

INC Research, Inc (INCR)

SMALL & MID CAP RESEARCH

Adjusting Estimates Post 3Q15

- **Bottom Line:** Following INCR's 3Q15 earnings we have revisited our financial model. Our estimates incorporate 3Q15 results, increased guidance, updated foreign exchange environment, current profitability trends, and the end-market demand outlook. We are increasing our F15-F17 EPS estimates to \$1.95, \$2.20, and \$2.56, from \$1.76, \$2.08, and \$2.43, respectively. We are maintaining our TP of \$54 which implies shares can trade at 24-25x our F16 EPS estimate of \$2.20, a slight premium to target multiples at peers in light of INCR's above-market growth.

Rating	OUTPERFORM* [V]
Price (30 Oct 15, US\$)	41.71
Target price (US\$)	54.00 ¹
52-week price range	50.15 - 20.49
Market cap. (US\$ m)	2,355.92
Enterprise value (US\$ m)	2,627.87

*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	1.95	2.20	2.56
Prev. EPS (US\$)	—	1.76	2.08	2.43
P/E (x)	50.2	21.4	18.9	16.3
P/E rel. (%)	291.9	125.4	120.6	116.5
Revenue (US\$ m)	800.7	912.8	1,013.2	1,119.6
EBITDA (US\$ m)	145.3	217.9	238.1	270.9
OCFPS (US\$)	1.89	3.31	3.09	3.51
P/OCF (x)	13.6	12.6	13.5	11.9
EV/EBITDA (current)	18.2	12.1	10.4	8.5
Net debt (US\$ m)	293	272	119	-60
ROIC (%)	11.20	19.99	22.96	27.46
Number of shares (m)	56.48	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 30-Oct-2015)

INC Research, Inc (INCR.OQ, \$41.71, OUTPERFORM[V], TP \$54.0)

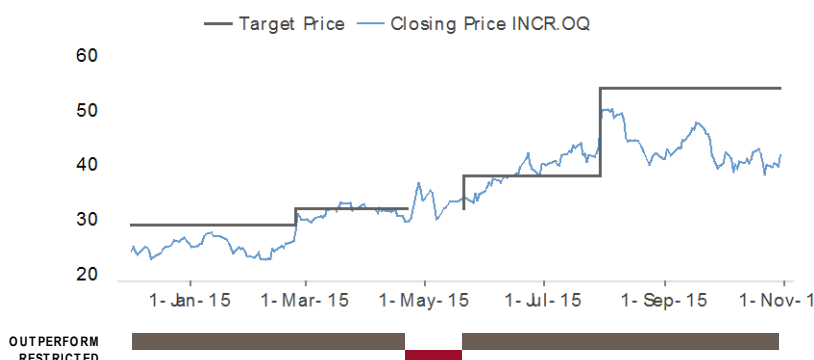
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3-Year Price and Rating History for INC Research, Inc (INCR.OQ)

INCR.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
02-Dec-14	24.20	29.00	O *
24-Feb-15	27.93	32.00	
22-Apr-15	29.64		R
21-May-15	33.65	38.00	O
30-Jul-15	47.62	54.00	
13-Aug-15	44.25	54.00	*

* Asterisk signifies initiation or assumption of coverage.



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

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Underperform/Sell*	13%	(23% banking clients)
Restricted	2%	

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

Method: We arrived at our \$54 target price for INC Research using P/E valuation. Our price to earnings valuation yields a price target of \$54 applying a multiple of 24x-25x our F16 EPS estimate of \$2.20. Our target valuation multiples are slightly above target multiples at clinical peers in light of the company's above-market growth profile. In valuing the contract research organization (CRO) stocks and INC Research, we primarily utilize P/E 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 \$54 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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