20</b>	<b>1.20</b>
Backlog burn rate		47.4%	49.4%	12.4%	12.8%	13.9%	14.2%	54.3%	13.3%	14.3%	14.0%	13.5%	57.4%	55.4%	55.8%
<b>OTHER</b>															
Cash and equivalents	\$ 81	\$ 97	\$ 114	\$ 156	\$ 186	\$ 126	\$ 126	\$ 126	\$ 156	\$ 99	\$ 136	\$ 120	\$ 120	\$ 235	\$ 348
Total debt	594	594	590	589	588	420	420	420	419	475	475	470	470	441	403
<b>Net cash (debt)</b>	<b>\$ (513)</b>	<b>\$ (498)</b>	<b>\$ (475)</b>	<b>\$ (433)</b>	<b>\$ (403)</b>	<b>\$ (294)</b>	<b>\$ (294)</b>	<b>\$ (294)</b>	<b>\$ (263)</b>	<b>\$ (377)</b>	<b>\$ (339)</b>	<b>\$ (349)</b>	<b>\$ (349)</b>	<b>\$ (206)</b>	<b>\$ (54)</b>
Debt to TTM EBITDA	0.0x	5.8x	5.0x	4.5x	4.2x	2.8x	2.8x	2.8x	2.5x	2.6x	1.6x	2.2x	2.2x	1.9x	1.5x
Cash flow from operations	\$ 43	\$ 37	\$ 31	\$ 49	\$ 37	\$ 14	\$ 131	\$ 44	\$ 52	\$ 46	\$ (5)	\$ (5)	\$ 137	\$ 171	\$ 182
Capital expenditures	(10)	(18)	(5)	(8)	(5)	(8)	(26)	(5)	(3)	(4)	(5)	(5)	(17)	(25)	(28)
<b>Free cash flow</b>	<b>\$ 33</b>	<b>\$ 20</b>	<b>\$ 27</b>	<b>\$ 41</b>	<b>\$ 32</b>	<b>\$ 6</b>	<b>\$ 106</b>	<b>\$ 39</b>	<b>\$ 49</b>	<b>\$ 42</b>	<b>\$ (10)</b>	<b>\$ (10)</b>	<b>\$ 120</b>	<b>\$ 146</b>	<b>\$ 154</b>
Headcount (actual)	4,890	4,850			5,500	5,600	5,600	5,600	5,805	6,100	6,200	6,450	6,655	7,505	8,305
Book value per share	\$ 6	\$ 5	\$ 5	\$ 6	\$ 6	\$ 7	\$ 7	\$ 7	\$ 6	\$ 5	\$ 5	\$ 6	\$ 6	\$ 8	\$ 10
Tangible book value per share	\$ (10)	\$ (10)	\$ (10)	\$ (9)	\$ (9)	\$ (6)	\$ (7)	\$ (7)	\$ (5)	\$ (7)	\$ (7)	\$ (6)	\$ (6)	\$ (3)	\$ (0)

Source for all: Company reports and Wells Fargo Securities, LLC estimates

**Company Description:**

Raleigh, North Carolina-based INC Research Holdings, Inc. (NASDAQ: INCR) is a mid-size clinical contract research organization. The company is a pure play in clinical (phase I-IV) development. The company is differentiated by its specialization in trials related to central nervous system therapies. It operates in one segment.

**Required Disclosures**

**INC Research Holdings, Inc. (INCR) 3-yr. Price Performance**

Date	Published Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
11/7/2014		IPO at \$18.50			
12/2/2014		Evans			
12/2/2014	24.00	1	27.00	28.00	24.20
1/22/2015	25.50	1	29.00	30.00	24.58
2/24/2015	27.91	1	32.00	34.00	27.93
5/22/2015	34.13	1	40.00	43.00	33.91
7/30/2015	47.36	1	50.00	55.00	47.62

Source: Wells Fargo Securities, LLC estimates and Reuters data

**Symbol Key**

▼ Rating Downgrade  
 ▲ Rating Upgrade  
 ● Valuation Range Change  
 ◆ Initiation, Resumption, Drop or Suspend  
 ■ Analyst Change  
 □ Split Adjustment

**Rating Code Key**

1 Outperform/Buy  
 2 Market Perform/Hold  
 3 Underperform/Sell  
 SR Suspended  
 NR Not Rated  
 NE No Estimate

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