

## Contract Research Organizations

INC Research, Inc. (INCR) - Initiating with an Outperform Rating and a \$29 Target Price

December 2, 2014

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# Financial Summary

## INC Research, Inc (INCR.OQ)

Price (28-Nov-14, US\$)  
Market Cap (US\$mn)

Rating	Previous Value				Current value
Target Price (US\$)					24.4
Year	12/13A	12/14E	12/15E	12/16E	1493.5
EPS (CS Adj.) (US\$)	0.24	0.77	1.20	1.45	OUTPERFORM
EPS Prev (US\$)					29.00
EPS (Qtr 1) (US\$)	-0.02	0.13	0.27	0.33	
EPS (Qtr 2) (US\$)	0.06	0.21	0.29	0.36	
EPS (Qtr 3) (US\$)	0.10	0.23	0.31	0.38	
EPS (Qtr 4) (US\$)	0.10	0.21	0.32	0.39	

Source: Credit Suisse Estimates, IBES



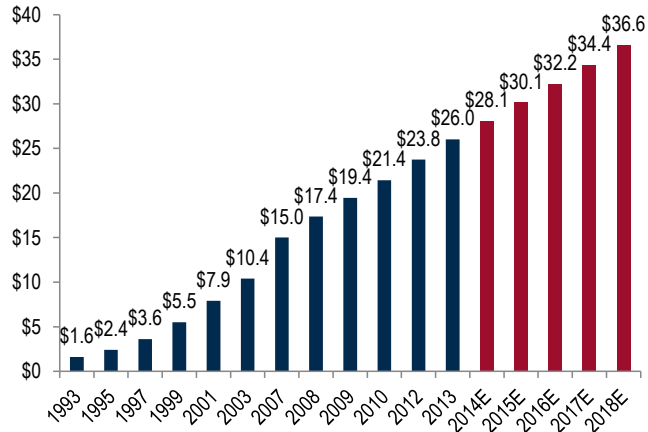
Income Statement	2013FYA	2014FYE	2015FYE	2016FYE
Sales revenue	648	793	875	967
EBITDA	102	142	162	184
Depr. & amort.	-19	-22	-22	-24
EBIT (US\$)	82	120	140	160
Net interest exp	-60	-52	-21	-17
Other adj.	-2	0	0	0
PBT (US\$)	21	68	119	143
Income taxes	-8	-26	-43	-48
Profit after tax	13	42	76	94
Preferred dividends	-0	-0	-0	-0
Associates & other	-1	-1	0	0
Net profit (US\$)	13	42	76	94
Other NPAT adjustments	-58	-60	-11	-10
Reported net income	-45	-18	65	84
Cash Flow	2013FYA	2014FYE	2015FYE	2016FYE
EBIT	82	120	140	160
Net interest	-60	-52	-21	-17
Change in working capital	6	17	-12	2
Other cash & non-cash items	9	10	9	5
Cash flow from operations	37	95	116	150
CAPEX	0	-29	-30	-31
Free cashflow to the firm	37	67	86	119
Cash flow from investments	-18	-31	-30	-31
Cashflow from financing	-7	-59	-73	-122
Changes in Net Cash/Debt	12	171	86	121
Net debt at start	507	495	324	239
Change in net debt	-12	-171	-86	-121
Net debt at end	495	324	239	117
Balance Sheet	2013FYA	2014FYE	2015FYE	2016FYE
Total current assets	376	414	458	495
Total fixed assets	41	48	56	63
Total liabilities	957	839	784	702
Shareholder equity	276	403	472	561
Total liabilities and equity	1,233	1,242	1,256	1,263
Net debt	495	324	239	117

Per Share	2013FYA	2014FYE	2015FYE	2016FYE
Equiv. FPO (period Avg.) (mn)	52	54	64	65
EPS (CS Adj.) (US\$)	0.2	0.8	1.2	1.5
DPS (US\$)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
Earnings	2013FYA	2014FYE	2015FYE	2016FYE
Sales growth (%)	12.0	22.3	10.4	10.5
EBIT growth (%)	28.0	45.6	17.0	13.7
Net income growth (%)	255.8	230.9	83.2	23.4
EPS growth (%)	257.2	219.7	54.7	21.5
EBITDA margin (%)	15.7	17.9	18.5	19.0
EBIT margin (%)	12.7	15.1	16.0	16.5
Pretax profit margin (%)	3.2	8.5	13.6	14.7
Net income margin (%)	1.9	5.3	8.7	9.7
Valuation	2013FYA	2014FYE	2015FYE	2016FYE
EV/Sales (x)	3.1	2.3	2.0	1.7
EV/EBITDA (x)	19.6	12.8	10.7	8.8
EV/EBIT (x)	24.1	15.1	12.3	10.1
P/E (x)	100.9	31.6	20.4	16.8
Price to book (x)	4.3	3.2	3.2	2.8
Asset turnover	0.5	0.6	0.7	0.8
Returns	2013FYA	2014FYE	2015FYE	2016FYE
ROE	-14.5	-5.1	14.6	16.0
ROIC (%)	0.1	0.1	0.1	0.2
Interest burden	0.3	0.6	0.8	0.9
Tax burden	0.4	0.4	0.4	0.3
Financial leverage	4.2	3.0	2.6	2.2
Gearing	2013FYA	2014FYE	2015FYE	2016FYE
Net debt/equity (%)	179.2	80.4	50.5	20.9
Net Debt to EBITDA (x)	4.9	2.3	1.5	0.6
Interest coverage ratio (X)	1.4	2.3	6.6	9.3

Source: Company data, Credit Suisse Estimates

# Key Charts

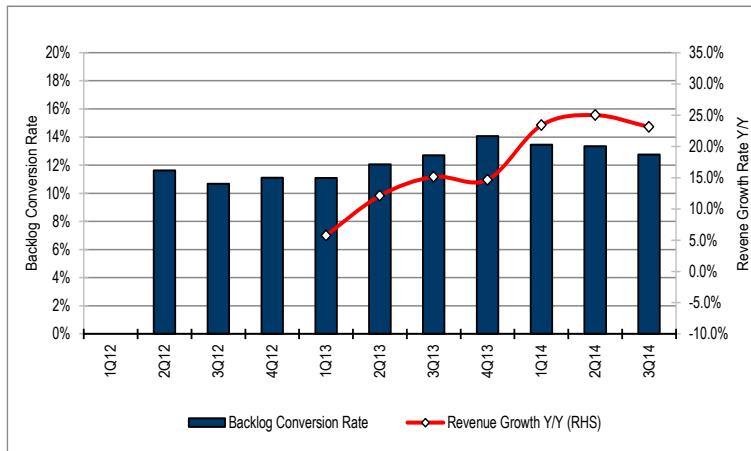
## CS CRO Market Forecast



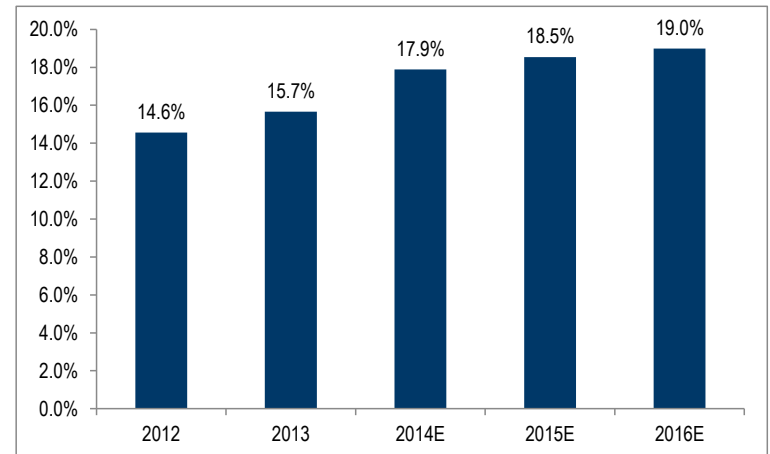
## Clinical CRO Scale

	INC Research	Quintiles	PAREXEL	ICON	Covance
Employees	5,400	28,200	14,700	10,300	12,501
Offices	74	100	77	77	50
Countries with Operations	50	100	51	38	60
C2013 Net New Business (\$Ms)	\$883	\$4,900	\$2,147	\$1,647	\$2,993

## INCR Backlog Conversion



## INCR 2012-2016E EBITDA Margins













## Initiating With an Outperform Rating and a \$29 Target Price

- **Bottom Line:** We are initiating coverage of INC Research (INCR) with an Outperform rating and a \$29 target price. INCR is a global clinical contract research organization (CRO) that provides outsourced services to support all stages of the clinical development process for biopharmaceutical manufacturers. We remain positively disposed to the fundamental backdrop for the clinical CROs and believe that INCR is well positioned to take advantage of the favorable environment. Shares have performed well following the company's November 2014 IPO; however, we remain comfortable that the company can sustain its momentum, with it driving above-average earnings growth. Our \$29 target price is based on the assumption that the shares can trade at 20x our F16 EPS estimate.
- **Investment Positives:** We highlight the following investment positives: (1) favorable landscape for clinical CROs; (2) differentiated therapeutic area-focused structure; (3) strong reputation with investigator sites; (4) premium margins with runway for further expansion; and (5) market share opportunities.
- **Investment Risks:** We highlight the following investment risks: (1) favorable biotech funding environment could moderate; (2) smaller revenue footprint & scale; (3) controlled company status and PE ownership could represent overhang; and (4) high expectations for CRO group.
- **Estimates and Price Target:** We are introducing our 2014, 2015, and 2016 EPS estimates of \$0.77, \$1.20, and \$1.45, respectively. Our price target of \$29 implies our believe that the shares can trade at roughly 20x our F16 EPS or ~11.7x F16 EV/EBITDA.

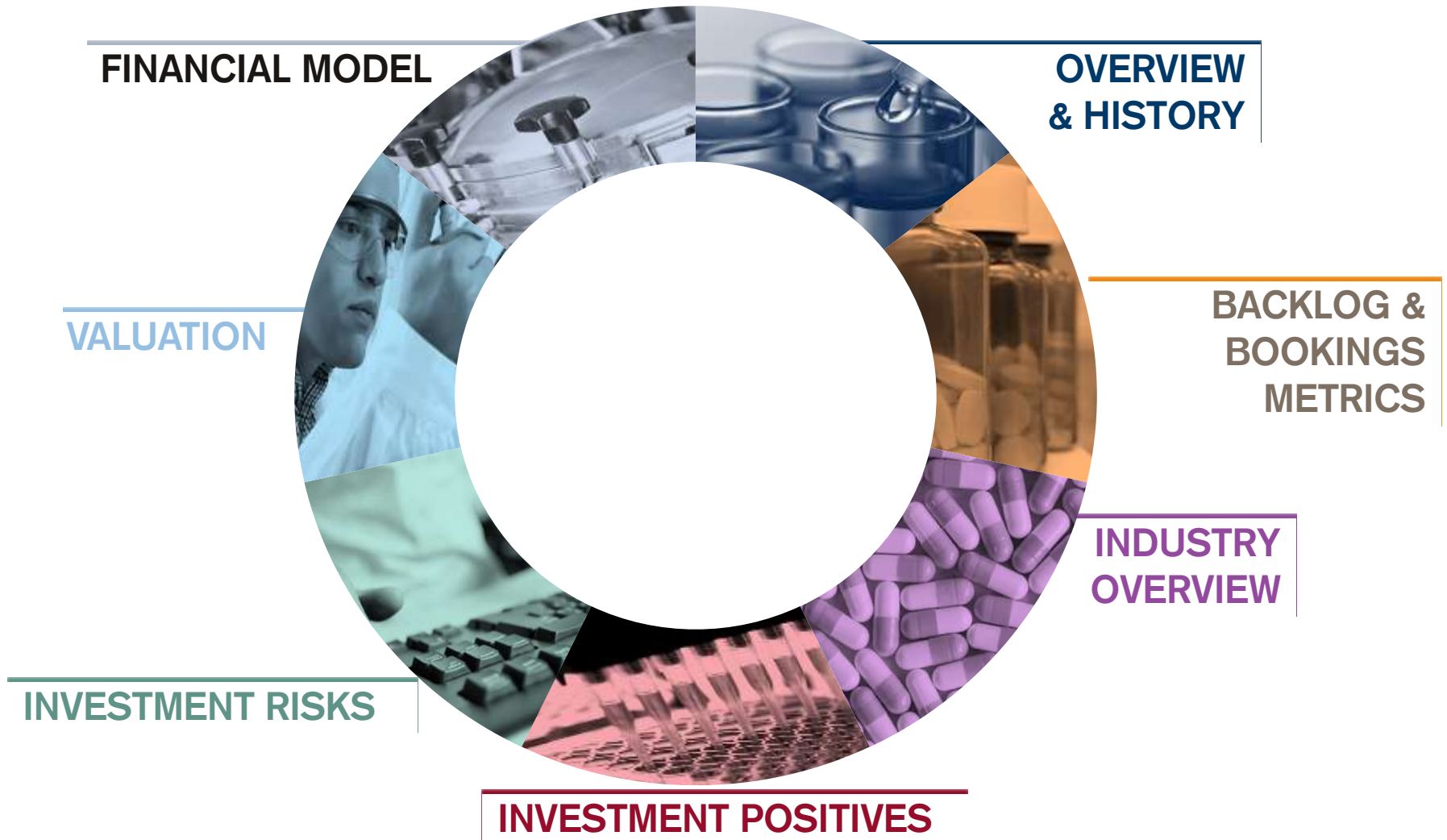
## Portfolio Manager Summary

- **INC Research (INCR) is a midsize clinical CRO that has been posting above-market revenue trends while expanding its premium margins over the past year.**
  - Led by experienced management team, with several executives joining INCR post working at industry-leader Quintiles
- INCR executed an initial public offering of 8.1M shares at a price of \$18.50/share on 11/6/14. This follows INC's 2010 acquisition by Avista Capital Partners & Ontario Teachers' Pension Plan and the subsequent 2011 acquisition of publicly-held Kendle. While that merger integration resulted in some near-term disruption given some legacy challenges at Kendle, it also brought much-needed geographic & therapeutic area diversification along with crucial scale. We estimate that INCR is the eighth largest clinical CRO; however, the company's momentum has been accelerating throughout late 2013 & early 2014 as it has proven its ability to run larger, more complex global trials.
- The company is a therapeutically focused CRO with a strong legacy history in CNS & Oncology trials. Our survey work highlights that therapeutic expertise remains the top criterion for selecting a CRO. While all of the top CROs can boast strong clinical expertise across key therapy areas (TAs), INCR's model of employee-specialization in TA verticals is unique.
- INCR has grown revenues at a 22% CAGR from 2011 to 2013, with revenues forecast to grow 22% in '14, with EBITDA growth of 40%. We are comfortable in the company's ability to deliver on long-term targets of double-digit (10-11%) top-line growth, supporting midteens EBITDA growth & ~20% long-term adjusted NI growth.
- Below we highlight some of our key investment points & potential pushback:
  - **Healthy backdrop for clinical CROs:** Despite volatility in the sector we continue to see mid/high single digit growth paced by low-single digit R&D growth, healthy biotech funding, incremental outsourcing, and share gains for the top players.
  - **Strong therapeutic-focus & reputation with investigators:** 85% of INCR's Clinical Research Associates (CRAs) are principally focused on one therapeutic area, with leverage to the fastest growing TA's. We believe this alignment, coupled with INCR's strong showing in industry investigator surveys underscores its solid competitive positioning.
  - **Smaller revenue footprint & scale:** As the 8<sup>th</sup> largest clinical CRO, INCR's revenue & backlog footprint is smaller than some of the public peers which can potentially introduce some incremental volatility in terms of bookings/cancelations/etc.
  - **High expectations for CROs:** With the public CROs trading at 19.9x C15 P/E we would acknowledge expectations are high & multiples could be volatile around any quarterly earnings disappointment or significant M&A amongst the pharma client base.

## Investment Thesis Summary – Bear vs. Bull Case

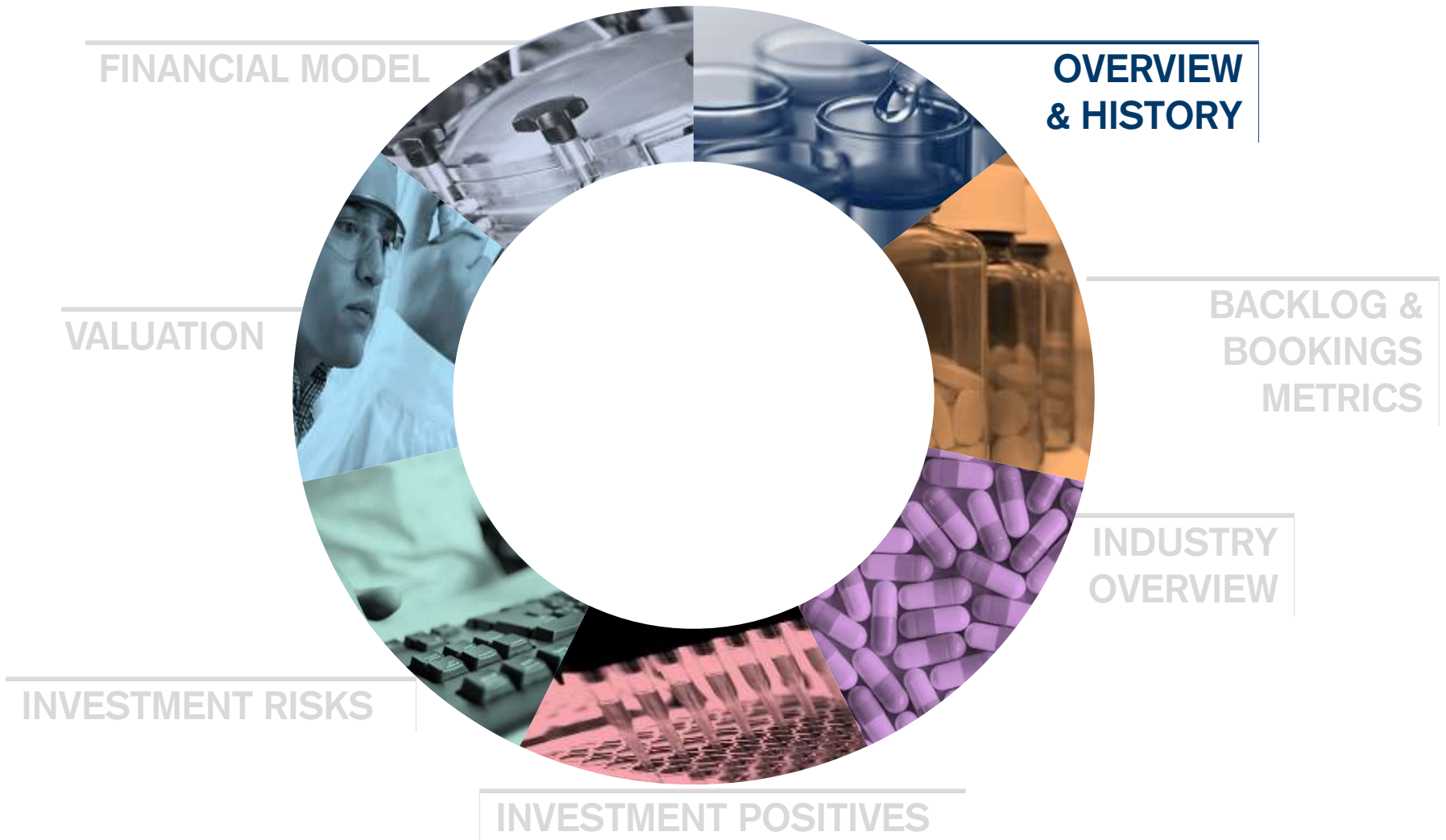
Bull Case		Bear Case	
	Favorable landscape for clinical CROs should support healthy industry topline growth		Strong performance by clinical CROs has not gone unnoticed and investor expectations are quite high
	Differentiated therapeutic-area alignment creates competitive advantages		Smaller revenue footprint & scale could drive greater volatility
	Strong reputation with investigator sites is an asset		Controlled company status & PE ownership could be a modest overhang
	Premium margins with room for continued expansion		Industry pricing remains competitive & transition to more strategic partnerships can pressure margins
	Opportunities to capture incremental market share		Competition for market share amongst top global players could increase as outsourcing penetration matures

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# Overview & History

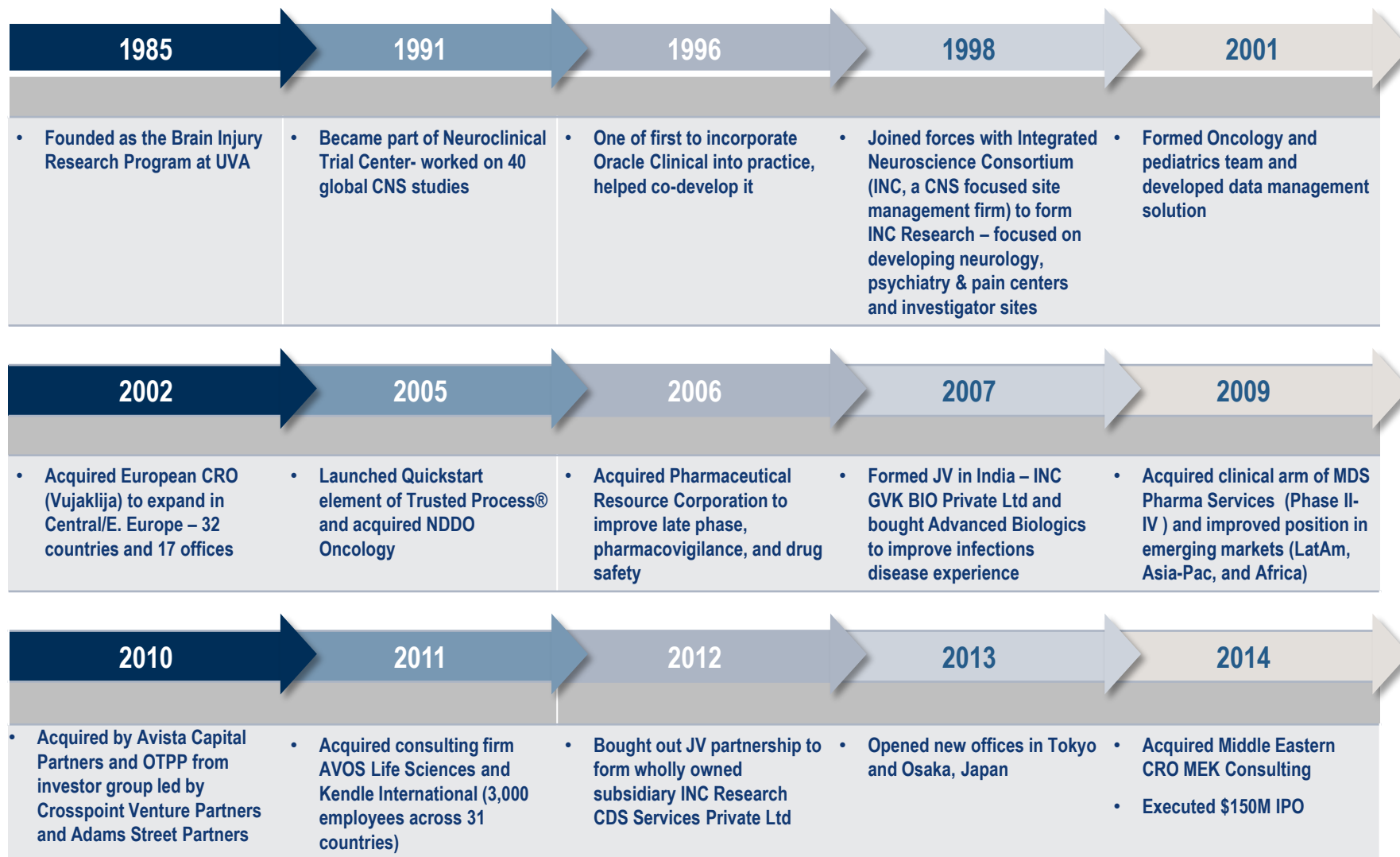




# Company History

- The organization that is today INC Research grew out of an academic Central Nervous System (CNS) research organization at the University of Virginia in the 1980s before ultimately joining with the Integrated Neuroscience Consortium (INC - which was a CNS-focused site management organization).
- Over time, INC Research organically & inorganically added greater geographic and therapeutic coverage to grow its addressable market & share. Several large acquisitions included the 2009 acquisition of the clinical division of MDS Pharma Services and, more significantly, the 2011 acquisition of Kendle.
- In 2010 the company was acquired by Avista Capital Partners & Ontario Teachers' Pension Plan (OTPP).

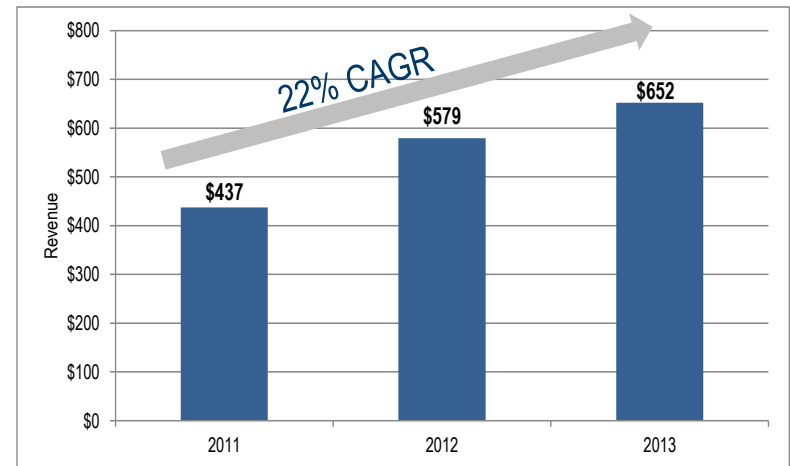
## Brief Company Timeline



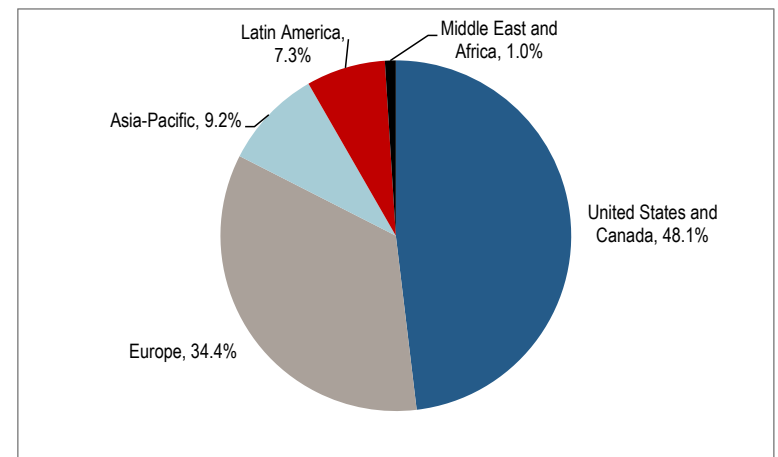
# Company Overview

- INC Research is a global full-service clinical Phase I-IV CRO, with roughly 3% market share
- Company was established in 1985, now has ~5,500 employees across 50 countries
- Services both large pharma/biotech and small and mid-sized biopharma customers
- Net service revenue has grown from \$437M in 2011 to \$652M in 2013 for a CAGR of 22%

## INCR Revenue Growth



## Regional Breakdown by Employees



## Competitive Landscape

Market Segment	Competitors
Phase I-IV Clinical CRO Work	Covance (to be acquired by LabCorp), ICON plc, inVentiv Health, PAREXEL, PPD, PRA Health Sciences, and Quintiles

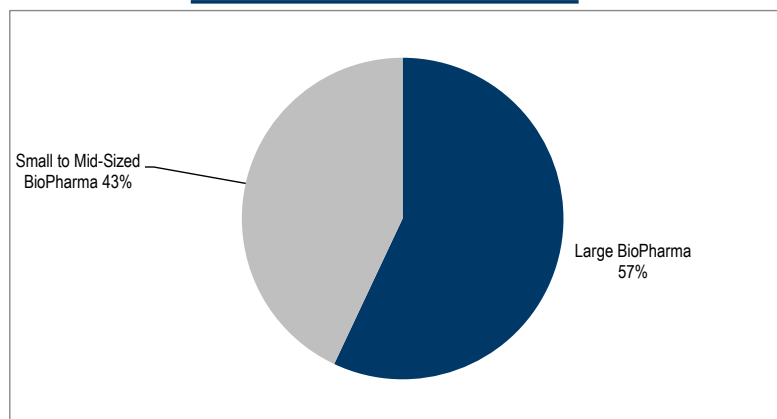
## Key Partnerships & Customer Relationships

- INCR has a nice mix of “large” biopharma clients (including both biotech and pharmaceutical manufacturers) representing 57% of revenues and small/midsized biopharma players representing 43% of revenues
- Additionally, customer concentration is relatively low with the largest customer (Otsuka) representing 15% of net service revenues in 2013. Astellas is the company’s second-largest customer and has accounted for ~12% of revenues through the first 9 months of 2014. The top 5 clients represented 34% of net service revenues while the top 10 clients represented 44% of revenues in 2013. Interestingly, 25% of revenues in ’13 came from companies headquartered in Japan.

Announcement Date	Partner	Scope
4/17/2012	Astellas	3-year global FSP partnership focused on clinical monitoring, data management, site start-up and study feasibility activities
N/A	Otsuka	Not disclosed but per company filings Otsuka has been INCR's largest customer (and over 10% of revs) in 2011-2013

- 90% of the company’s new business awards in 2013 were from repeat customers

### 2013 Customer Focus



# Acquisition History

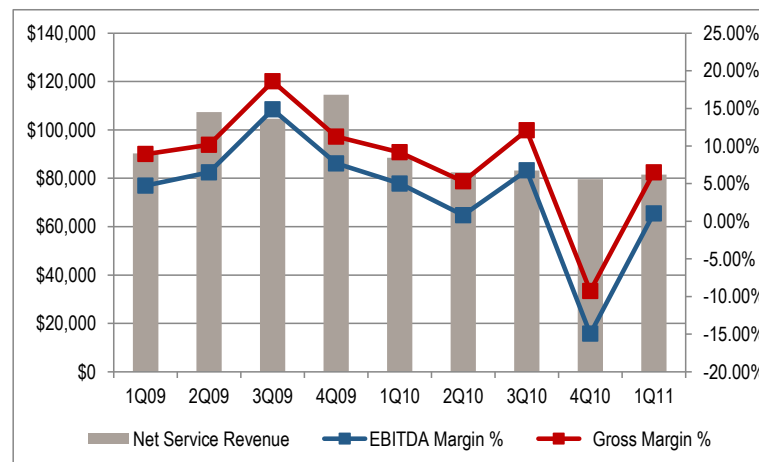
Announcement Date	Target	Consideration (in M)	Comments
3/6/2014	MEK Consulting	\$6.0	MEK Consulting was a clinical monitoring-focused CRO with operations in the Middle East and North Africa region. The CRO had 40 employees in 5 countries with focus and expertise in oncology, gen med, and rare diseases.
7/12/2011	Kendle International	\$377.3	Kendle was a global Phase II-IV CRO that expanded INCR's global footprint and scale, as well as broadened INC Research's therapeutic capabilities and expertise. Game changing deal, put INCR in the top tier of global CROs.
6/1/2011	Trident Clinical Research	\$8.8	Trident was a full-service Phase I-IV CRO with operations in the Asia-Pacific Region. Expanded INCR's footprint in Australia, New Zealand, and India.
1/18/2011	AVOS Life Sciences	Not Disclosed	AVOS Life Sciences was a consulting company that provided strategic, operational and financial analysis to life sciences companies. This acquisition helped INC improve relationships with key decisionmakers particularly in Europe
6/1/2009	Global Clinical Development Unit of MDS Pharma Services	Not Disclosed	The Global Clinical Development Unit of MDS gave INCR a larger footprint and geographic scale, especially in Latin America and Europe. The acquisition also added therapeutic expertise in respiratory, cardiovascular, and endocrinology which became the core of INCR's Gen Med business.

- INCR has been fairly acquisitive, completing 11 deals since 2001
- The company has utilized M&A to improve its customer mix, broaden its service capabilities, and expand its geographic coverage
- We anticipate the company will continue to opportunistically pursue tuck-in deals:
  - Priorities include: 1) Asia-Pacific; 2) Analytics/Technology; 3) Late Stage/Phase IV; 4) Medical Device Outsourcing

# Kendle Acquisition Represented Transformative Deal

- The Kendle acquisition gave INCR the global scale and footprint needed to compete the with top Phase I-IV CROs. The acquisition also diversified INCR therapeutic area expertise beyond CNS and Oncology
- Added a complementary geographic exposure (Latin America + Asia Pacific) and filled out TA coverage (Inflammation + Immunology + Registries) beyond CNS & Oncology
- Acquisition was not without its challenges:
  - Kendle had steeply declining revenue (\$480M in 2008 to \$305M in 2010-2011) - partially negatively impacted by customer consolidation/contract changes
  - Kendle backlog position was of mixed quality (mixture of contingent awards, risky trials and cancellations) which necessitated clean-up of backlog
  - Did see some level of “pause” by customers in terms of new business awards as they evaluated the integration & the combined entity
  - Heavy lifting of integration now behind the company, with strong execution on business case & synergies – beginning to evaluate potential “second-phase” of synergies over time.

## Kendle 2009-1Q11 Financials



## Company Strategy & Growth Drivers

- INCR is focused on driving above-market top-line growth through a variety of strategies:
  - Focus on faster-growing clinical segment
  - Capitalize & leverage INCR's increasing scale & expertise in the most complex areas of clinical trial development
  - Grow new & existing relationships through valuable human capital asset (85% of CRAs focused on one TA & over 70% solely focused in area of expertise)
- Similarly the company is looking to expand margins through:
  - Continual enhancement of proprietary Trusted Process® methodology to enhance outcomes & margins
  - Leverage best-in-class technology adoption to support effective trials and drive further incremental margin performance
- Long-term the company has laid out broad financial goals:
  - Average approximately 10-12% long-term revenue growth
  - Drive low-to-mid-teens annual adjusted EBITDA growth with margins approaching 20%
  - Adjusted net income growth is targeted in the 20% range as the company augments EBITDA growth with de-leveraging and tax structure benefits



## Business Service Offerings

Clinical Trial Management	Data Services	Strategic and Regulatory Services	Post-Approval Services
Patient recruitment and retention	Clinical data management	Strategic development services	Specialized support for patient registries
Project management	Electronic data capture	Regulatory consulting and submissions	Safety surveillance studies
Clinical monitoring	Biostatistics	Clinical operations optimization	Prospective observational studies
Drug safety/pharmacovigilance		Pricing and reimbursement planning	Health outcome research
Medical Affairs			Patient reported outcomes
Quality Assurance			Phase IV effectiveness trials
Regulatory and Medical Writing			Health economics studies
Functional service			Retrospective chart reviews

- INCR reports just one consolidated segment, although company filings do include incremental detail around its Phase I Services (first-in-human through proof-of-concept, as well as Phase I support for established compounds), Clinical Development Services (traditional Phase II-IV services), and its Global Consulting business (including regulatory affairs, quality assurance, medical writing, and pharmacovigilance). INCR has one Phase I facility.
- INCR provides a full-range of services to support outsourced clinical development (Phase I-IV) with a therapeutically-focused business model (CNS, Oncology, General Medicine, Cardiovascular, and Endocrinology represent the broad categories). The company can support compounds from the earliest phases of clinical research through commercialization.
- Similar to peers, INCR offers its services as both a “bundle” or through an unbundled, functional service flexible model. The customer base spans manufacturers developing small molecule drugs, large molecule biologics, or medical devices.

# Management Team

Name	Age	Title
D. Jamie Macdonald	46	CEO and Director
Gregory S. Rush	47	Executive Vice President and CFO
Alistair Macdonald	44	Chief Operating Officer
Christopher L. Gaenzle	47	Chief Administrative Officer, General Counsel and Secretary
James T. Ogle	70	Chairman of the board

- *D. Jamie Macdonald* has served as CEO and been a member of the board since January of 2013. He joined INC Research as chief operating officer with the acquisition of Kendle, where he had previously served as COO from May 2011 to July 2011. Before working for Kendle, Mr. Macdonald served in various senior operational and finance roles at Quintiles Transnational Holdings for 15 years, ultimately serving as senior vice president and head of Global Project Management from December 2008 to January of 2011. Prior to Quintiles Mr. Macdonald served in various roles in the pharmaceutical industry.
- *Gregory S. Rush* joined INC Research in August of 2013 as executive vice president and CFO after previously serving as senior vice president and CFO of Tekelec, Inc. from April 2010 to August 2013. Mr. Rush joined Tekelec as vice president and corporate controller in May of 2005 and served as vice president, corporate controller and chief accounting officer from May 2006 to March 2010. Prior to joining Tekelec, Mr. Rush worked in various senior financial roles including a role at Quintiles Transnational Holdings.
- *Alistair Macdonald* has served as COO at INC Research since January of 2013, after serving in various senior leadership roles since joining the company in 2002. Prior to his current role, Mr. Macdonald served as president, Clinical Development Services from March 2012 to January of 2013, executive vice president of the Global Oncology Unit from February 2011 to March 2012, executive vice president – Strategic Development from October 2009 to February 2011, and senior vice president – Biometrics from May 2002 to September 2009.
- *Christopher L. Gaenzle* joined INC Research in April 2012 as general counsel and secretary, and since August 2013 he has also served as chief administrative officer. Prior to joining INC, Mr. Gaenzle served in various senior legal roles at Pfizer, Inc. for 5 years, where he was most recently Assistant General Counsel from 2010 to 2012. Before serving at Pfizer, Mr. Gaenzle was a partner at Hunton and Williams LLP, where he was a practicing attorney from 1998 to 2007.
- *James T. Ogle* served as CEO of INC Research from July 2003 until December 2012, also serving as a member of the board since June 2003 and as chairman of the board since September of 2010. He is also a member of the compensation committee. Prior to joining INC, Mr. Ogle was COO of Nascent Pharmaceuticals, a private biotech company from 2002 to 2003. Mr. Ogle also served as president and chief operating officer of the Product Development Group at Quintiles Transnational Holdings from 1998 to 2000 after serving as President of Quintiles America from 1996 to 1998.

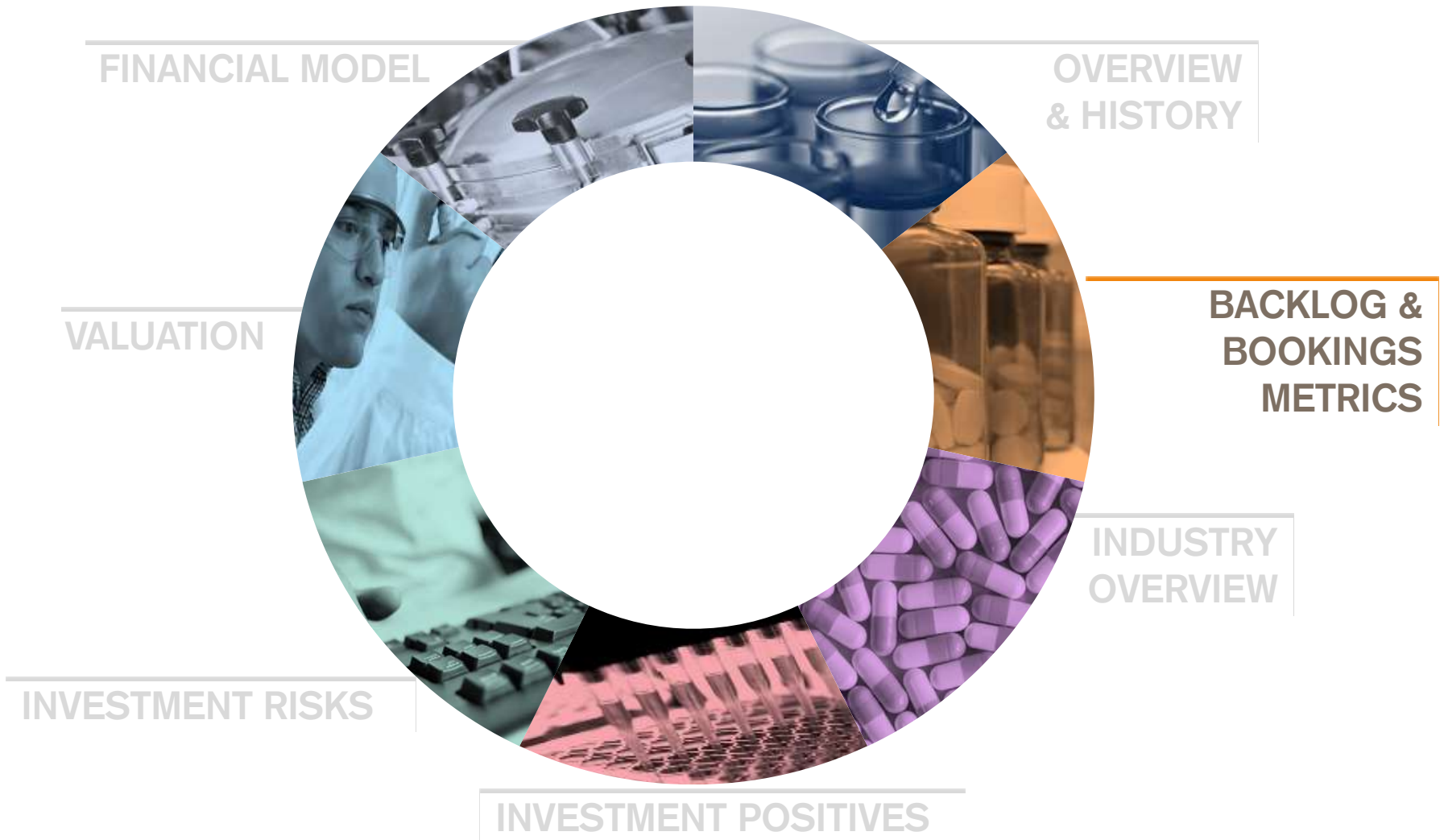
# Management Team Compensation

Name	Title	Salary	Option Awards	Non-Equity Incentive Plan	All Other Compensation	Total
D. Jamie Macdonald	CEO and Director	\$407,692	\$2,166,420	\$208,640	\$18,559	\$2,801,311
Gregory S. Rush	EVP and CFO	\$125,412	\$1,596,900	\$62,020	\$10,654	\$1,794,986
Alistair Macdonald	Chief Operating Officer	\$373,967	\$1,071,252	\$136,765	\$74,258	\$1,656,242

\*Note: Gregory S. Rush's base salary of \$350,000 was pro-rated from his date of hire Aug. 30, 2013

- The executive compensation plan is designed to attract and retain individuals to manage and lead the company, while motivating them to contribute to the company's financial goals and create and grow shareholder value. Compensation rewards both individual achievement and near-term corporate targets as well as long-term business objectives.
- Executives are compensated through a combination of a base salary, annual cash incentive payments under management bonus programs and long-term equity incentives in the form of stock options.
- Under the management bonus program, executives earn percentages of their base earnings based on the achievement of certain adjusted EBITDA targets.

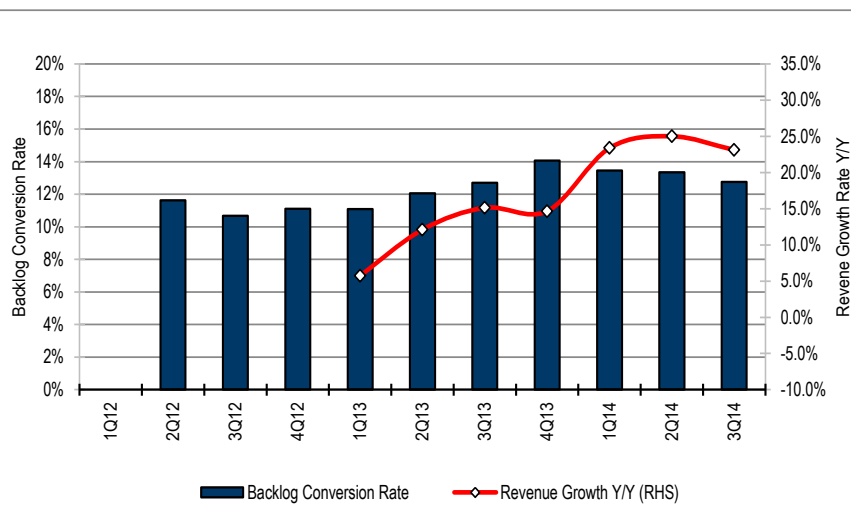
# Backlog & Bookings Metrics



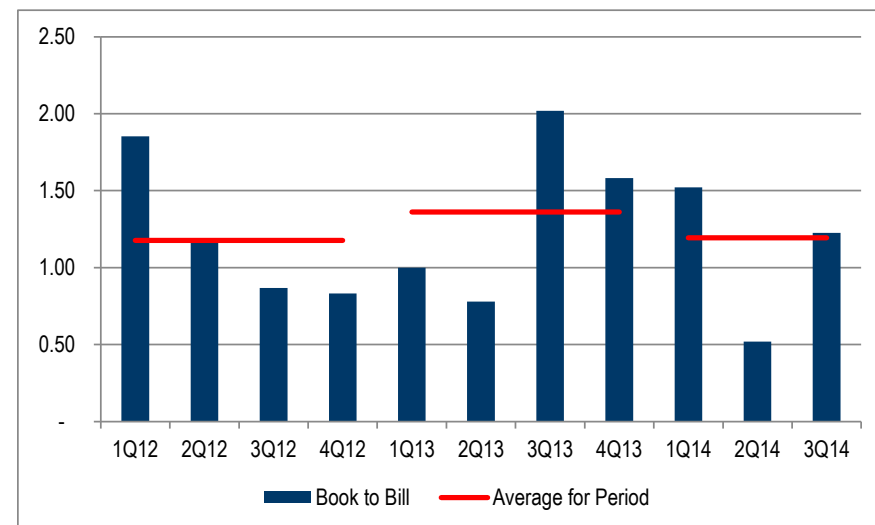
# Backlog & Bookings Analysis

- Investors tend to focus (perhaps overmuch) on quarterly book-to-bill rates (along with cancelations) as a predictor of future growth. While these metrics (examined in detail below) are important we would caution that quarterly figures can be volatile, particularly at a company of INCR's size.
- Historical book-bill rates were somewhat more volatile than peers on a quarterly basis given some rationalization of backlog post Kendle and more recently the largest cancelation in INCR's history (2Q14)
- Overall INCR's book-bill momentum has been strong on an annual basis, which has driven the improving revenue growth in recent quarters
- INCR has particularly strong backlog conversion rates given a very conservative approach to recognizing bookings

## INCR Backlog Conversion



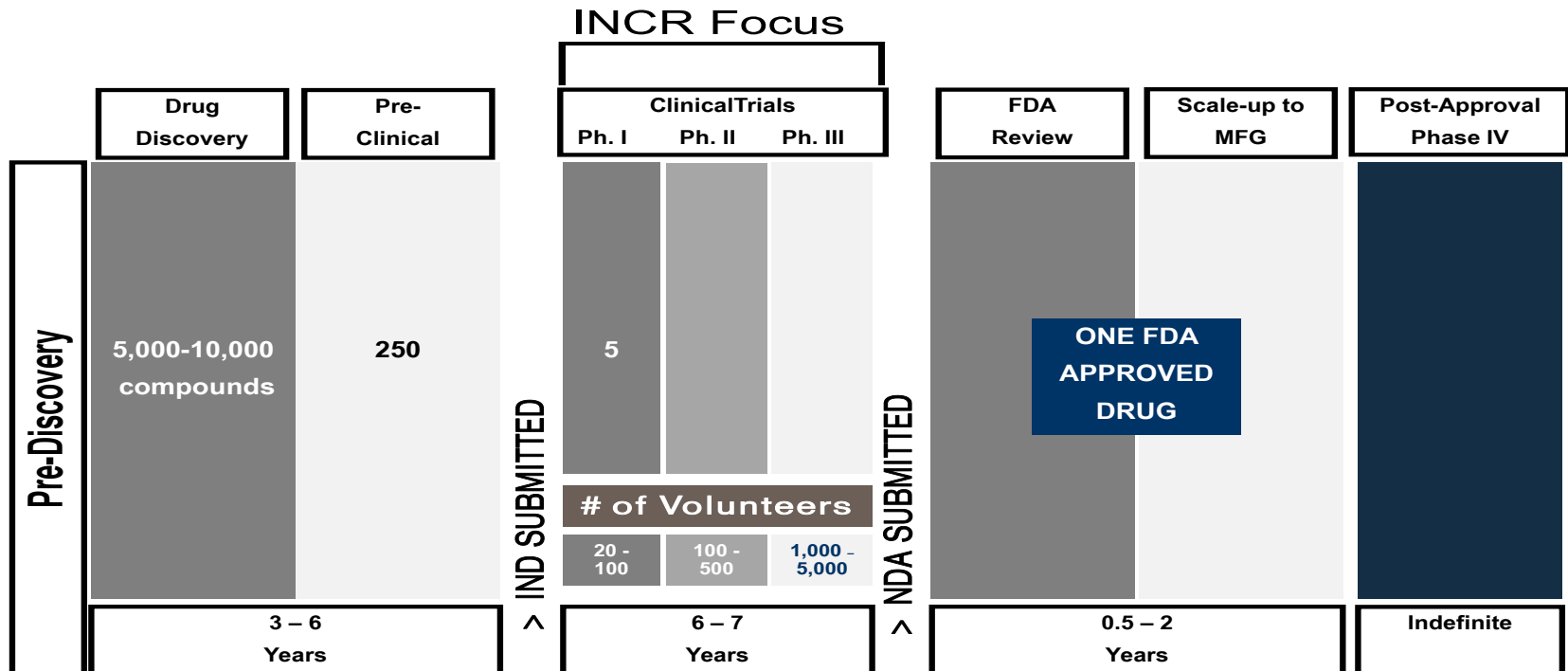
## INCR Book-to-Bill History



# Industry Overview



# What is a CRO?



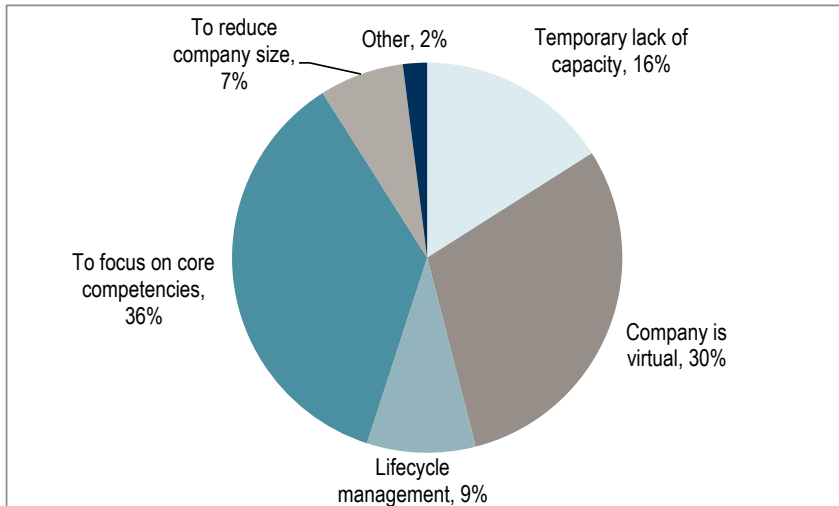
- Contract Research Organizations (CROs) support pharmaceutical/biotechnology/medical device sponsors by aiding in the operations, logistics, execution, and increasingly even the science, of the R&D process

- Conduct preclinical safety (toxicology) & efficacy testing
- Clinical trial management (doctor/patient recruitment, trial oversight, data collection & management)
- Regulatory support & document submission consultative services
- Commercialization and launch consulting/support

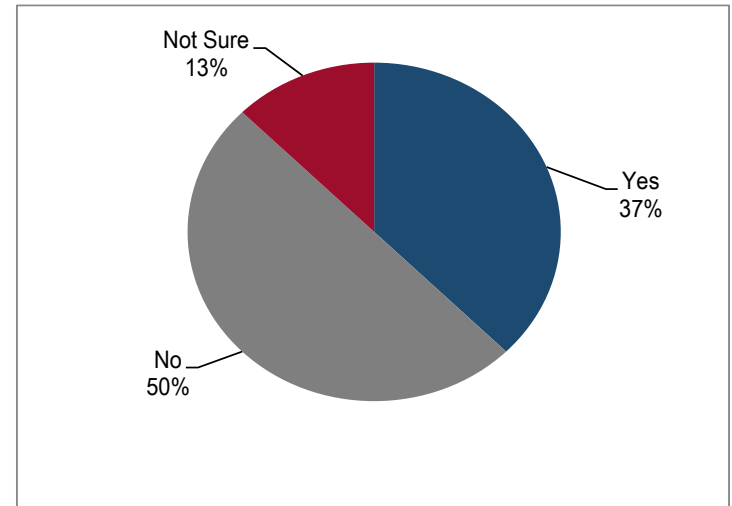


# Why Do Sponsors Use CROs?

## Reasons for Use of CROs



## Do you expect to reduce internal R&D resources, capacity or facility space in '15?



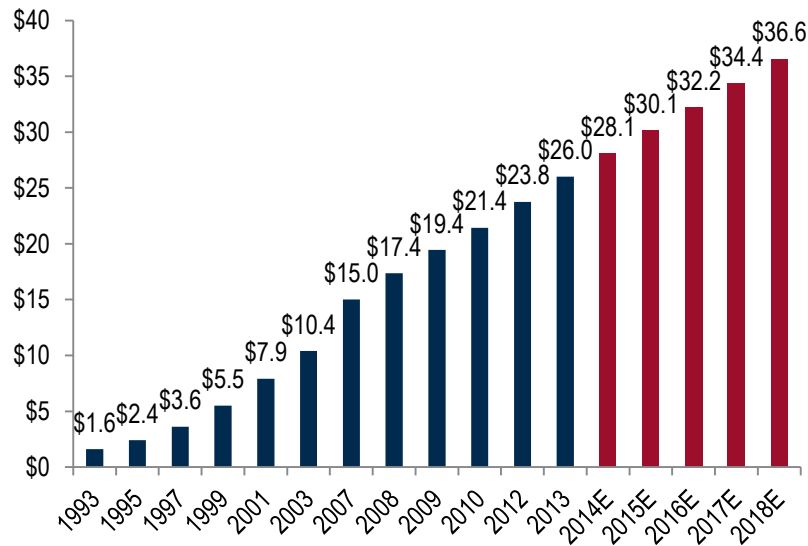
1. Convert R&D into a variable rather than a fixed cost
2. Potentially greater global/service infrastructure
3. Efficiency (in cost & speed to market) – Studies suggest CROs can save sponsors up to 30%-40% in costs while getting to market as much as 30% faster

## Market Size & Opportunity

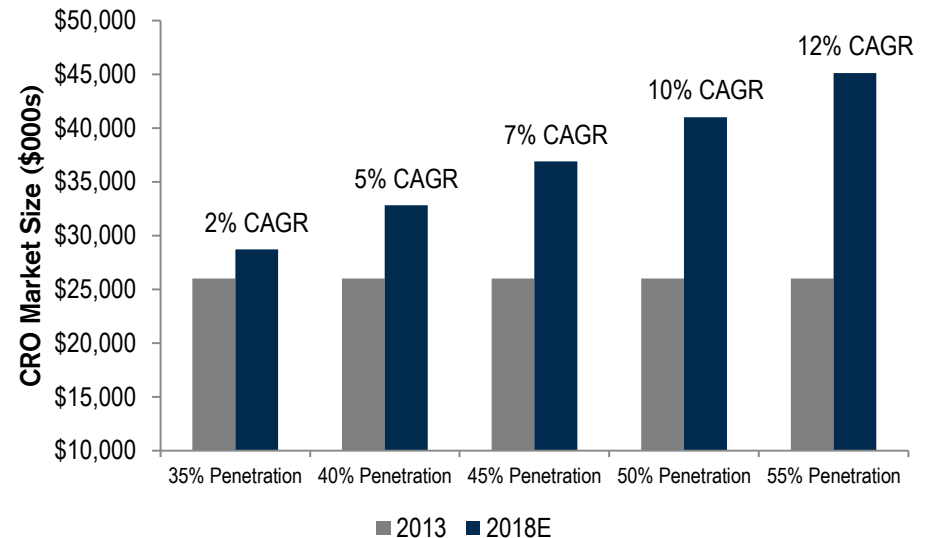
- Unfortunately there is no authoritative data source that tracks & sizes the CRO market. Consequently there are a variety of estimates available from consultant groups, industry associations (i.e., the Association for Clinical Research Organizations/ACRO or CenterWatch), sell-side sources, and public company filings. Further complicating efforts to evaluate the opportunity are disagreements about the potential addressable market. We often see inconsistent views of how much of published R&D spend can ultimately be outsourced to CROs (whether it's all of the Development or "D" or contains elements of Research or "R" spend). We take a more conservative approach as we assume certain research functions will likely remain core functions, while some of the published development spend likely includes allotted overhead, pass-through fees, and CMC (chemistry and manufacturing controls) costs that are not applicable for CROs.
- Per INCR's S-1 the company estimates that **the clinical portion of the CRO market represented \$20.6B in 2013 or a penetration rate of 37%**. This embeds a view that total biopharma spend on drug development was \$74.6B, of which the clinical market (excluding preclinical development) was \$65.1B. The company further haircuts the addressable market by \$8.8B of indirect fees paid to principal investigators & clinical research sites to arrive at a **\$56.3B addressable market**. INCR expects this market to **grow 8-9% annually with a penetration rate of 46% by 2018**.
- The Credit Suisse Contract Research Organization Outsourcing Model sizes **the total CRO market at \$26B as of 2013 (35.7% penetration)**, with an estimated \$19B clinical market (34% penetration of addressable market). We forecast **a 7% CAGR in the total market growth** for both the overall market and the clinical segment from 2013-2018E. This implies 2018E outsourcing penetration of 44.5%.
- Key assumptions include: 1) 2.4% CAGR in R&D growth per Evaluate Pharma consensus forecasts; 2) ~65% of "D" is addressable by CROs or \$55.8B; 3) a \$6.5B preclinical market (excluding a discovery market of \$8.5B); 4) annual increases in clinical penetration of 175 bps; 5) 200 bps and 130 bps annual improvement in discovery & preclinical outsourcing penetration, respectively; and 6) 5% Central Lab market growth. The expansion in outsourcing penetration is consistent with recent history.
- There is significant debate around the ceiling for outsourcing penetration. While we have seen estimates ranging from 60% to nearly 100% over the next decade, we would believe it is reasonable to estimate penetration rates could eventually approach 65-75% in-line with the levels believed to be outsourced at high adopters of CRO services.

# Market Posed for Mid/High Single-Digit Growth

## CS CRO Market Forecast



## CS CRO Market Sensitivity Analysis



- There is no authoritative CRO market data, complicating analysis of the market size
- Growth is a function of:
  1. Biopharma industry R&D growth
  2. Change in outsourcing penetration
- We estimate the market will grow at a 7% CAGR from 2013-2018

# CS CRO Market Model

	2013	2014E	2015E	2016E	2017E	2018E	5-Yr CAGR
<b>Total Global R&amp;D</b>	<b>\$136,563.9</b>	<b>\$140,704.5</b>	<b>\$144,118.8</b>	<b>\$147,333.4</b>	<b>\$150,842.9</b>	<b>\$153,978.8</b>	
<i>R&amp;D as % of Evaluate Pharma Sales</i>	19.1%	18.7%	18.2%	17.7%	17.1%	16.6%	
<i>% Growth Y/Y</i>	-	3.0%	2.4%	2.2%	2.4%	2.1%	<b>2.4%</b>
<b>Global Development Spend (Estimated)</b>	<b>\$91,088.1</b>	<b>\$93,849.9</b>	<b>\$96,127.2</b>	<b>\$98,271.4</b>	<b>\$100,612.2</b>	<b>\$102,703.9</b>	
<i>% of total R&amp;D</i>	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	
<i>% Growth Y/Y</i>	-	3.0%	2.4%	2.2%	2.4%	2.1%	
<b>Addressable Development Spend</b>	<b>\$59,207.3</b>	<b>\$61,002.4</b>	<b>\$62,482.7</b>	<b>\$63,876.4</b>	<b>\$65,397.9</b>	<b>\$66,757.5</b>	
<i>% Growth Y/Y</i>	-	3.0%	2.4%	2.2%	2.4%	2.1%	
<b>Global Research Spend (Estimated)</b>	<b>\$45,475.8</b>	<b>\$46,854.6</b>	<b>\$47,991.6</b>	<b>\$49,062.0</b>	<b>\$50,230.7</b>	<b>\$51,274.9</b>	
<i>% of total R&amp;D</i>	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	
<i>% Growth Y/Y</i>	-	3.0%	2.4%	2.2%	2.4%	2.1%	
<b>Addressable Research Spend</b>	<b>\$13,642.7</b>	<b>\$14,056.4</b>	<b>\$14,397.5</b>	<b>\$14,718.6</b>	<b>\$15,069.2</b>	<b>\$15,382.5</b>	
<i>% Growth Y/Y</i>	-	3.0%	2.4%	2.2%	2.4%	2.1%	
<b>Potential Discovery Outsourcing Market</b>	<b>\$8,500.0</b>	<b>\$8,757.7</b>	<b>\$8,970.2</b>	<b>\$9,170.3</b>	<b>\$9,388.8</b>	<b>\$9,583.9</b>	
<i>% Growth Y/Y</i>	-	3.0%	2.4%	2.2%	2.4%	2.1%	
<b>Potential "Other" Research Outsourcing Market</b>	<b>\$5,142.7</b>	<b>\$5,298.7</b>	<b>\$5,427.2</b>	<b>\$5,548.3</b>	<b>\$5,680.5</b>	<b>\$5,798.5</b>	
<i>% Growth Y/Y</i>	-	3.0%	2.4%	2.2%	2.4%	2.1%	
<b>Total CRO Addressable Market</b>	<b>\$72,850.0</b>	<b>\$75,058.8</b>	<b>\$76,880.2</b>	<b>\$78,595.0</b>	<b>\$80,467.1</b>	<b>\$82,140.0</b>	
<i>% of total R&amp;D</i>	53.3%	53.3%	53.3%	53.3%	53.3%	53.3%	
<i>% Growth Y/Y</i>	-	3.0%	2.4%	2.2%	2.4%	2.1%	
<b>CRO Market by Function/Segment:</b>							
<b>Discovery</b>	<b>\$2,000.0</b>	<b>\$2,235.79</b>	<b>\$2,469.45</b>	<b>\$2,707.94</b>	<b>\$2,960.22</b>	<b>\$3,213.44</b>	
<i>% of total</i>	7.7%	8.0%	8.2%	8.4%	8.6%	8.8%	
<i>% Growth Y/Y</i>	-	11.8%	10.5%	9.7%	9.3%	8.6%	<b>10%</b>
<i>Outsourced Penetration of Addressable Market</i>	23.5%	25.5%	27.5%	29.5%	31.5%	33.5%	
<b>Preclinical/Prehuman Development &amp; Safety</b>	<b>\$3,000.0</b>	<b>\$3,178.0</b>	<b>\$3,344.3</b>	<b>\$3,510.1</b>	<b>\$3,687.0</b>	<b>\$3,858.9</b>	
<i>% of total</i>	11.5%	11.3%	11.1%	10.9%	10.7%	10.6%	
<i>% Growth Y/Y</i>	-	5.9%	5.2%	5.0%	5.0%	4.7%	<b>5%</b>
<i>Outsourced Penetration</i>	46.2%	47.5%	48.8%	50.1%	51.4%	52.7%	
<b>Clinical Development (Ph I-IV) &amp; Other</b>	<b>\$19,000.0</b>	<b>\$20,583.1</b>	<b>\$22,114.0</b>	<b>\$23,661.7</b>	<b>\$25,304.9</b>	<b>\$26,933.0</b>	
<i>% of total</i>	73.1%	73.3%	73.4%	73.5%	73.6%	73.7%	
<i>% Growth Y/Y</i>	-	8.3%	7.4%	7.0%	6.9%	6.4%	<b>7%</b>
<i>Outsourced Penetration</i>	34.0%	35.8%	37.5%	39.3%	41.0%	42.8%	
<b>Central Lab</b>	<b>\$2,000.0</b>	<b>\$2,100.0</b>	<b>\$2,205.0</b>	<b>\$2,315.3</b>	<b>\$2,431.0</b>	<b>\$2,552.6</b>	
<i>% of total</i>	7.7%	7.5%	7.3%	7.2%	7.1%	7.0%	
<i>% Growth Y/Y</i>	-	5.0%	5.0%	5.0%	5.0%	5.0%	<b>5%</b>
<i>Outsourced Penetration</i>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Total CRO Market</b>	<b>\$26,000.0</b>	<b>\$28,096.9</b>	<b>\$30,132.8</b>	<b>\$32,195.0</b>	<b>\$34,383.1</b>	<b>\$36,557.9</b>	
<i>% Growth Y/Y</i>	-	8.1%	7.2%	6.8%	6.8%	6.3%	<b>7%</b>
<i>Outsourced Penetration</i>	35.7%	37.4%	39.2%	41.0%	42.7%	44.5%	

# Market Has Several Defined Segments

## INCR's Focus

		Early Development		Late Stage	
	Research Models	Preclinical	Phase I	Phase II-IV	Central Lab
<b>Market Size</b>	\$1.0-\$1.3B	\$4-\$6B	\$2-\$3B	\$16-\$17B	\$1.75B-\$2.0B
<b>Growth Outlook</b>	Low single digit % growth	Low/mid single digit % growth	Mid single digit % growth	High single digit % growth	5%-10%
<b>Competition</b>	Charles River Laboratories Covance Harlan/Huntingdon Jackson Taconic	Charles River Laboratories Covance Harlan/Huntingdon WIL Research MPI	Covance ICON Parexel Quintiles PRAH INCR	Covance ICON Parexel Quintiles PRAH INCR	Covance Quintiles Quest Diagnostics LabCorp

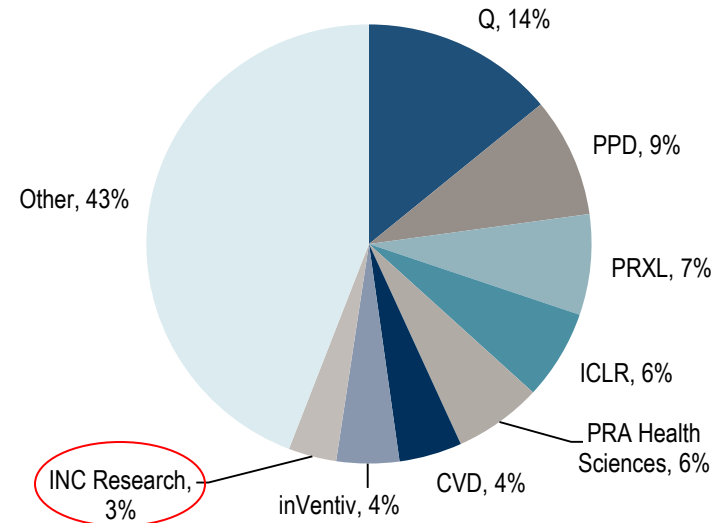
- The global CRO market is composed of multiple sub-segments with varying growth characteristics and margin profiles
- Most CRO's tend to focus on either preclinical/early or clinical/late stage
- The preclinical and central lab market tend to be more fixed capital intensive and operate with greater margin leverage (and economy of scale benefits)
- The late-stage or clinical segment has posted better topline growth with improving margins in this human-capital intensive business model. Greater R&D investment in compounds in clinical development coupled with a trend towards vendor consolidation/strategic partnerships has fueled the stronger growth outlook.

# Competitive Landscape

## CRO Clinical Revenue


Company	2013 Clinical Revenue (\$M)
Quintiles	2,620
PPD	~1,638
PAREXEL	1,382
ICON	1,229
PRA Health Sciences	1,200
Covance	853
inVentiv health	~850
<b>INC Research</b>	<b>652</b>

## CRO Clinical Market Share



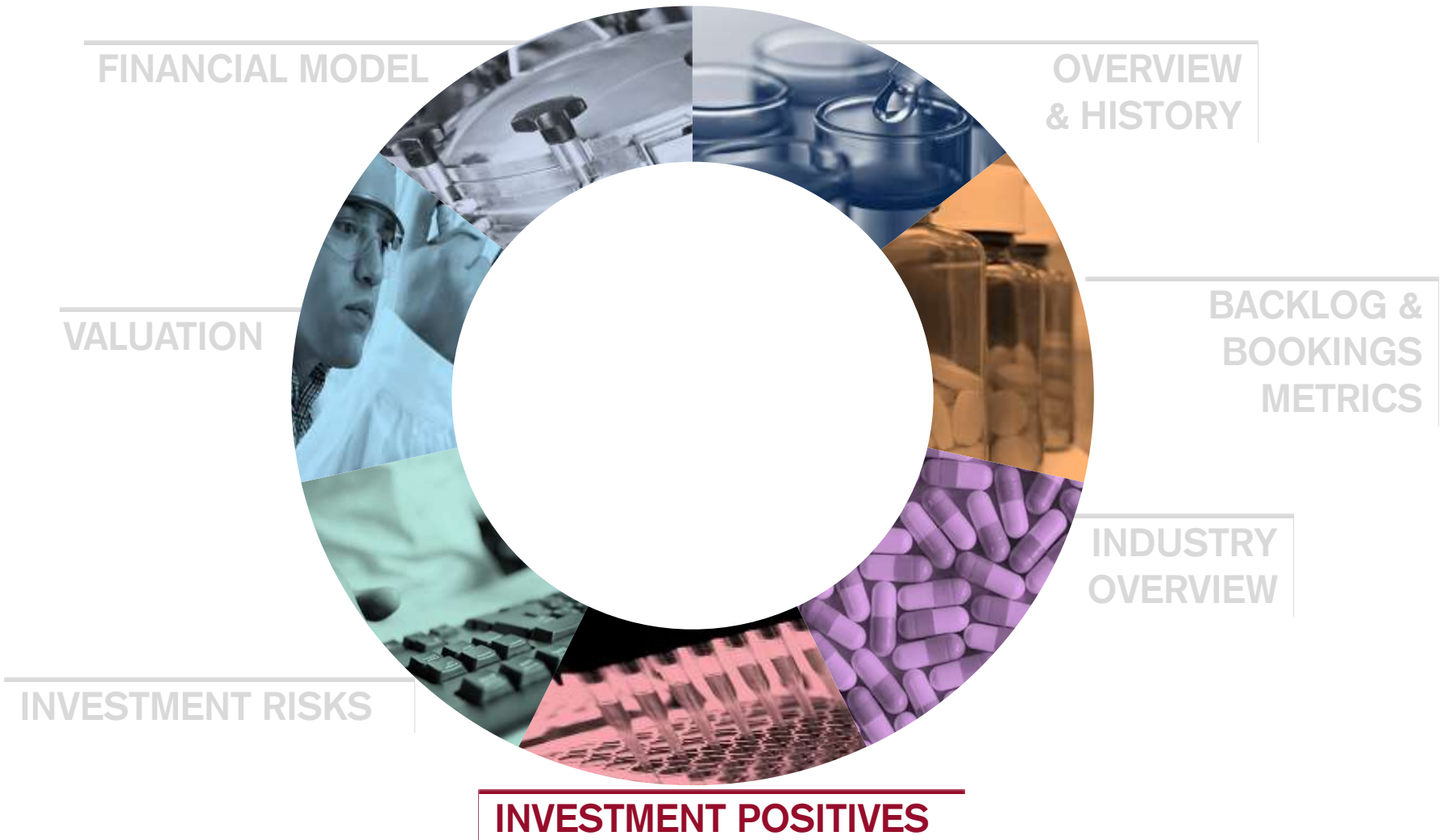
- The clinical (Phase I-IV) CRO market (\$18B-\$20B) remains fairly fragmented with 700+ CROs and ~43% of the market share still held by smaller, niche players
- The market is composed of many small/niche/specialized players, midsize + regional players, and several large global CROs
- While barriers to entry are low, the rise of increasingly global & complex trials, coupled with a need for continued investment in technology & services, is driving share to the top players
- INCR is a top 10 clinical CRO and it has solid roots with small/midsize biopharma customers along with strong relationships amongst large pharma/biotech

# CS CRO Coverage Universe Plus PRA Health Sciences

Company	Rating	Target Price	Exposure to Key Growth Markets	Margin Leverage Opportunities	Diversity & Scale of Service Offering	Attractive Valuation Relative to Peers/Growth	Customer Concentration
 COVANCE	Restricted	N/A	N/A	N/A	N/A	N/A	N/A
 ICON	Outperform	\$66	✓✓✓	✓✓	✓✓✓	✓✓	—
 QUINTILES	Outperform	\$67	✓✓	✓	✓✓✓	0	✓✓
 PAREXEL	Outperform	\$62	✓✓✓	✓✓✓	✓✓✓	0	✓
 charles river	Neutral	\$60	✓✓	✓✓	✓✓✓	—	✓✓
 :nc Research	Outperform	\$29	✓✓✓	✓✓	✓	✓✓	✓✓
	—	—	✓✓✓	✓	✓✓	N/A	✓✓✓



# Investment Positives



## Investment Positives - Summary

1. Favorable landscape for clinical CROs
2. Differentiated therapeutic area-focused structure
3. Strong reputation with investigator sites offers some competitive advantages
4. Premium margins with runway for further expansion
5. Opportunities for market share gains

# Favorable Landscape for Clinical CROs

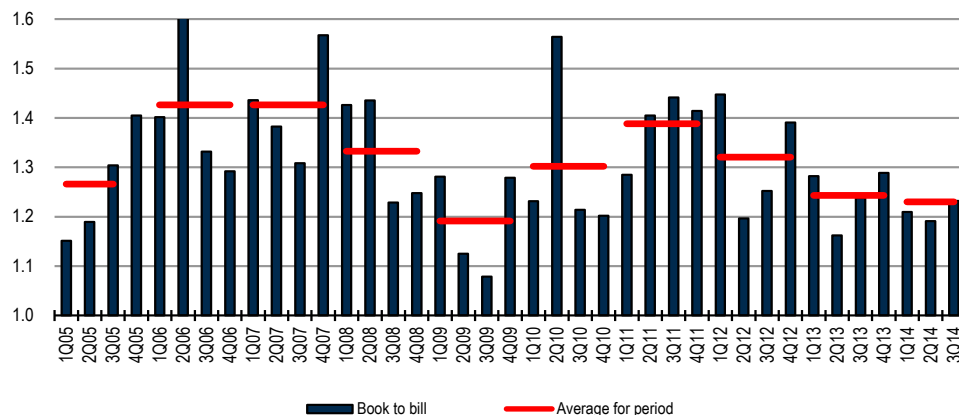
- We forecast mid-high single digit annual topline growth for the CRO market, supported by industry checks, surveys, and our CS market model. Please click [here](#) for our October 2014 annual proprietary survey on outsourcing trends.
- With modest increases in R&D (1-3%) driven by healthier clients/better new drug approval rates, robust biotech funding, continued increases in outsourcing penetration rates, and ongoing consolidation of vendors, we remain positively disposed to the fundamental backdrop for the global clinical CROs.
- While quarterly book-to-bill trends can be volatile by company, the TTM figures, anecdotal commentary from companies, and industry checks suggest overall demand trends remain healthy.

## CRO Market Growth Sensitivity Analysis

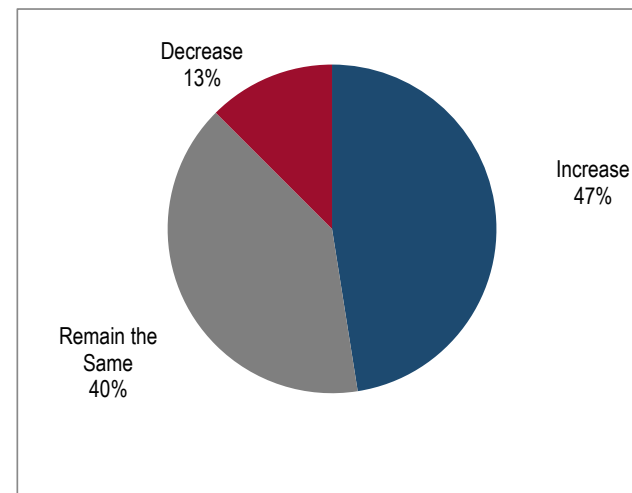
		R&D/Addressable Market Growth												
		-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
2018 Ending CRO Penetration Rate	38%	0.2%	0.8%	1.3%	1.8%	2.3%	2.8%	3.3%	3.8%	4.3%	4.8%	5.3%	5.8%	6.3%
	39%	0.8%	1.3%	1.8%	2.3%	2.8%	3.3%	3.8%	4.3%	4.8%	5.4%	5.9%	6.4%	6.9%
	40%	1.3%	1.8%	2.3%	2.8%	3.3%	3.8%	4.4%	4.9%	5.4%	5.9%	6.4%	6.9%	7.4%
	41%	1.8%	2.3%	2.8%	3.3%	3.8%	4.4%	4.9%	5.4%	5.9%	6.4%	6.9%	7.4%	8.0%
	42%	2.3%	2.8%	3.3%	3.8%	4.3%	4.9%	5.4%	5.9%	6.4%	6.9%	7.4%	8.0%	8.5%
	43%	2.8%	3.3%	3.8%	4.3%	4.8%	5.4%	5.9%	6.4%	6.9%	7.4%	7.9%	8.5%	9.0%
	44%	3.2%	3.8%	4.3%	4.8%	5.3%	5.8%	6.4%	6.9%	7.4%	7.9%	8.4%	9.0%	9.5%
	45%	3.7%	4.2%	4.7%	5.3%	5.8%	6.3%	6.8%	7.4%	7.9%	8.4%	8.9%	9.5%	10.0%
	46%	4.2%	4.7%	5.2%	5.7%	6.3%	6.8%	7.3%	7.8%	8.4%	8.9%	9.4%	9.9%	10.5%
	47%	4.6%	5.1%	5.7%	6.2%	6.7%	7.2%	7.8%	8.3%	8.8%	9.4%	9.9%	10.4%	10.9%
	48%	5.0%	5.6%	6.1%	6.6%	7.2%	7.7%	8.2%	8.8%	9.3%	9.8%	10.4%	10.9%	11.4%
	49%	5.5%	6.0%	6.5%	7.1%	7.6%	8.1%	8.7%	9.2%	9.7%	10.3%	10.8%	11.3%	11.9%
	50%	5.9%	6.4%	7.0%	7.5%	8.0%	8.6%	9.1%	9.7%	10.2%	10.7%	11.3%	11.8%	12.3%
	51%	6.3%	6.9%	7.4%	7.9%	8.5%	9.0%	9.5%	10.1%	10.6%	11.2%	11.7%	12.2%	12.8%
	52%	6.7%	7.3%	7.8%	8.4%	8.9%	9.4%	10.0%	10.5%	11.1%	11.6%	12.1%	12.7%	13.2%
	53%	7.1%	7.7%	8.2%	8.8%	9.3%	9.9%	10.4%	10.9%	11.5%	12.0%	12.6%	13.1%	13.6%
	54%	7.5%	8.1%	8.6%	9.2%	9.7%	10.3%	10.8%	11.4%	11.9%	12.4%	13.0%	13.5%	14.1%
	55%	7.9%	8.5%	9.0%	9.6%	10.1%	10.7%	11.2%	11.8%	12.3%	12.9%	13.4%	13.9%	14.5%
	56%	8.3%	8.9%	9.4%	10.0%	10.5%	11.1%	11.6%	12.2%	12.7%	13.3%	13.8%	14.4%	14.9%
	57%	8.7%	9.3%	9.8%	10.4%	10.9%	11.5%	12.0%	12.6%	13.1%	13.7%	14.2%	14.8%	15.3%
	58%	9.1%	9.6%	10.2%	10.7%	11.3%	11.9%	12.4%	13.0%	13.5%	14.1%	14.6%	15.2%	15.7%
	59%	9.5%	10.0%	10.6%	11.1%	11.7%	12.2%	12.8%	13.3%	13.9%	14.4%	15.0%	15.6%	16.1%
	60%	9.8%	10.4%	10.9%	11.5%	12.1%	12.6%	13.2%	13.7%	14.3%	14.8%	15.4%	15.9%	16.5%
	61%	10.2%	10.8%	11.3%	11.9%	12.4%	13.0%	13.5%	14.1%	14.7%	15.2%	15.8%	16.3%	16.9%
	62%	10.6%	11.1%	11.7%	12.2%	12.8%	13.4%	13.9%	14.5%	15.0%	15.6%	16.1%	16.7%	17.3%
	63%	10.9%	11.5%	12.0%	12.6%	13.2%	13.7%	14.3%	14.8%	15.4%	16.0%	16.5%	17.1%	17.6%

# Favorable Clinical Landscape – Key Industry Exhibits

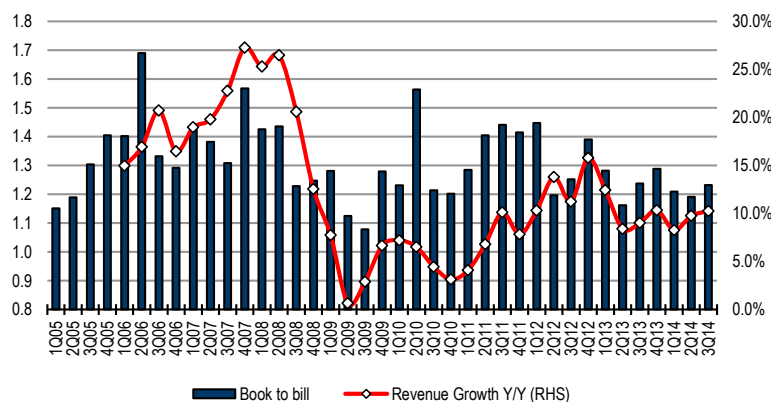
## Industry Book/Bill Ratios



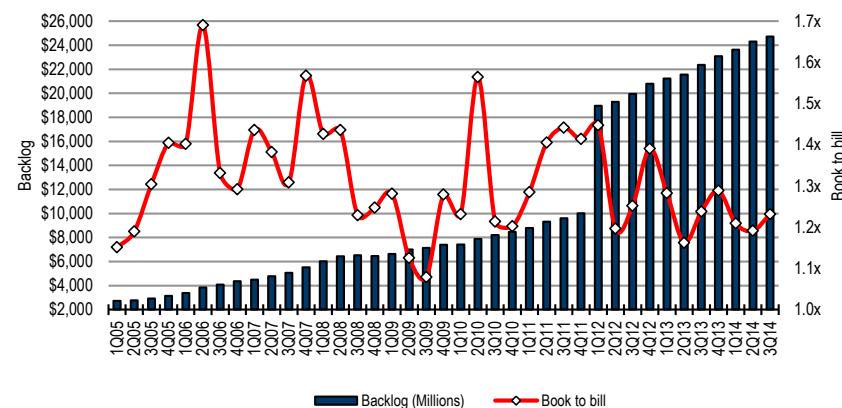
How do you expect the % of your outsourced R&D budget to change in 2015 vs. 2014?



## Industry Book/Bill & Revs Growth



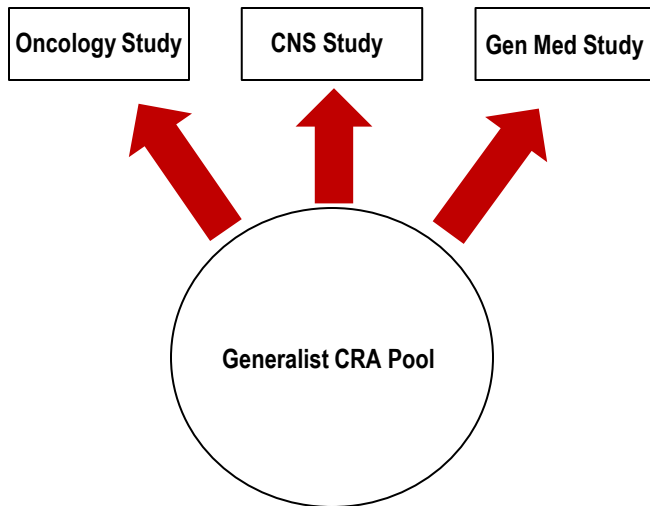
## Industry Backlog vs. Book/Bill



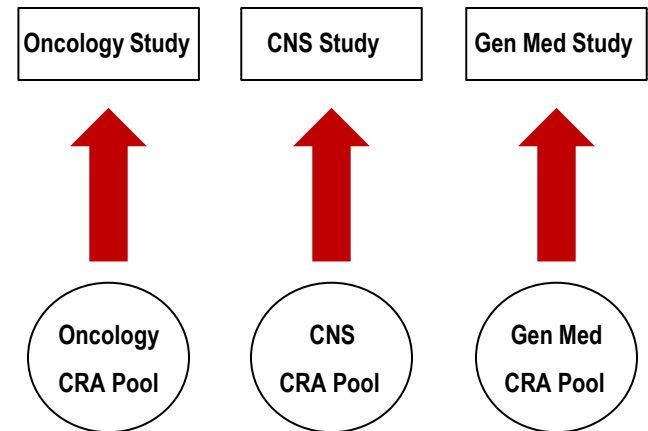
# Differentiated Therapeutic Area-Focused Structure

- Unlike most CROs that have a generalist pool of clinical research associates (CRAs) that work on trials in various therapeutic areas on a trial by trial basis, INCR's CRAs usually only work and focus on a specific therapeutic area
- Expertise in each of these areas goes from lowest CRA up to Global Therapeutic Heads
- Provides more predictable results and makes them well rated from sponsors/sites/CRAs which helps with retention
- Each therapeutic area acts almost like a "mini-CRO" operating on the same backbone of SOPs and technology
- Checks suggests this differentiation is well received → helps INCR compete & sell "higher-value" services into more complex trials which enhances overall margin profile
- 85% of INC's CRAs are principally focused in one TA & over 70% are solely focused in their area of expertise

## Traditional CRO



## INC Research

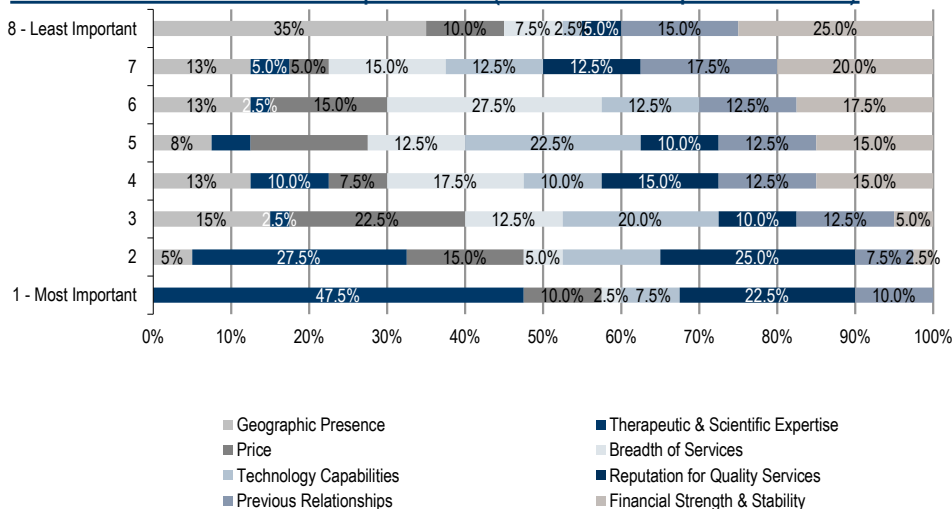


# Differentiated Therapeutic Area-Focused Structure

- Therapeutic & Scientific Expertise have consistently been ranked the most important factor in selecting a CRO in our survey work
- INCR's current five broad therapeutic focus areas are: Oncology, Central Nervous System (CNS), General Medicine, Cardiovascular and Endocrinology
- 75% of INCR's backlog is made up of CNS, Oncology, and other complex disease studies vs. 55% of total Phase III drugs in development, highlighting INCR's leverage to faster-growing therapy classes
- CNS and Oncology therapeutic focus areas are growing faster than overall net service revenue (these categories at INCR grew 21% in '13 vs. overall growth of 13%)

Therapeutic Area	Key Focus Areas	% of Revenue
Oncology	Lung Breast Prostate Colon Melanoma Lymphomas Leukemia	20%
CNS	Analgesia Neurology Psychiatry	25-30%
General Medicine	Infectious Diseases Immunology & Inflammation Respiratory GI & Dermatology	20%
Cardiovascular	Hypertension Hyperlipidemia/Dyslipidemia Arrhythmia Atrial Fibrillation Heart Failure Ischemic Heart Disease Outcome Studies	<10%
Endocrinology	Diabetes Metabolic Syndrome Obesity	<10%

What do you consider the most important factor in selecting a CRO? Rank in order of importance (i.e. MOST important is #1)



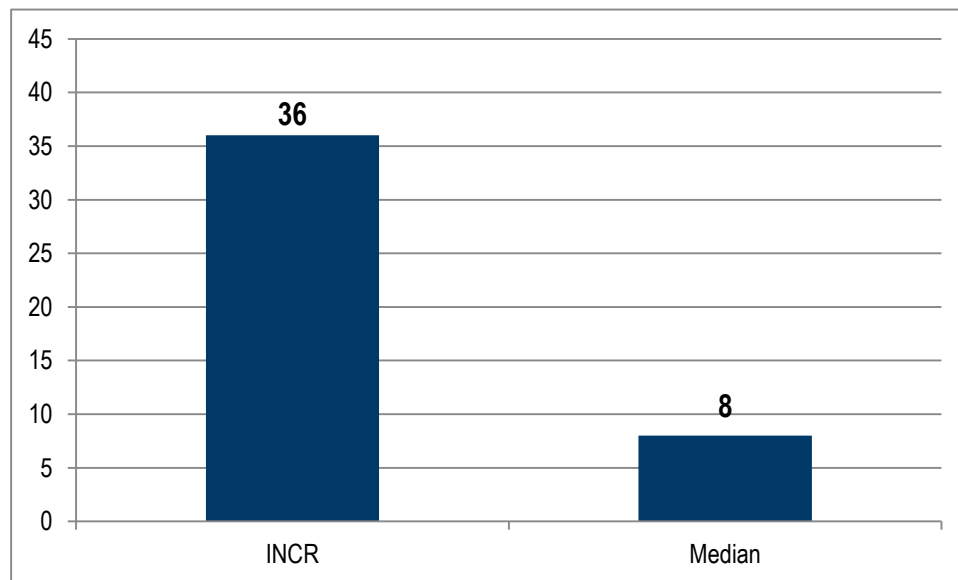
## Strong Reputation With Investigator Sites

- INCR ranked as the top CRO to work for in CenterWatch's biannual global survey of investigator sites
- INCR ranked top-3 in all 36 evaluated attributes relative to a median of 8 for evaluated CROs, while notching the top score in 4 of the 5 attributes ranked most important by sites
- This strong showing underscores INC Research's strong competitive positioning, as the opinions of KOLs and well-regarded global investigator sites can influence sponsor decisions. Additionally strong ties to sites can aid in the efficient recruitment and study start-up.

### CenterWatch Site Ranking of CROs

Best CROs to Work For	
INC Research	
PPD	
inVentiv Health Clinical	
Covance	
Quintiles	
PRA Health Sciences	
PAREXEL	
ICON plc	

### Total # of Attributes Ranked Top 3





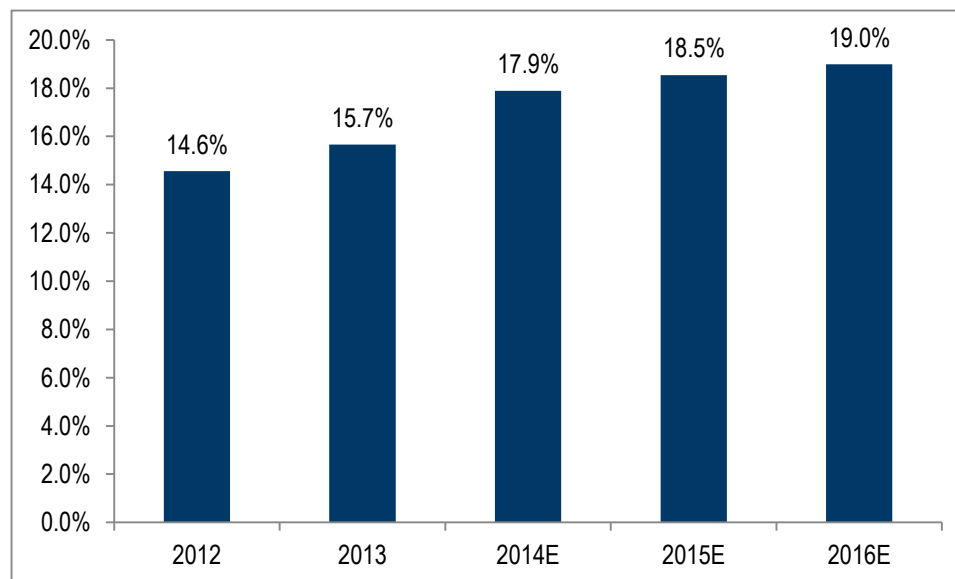
## Premium Margins With Runway for Expansion

- INCR has delivered consistently improving EBITDA margins over the last several years paced by Kendle synergy capture and improving efficiencies. We believe margins are likely enhanced by INCR's focus on complex TA's.
- We estimate that LTM EBITDA margins at INCR are at some of the best levels, lagging only industry-leader Q (attempting to isolate Q's Product Development Segment), however we see continued runway towards the company's 20% goal
- We forecast ~50-60 bps of annual margin expansion paced by: (1) improving facility utilization/consolidation; (2) standardizing on 1-2 CTMS from 5 today; (3) operating leverage at SG&A line; and (4) potential IT efficiencies

### LTM EBITDA Margin

<b>Q</b>	<b>~20-21%</b>
<b>INCR</b>	<b>17.7%</b>
<b>ICLR</b>	<b>16.4%</b>
<b>PRXL</b>	<b>14.8%</b>

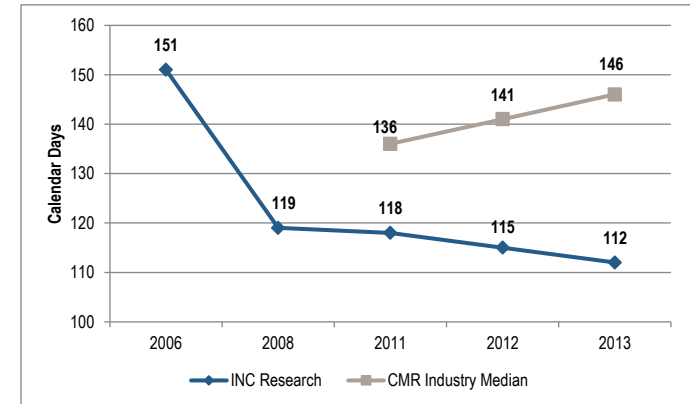
### INCR 2012-2016E EBITDA Margins



# The Trusted Process® Supports Margin Performance

- INCR uses a proprietary approach called the Trusted Process® for clinical trials – the process focuses on planning and design in order to optimize plan execution and reduce cycle times and overall project timelines
- Produces greater operating efficiency and predictable project schedules
- Since starting the Trusted Process in 2006, INCR has reduced median study start up time on new projects by 26% while industry median start up times have increased

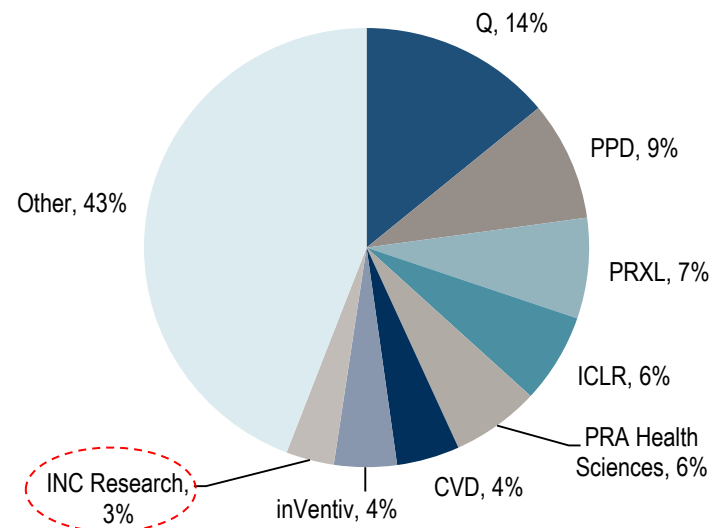
## Final Protocol to First Patient In (FPI)



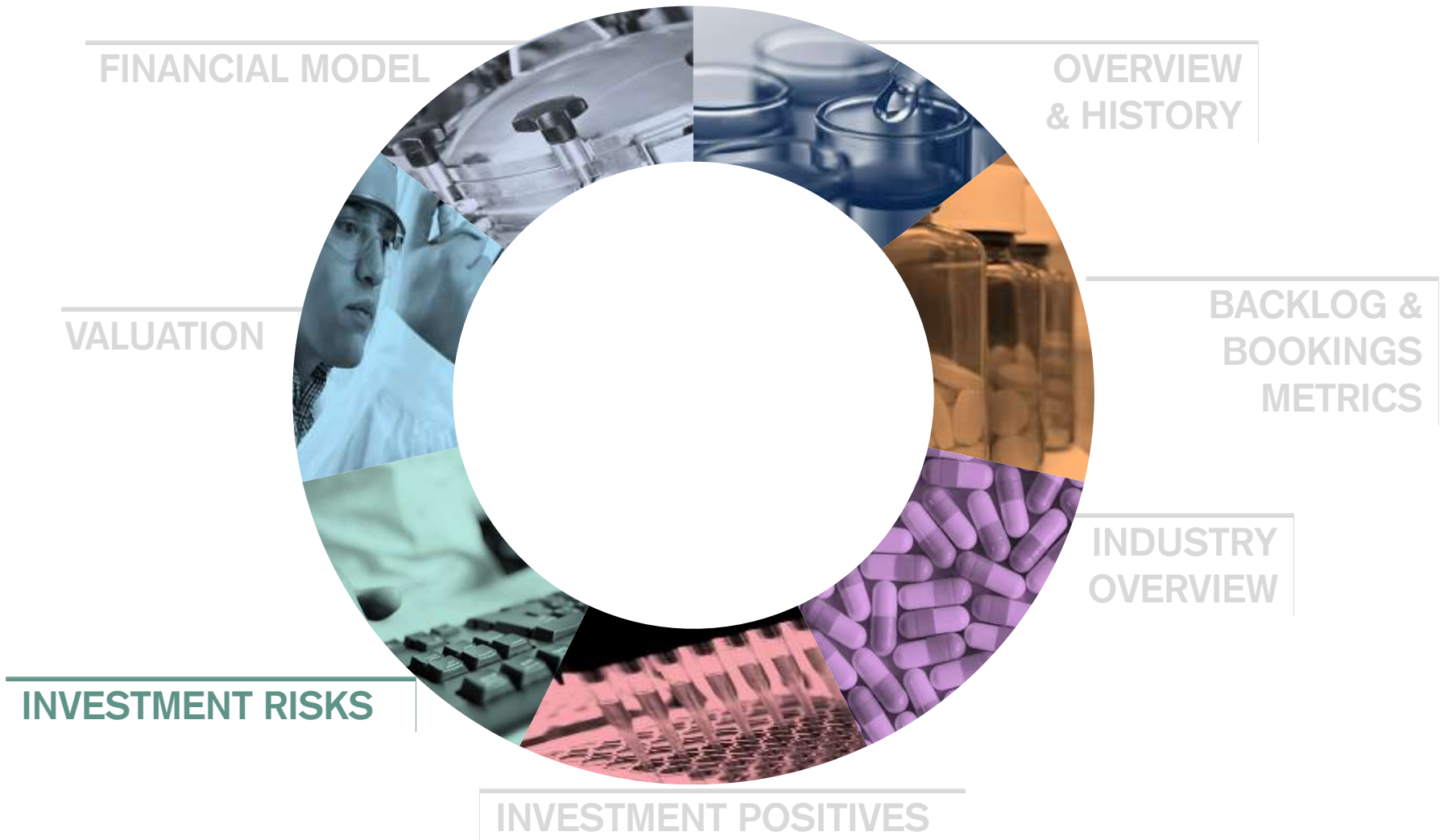
## Market Share Opportunities

- While INCR is slightly smaller than the current public peers with an estimated 3% share of the \$18-20B clinical (Phase I-IV) market, we believe that the newly public entity is increasingly well positioned to grow its market share
- With the Kendle integration further behind the company, we believe the platform is more stable and the company is poised to continue to execute on sales initiatives to broaden its position with larger more strategic players while deepening existing relationships
- We believe INCR has sufficient scale to meet necessary “table stakes” to compete, but continued *de novo* and inorganic build-out of geographic coverage could further bolster competitive positioning

### 2013 Clinical CRO Market Share



# Investment Risks



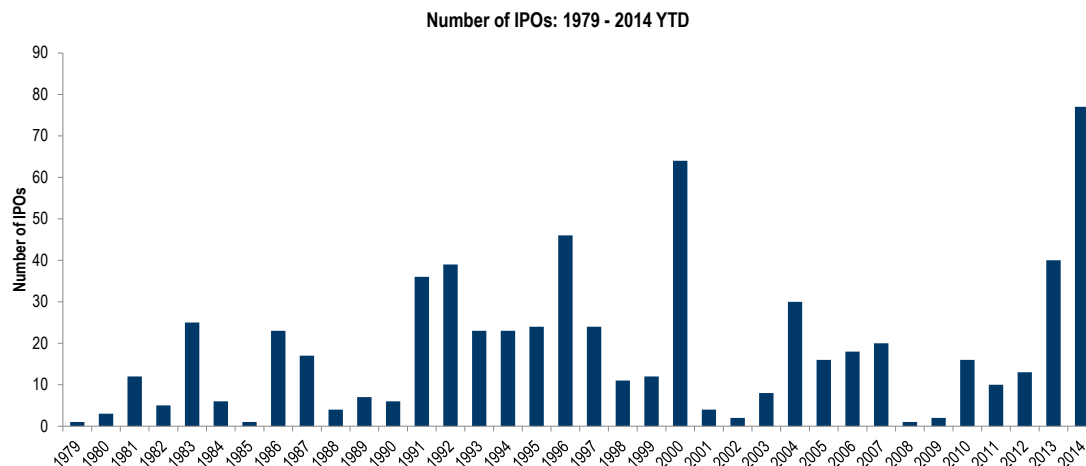
## Investment Risks - Summary

1. Favorable biotech funding environment could moderate
2. Smaller revenue footprint & scale
3. Controlled company status & PE ownership could represent overhang
4. High expectations for CRO group

# Favorable Biotech Funding Environment Could Moderate

- Over the past 18 months we have seen an incredibly favorable biotech funding environment, with over 70 IPOs in 2014 YTD following upon a strong year of issuances in 2013. Established players have also benefitted from a healthy fundraising environment and strong equity market performance, with cash balances further buoyed by recent successful commercial launches.
- Small/midsize biotech players often lack significant R&D infrastructure and tend to outsource more R&D activities to CROs
- We believe that the improved funding environment has been a modest tailwind, and to the extent this deteriorates it could hurt sentiment for the CROs (although the near-term financial impact is likely far more modest given the amount of cash that has been raised).

## Biotech IPO History



## Smaller Revenue Footprint & Scale

- INCR currently has the smallest employee, backlog, and revenue footprint of its three primary clinical peers (excluding CVD given lack of disclosure of clinical vs. preclinical vs. central lab staff/backlog/offices) While we do not view this as a major impediment to the company's ability to grow, it is possible some customers might be wary of placing very large tranches of business with INCR and becoming too significant a piece of INCR's revenues/earnings.
- By virtue of INCR's smaller revenue & bookings base the company could be slightly more susceptible to quarterly volatility given the impact that can be seen from the loss/cancellation of a sizable trial. Although we do not believe quarterly book-bill or cancellation rates often imply meaningful long-term fundamental conclusions, we acknowledge investors focus on these metrics quarterly and consequently INCR could inherently be more volatile than larger peers.
- Fortunately, the company's fairly low customer concentration relative to peers should somewhat mitigate these concerns.

### Clinical CRO Scale

	INC Research	Quintiles	PAREXEL	ICON	Covance
Employees	5,500	28,200	14,700	10,300	12,501
Offices	74	100	77	77	50
Countries with Operations	50	100	51	38	60
C2013 Net New Business (\$Ms)	\$883	\$4,900	\$2,147	\$1,647	\$2,993

### Customer Concentration

	PRAH	ICLR	PRXL	Q	CVD	INCR
Top Customer	8%	26%	17%	<10%	11%	15%
Top 5 Customers	38%	53%	47%	N/A	38-50%	34%
Top 10 Customers	N/A	64%	N/A	N/A	N/A	44%

### CRO 2013 Revenue Breakdown

CRO	F13 Service Revenue	% N. America	% Europe	% Rest of World
Charles River	\$1,165,528	61.2%	30.3%	8.4%
Covance	\$2,402,313	48.5%	26.7%	24.8%
ICON	\$1,336,058	43.6%	45.4%	11.0%
PAREXEL	\$1,734,442	50.0%	36.0%	14.0%
Quintiles	\$3,808,340	40.3%	39.4%	20.3%
INC Research	\$652,418	73.2%	24.5%	2.3%

# Controlled Company Status/PE Ownership Could Be Overhang

- Following the IPO, INCR's legacy financial sponsors (Avista Capital & Ontario Teacher's Pension Plan) will continue to control a majority of the voting power (80%-plus) and as such, INCR is classified as a "controlled company" by corporate governance standards. This in turn, exempts INCR from certain governance requirements.
- Of the eight directors at the time of the IPO only one appears to be independent (i.e. not a current/former executive or having ties to one of the main financial sponsors). Following the IPO the company may modify the full composition of its board but the current sponsors will have the right to nominate two directors each for as long as they own at least 15% of the outstanding Class A shares.
- We would note that the financial sponsors' interests may not always align with that of other public shareholders and the limited liquidity (relative to the total float) along with the potential for secondary sales could at times weigh on valuation & sentiment.

## INCR Ownership Structure

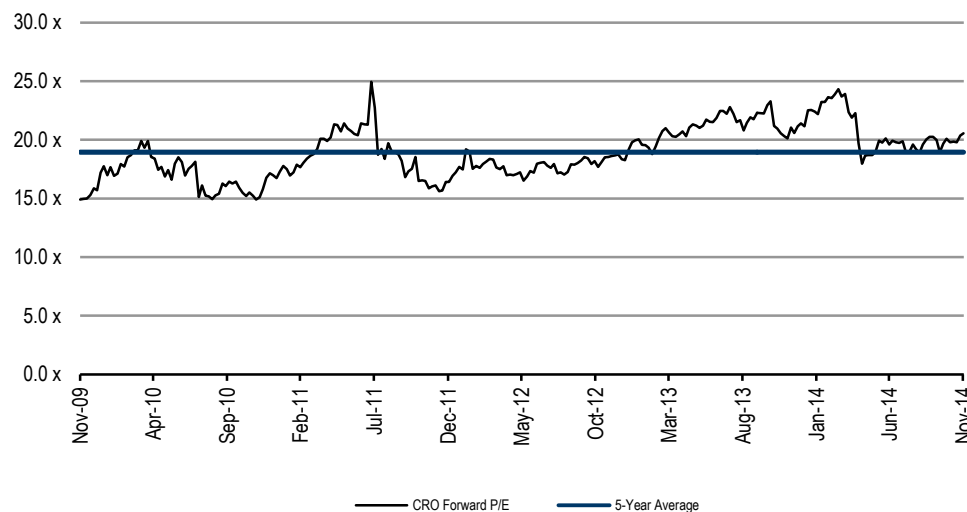
Shareholder	Title	Ownership	
		# of Shares	% of Total
Avista Capital	Private Equity Firm	26.0	42.48%
Ontario Teacher's Pension Plan	Pension Plan	24.8	40.52%
Jamie Macdonald	CEO and Director	0.3	0.49%
Greg Rush	Executive Vice President and CFO	0.1	0.16%
Alistair Macdonald	Chief Operating Officer	0.2	0.33%
Named Directors	Board of Directors	0.5	0.82%
New Public Shareholders		9.3	15.20%
<b>Total</b>		<b>61.2</b>	<b>100.00%</b>



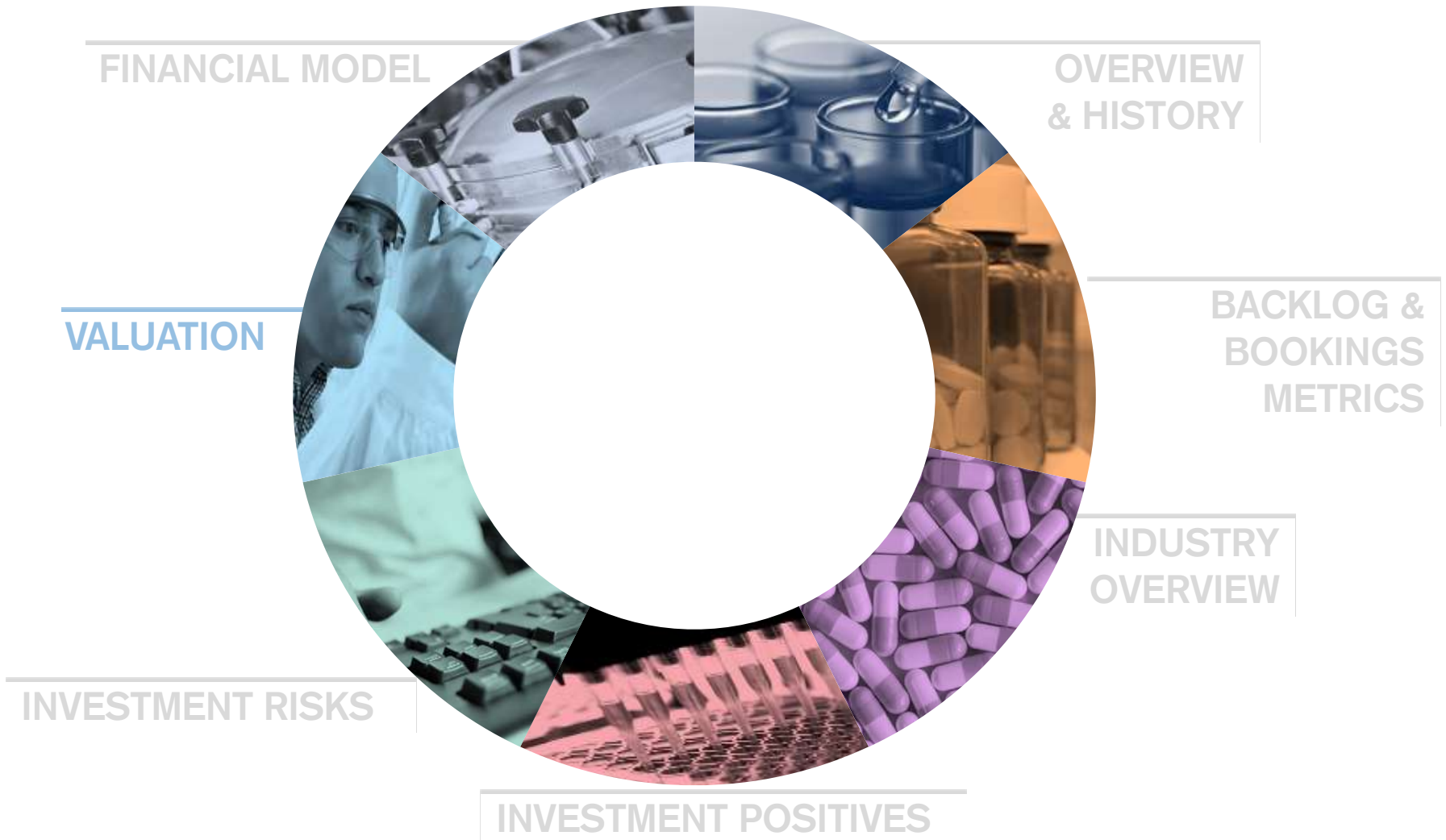
# High Expectations for the CRO Group

- The public clinical CROs are in the midst of their third year of meaningful outperformance (2012-2014), paced first by market share gains/sales growth, and more recently characterized by earnings beats driven by strong margin expansion/capital deployment. With the CRO group 104.3% since the start of 2012 coupled with several recent IPOs, secondaries, and sales there are concerns that the group is nearing a cyclical peak.
- Although group average valuations are only modestly (9%) above historic averages (~20.6x vs. 5-year average of 18.9x) we believe expectations for the group remain generally high.
- We believe that INCR & clinical peers have little room for perceived disappointments in bookings/revenue/earnings results. Given historical valuation volatility there could be pressure on group multiples in the event of mixed quarterly result or if large-scale pharma M&A activity picks up.

## Historical CRO Forward P/E



# Valuation



# Valuation Methodology

- **Valuation Methodology**

- In valuing INC Research, we primarily utilized two valuation metrics: price to earnings (P/E) and EV/EBITDA. We assess valuation multiples relative to industry peers in the context of current operations, our future outlook for the company, and industry backdrop. We would note that comparing relative multiples among the CROs is somewhat complicated by (1) inconsistent adjusted EPS calculation (including treatment of deal-related amortization and stock-based compensation); (2) varying leverage; and (3) wide dispersion of tax rates. Shares of INCR currently trade at 20.4 and 16.8 times our F2015-F2016 EPS estimates of \$1.20 and \$1.45, respectively. From a comparable group perspective, our analysis currently broadly incorporates the five other public CROs (excluding PRA Health Sciences given lack of published consensus/CS estimates). However for practical purposes the best comparables, in our opinion, are ICON, PAREXEL, and Quintiles given those players focus on the clinical market. We exclude Charles River as the company does not compete with INC and we also exclude Covance given that its multiple is influenced by its pending acquisition by LabCorp.

- **\$29 Target Price**

- Our target price of \$29 implies shares can trade at 20 times our 2016 EPS estimate and roughly 11.7 times our 2016 EBITDA estimate. This target P/E multiple is roughly in line with target multiples applied at Outperform-rated peers given INCR's smaller scale & more limited public history balanced by growth rates at the high end of the industry peer group. Since our target price implies over 20% upside to the current levels, we believe that an Outperform rating is appropriate.

## Current Valuation at a Glance

	2014E	2015E	2016E
Current Price	\$24.39	\$24.39	\$24.39
FD shares	63,128	63,128	63,128
Equity value	1,539,697	1,539,697	1,539,697
Debt	427,000	427,000	427,000
Cash	102,925	102,925	102,925
Enterprise value	1,863,772	1,863,772	1,863,772
EBITDA	141,774	162,305	183,700
<b>EV/EBITDA</b>	<b>13.1x</b>	<b>11.5x</b>	<b>10.1x</b>
EPS	\$0.77	\$1.20	\$1.45
<b>P/E</b>	<b>31.6x</b>	<b>20.4x</b>	<b>16.8x</b>

# INC Research vs. Comp Group – Growth Comparison

Clinical CROs	Ticker	Price	Mkt Cap	EV	Revenue Growth			EBITDA Growth			EPS Growth		
					2014	2015	2016	2014	2015	2016	2014	2015	2016
Covance, Inc.	CVD	\$102.62	5,807	5,370	5%	6%	5%	18%	8%	9%	18%	12%	11%
ICON plc	ICLR	\$55.54	3,420	3,171	13%	10%	9%	46%	16%	14%	56%	15%	12%
PAREXEL International Corp.	PRXL	\$58.51	3,219	3,308	12%	8%	8%	22%	15%	13%	26%	19%	16%
Quintiles Transnational Holdings, Inc.	Q	\$57.82	7,392	8,790	10%	8%	8%	15%	9%	9%	26%	12%	13%
Average					10%	8%	7%	25%	12%	11%	32%	15%	13%
Median					11%	8%	8%	20%	12%	11%	26%	14%	13%

Pre-Clinical CROs	Ticker	Price	Mkt Cap	EV	Revenue Growth			EBITDA Growth			EPS Growth		
					2014	2015	2016	2014	2015	2016	2014	2015	2016
Charles River Laboratories International Inc.	CRL	\$64.75	3,038	3,694	11%	6%	5%	5%	5%	0%	15%	7%	9%
Total Average					10%	8%	7%	21%	10%	9%	28%	13%	12%
Total Median					11%	8%	8%	18%	9%	9%	26%	12%	12%

INC Research	INCR	\$24.39	1,540	1,864	22%	10%	11%	40%	14%	13%	220%	55%	21%
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# Valuation – P/E

Clinical CROs	Ticker	Price	Mkt Cap	EV	EPS			P/E		
					2014	2015	2016	2014	2015	2016
Covance, Inc.	CVD	\$102.62	5,807	5,370	3.81	4.28	4.74	26.9x	24.0x	21.6x
ICON plc	ICLR	\$55.54	3,420	3,171	2.76	3.19	3.58	20.1x	17.4x	15.5x
PAREXEL International Corp.	PRXL	\$58.51	3,219	3,308	2.46	2.92	3.38	23.8x	20.0x	17.3x
Quintiles Transnational Holdings, Inc.	Q	\$57.82	7,392	8,790	2.66	2.98	3.36	21.8x	19.4x	17.2x
<b>Average</b>								<b>23.1x</b>	<b>20.2x</b>	<b>17.9x</b>
<b>Median</b>								<b>22.8x</b>	<b>19.7x</b>	<b>17.2x</b>

Pre-Clinical CROs	Ticker	Price	Mkt Cap	EV	EPS			P/E		
					2014	2015	2016	2014	2015	2016
Charles River Laboratories International Inc.	CRL	\$64.75	3,038	3,694	3.36	3.59	3.93	19.2x	18.0x	16.5x

<b>Total Average</b>								<b>22.4x</b>	<b>19.8x</b>	<b>17.6x</b>
<b>Total Median</b>								<b>21.8x</b>	<b>19.4x</b>	<b>17.2x</b>

<b>INC Research</b>	<b>INCR</b>	<b>\$24.39</b>	<b>1,540</b>	<b>1,864</b>	<b>0.77</b>	<b>1.20</b>	<b>1.45</b>	<b>31.6x</b>	<b>20.4x</b>	<b>16.8x</b>
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- The clinical CRO comp group is trading at an average of 17.9x 2016 EPS, and the average P/E multiple for the total CRO comp group (including pre-clinical player CRL) is 17.6x 2016 EPS.

# Valuation – EV/EBITDA

Clinical CROs	Ticker	Price	Mkt Cap	EV	EV/EBITDA		
					2014	2015	2016
Covance, Inc.	CVD	\$102.62	5,807	5,370	12.4x	11.4x	10.5x
ICON plc	ICLR	\$55.54	3,420	3,171	12.3x	10.6x	9.4x
PAREXEL International Corp.	PRXL	\$58.51	3,219	3,308	11.0x	9.6x	8.5x
Quintiles Transnational Holdings, Inc.	Q	\$57.82	7,392	8,790	12.5x	11.5x	10.5x
<b>Average</b>					<b>12.0x</b>	<b>10.8x</b>	<b>9.7x</b>
<b>Median</b>					<b>12.3x</b>	<b>11.0x</b>	<b>9.9x</b>

Pre-Clinical CROs	Ticker	Price	Mkt Cap	EV	EV/EBITDA		
					2014	2015	2016
Charles River Laboratories International Inc.	CRL	\$64.75	3,038	3,694	12.5x	12.0x	11.3x

<b>Total Average</b>					<b>12.1x</b>	<b>11.0x</b>	<b>10.0x</b>
<b>Total Median</b>					<b>12.4x</b>	<b>11.4x</b>	<b>10.5x</b>

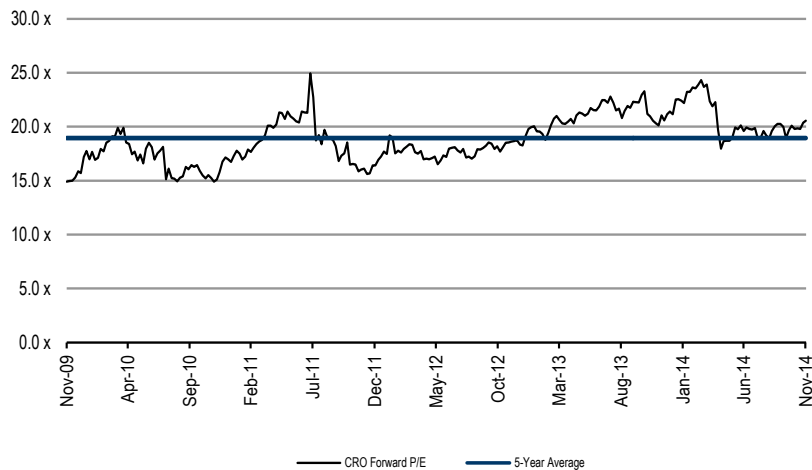
  

<b>INC Research</b>	<b>INCR</b>	<b>\$24.39</b>	<b>1,540</b>	<b>1,864</b>	<b>13.1x</b>	<b>11.5x</b>	<b>10.1x</b>
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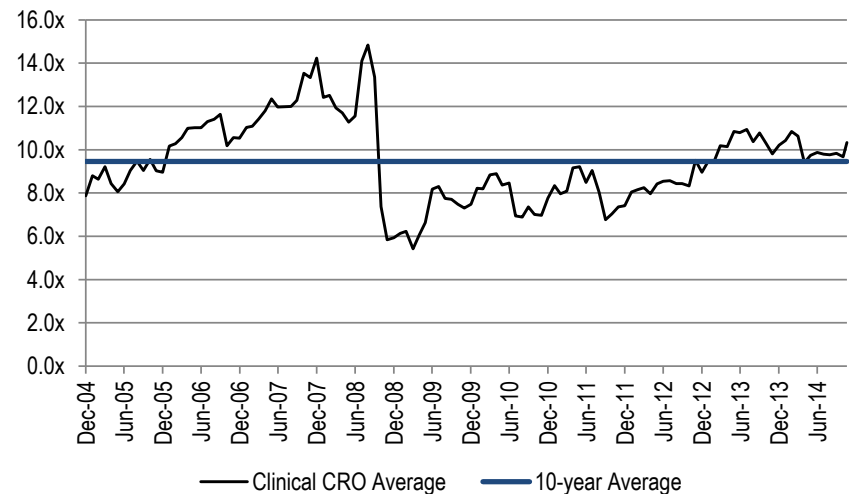
- The clinical CRO comp group is trading at an average of 9.7x 2016 EBITDA, and the average EV/EBITDA multiple for the total CRO comp group (including pre-clinical player CRL) is 9.9x 2016 EBITDA.

# Historical CRO Sector Valuation

## Historical CRO Forward P/E



## Historical CRO Forward EV/EBITDA





# Additional Key Valuation/Financial Metrics

## CRO Leverage Statistics

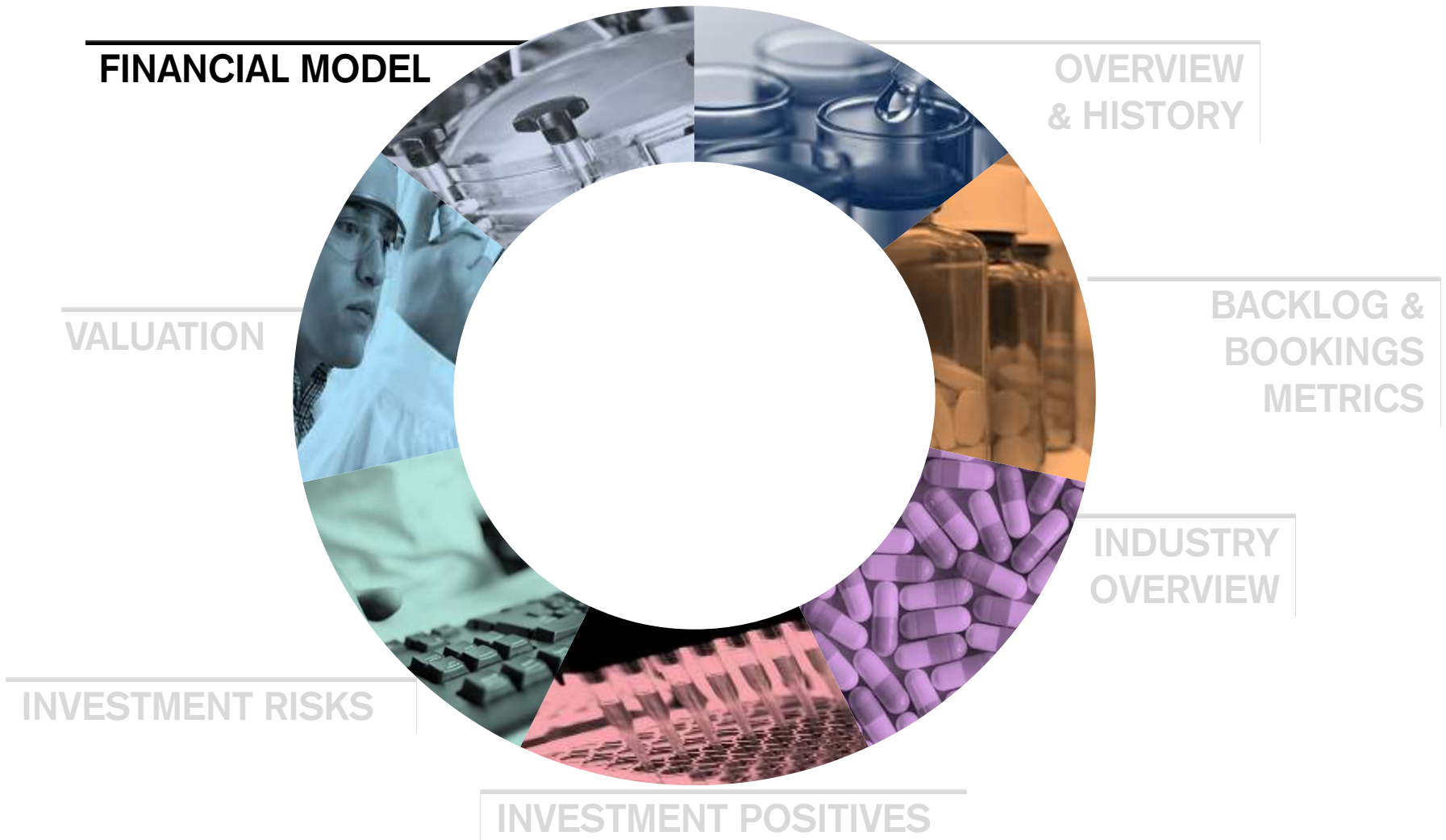
Company	Debt	Cash	Gross Debt/TTM EBITDA
Charles River Laboratories	\$664	\$156	2.5x
Covance	\$250	\$729	0.7x
ICON plc	\$0	\$249	0.0x
PAREXEL	\$370	\$281	1.3x
PRA Health Sciences*	\$941	\$48	5.8x
Quintiles	\$2,043	\$654	3.0x
<b>INC Research</b>	<b>\$427</b>	<b>\$103</b>	<b>3.2x</b>
Average			2.3x
Clinical Peer Average			2.3x

\*Pro-forma for IPO

## CRO FCF Statistics

Company	F15E FCF	Mkt Cap	FCF Yield
Covance	\$261	\$5,807	4.5%
ICON plc	\$199	\$3,420	5.8%
PAREXEL	\$154	\$3,219	4.8%
Quintiles	\$359	\$7,392	4.9%
<b>INC Research</b>	<b>\$86</b>	<b>\$1,493</b>	<b>5.8%</b>
Average			5.1%

# Financial Model



# Financial Projections

## • INC Research 2013-2016E Income Statement

	2013	1Q14 Mar-14	2Q14 Jun-14	3Q14 Sep-14	4Q14E Dec-14	2014E	1Q15E Mar-15	2Q15E Jun-15	3Q15E Sep-15	4Q15E Dec-15	2015E	2016E
Net Service Revenues	648,400	184,700	199,000	203,263	205,792	792,755	209,635	215,915	223,386	226,371	875,307	967,214
Reimbursable Out-of-Pocket Expenses	342,700	82,100	82,200	90,861	82,091	337,252	87,847	89,187	99,038	90,300	366,373	399,346
<b>Total Revenues</b>	<b>991,100</b>	<b>266,800</b>	<b>281,200</b>	<b>294,124</b>	<b>287,883</b>	<b>1,130,007</b>	<b>297,482</b>	<b>305,102</b>	<b>322,425</b>	<b>316,671</b>	<b>1,241,679</b>	<b>1,366,560</b>
Direct Costs (excl. D&A)	432,300	120,800	130,800	129,557	132,942	514,099	135,214	139,049	143,302	145,330	562,896	620,549
<b>as a % of revenue</b>	<b>66.7%</b>	<b>65.4%</b>	<b>65.7%</b>	<b>63.7%</b>	<b>64.6%</b>	<b>64.8%</b>	<b>64.5%</b>	<b>64.4%</b>	<b>64.2%</b>	<b>64.2%</b>	<b>64.3%</b>	<b>64.2%</b>
Reimbursable Out-of-Pocket Expenses	342,700	82,100	82,200	90,861	82,091	337,252	87,847	89,187	99,038	90,300	366,373	399,346
<b>as a % of revenue</b>	<b>52.9%</b>	<b>44.5%</b>	<b>41.3%</b>	<b>44.7%</b>	<b>39.9%</b>	<b>42.5%</b>	<b>41.9%</b>	<b>41.3%</b>	<b>44.3%</b>	<b>39.9%</b>	<b>41.9%</b>	<b>41.3%</b>
<b>Gross Profit</b>	<b>216,100</b>	<b>63,900</b>	<b>68,200</b>	<b>73,706</b>	<b>72,850</b>	<b>278,656</b>	<b>74,420</b>	<b>76,866</b>	<b>80,084</b>	<b>81,041</b>	<b>312,411</b>	<b>346,665</b>
<b>Gross Margin</b>	<b>33.3%</b>	<b>34.6%</b>	<b>34.3%</b>	<b>36.3%</b>	<b>35.4%</b>	<b>35.2%</b>	<b>35.5%</b>	<b>35.6%</b>	<b>35.9%</b>	<b>35.8%</b>	<b>35.7%</b>	<b>35.8%</b>
Selling, general and administrative (excl. D&A)	114,590	31,320	32,720	36,829	36,014	136,883	36,267	36,706	38,311	38,823	150,106	162,965
<b>as a % of revenue</b>	<b>17.7%</b>	<b>17.0%</b>	<b>16.4%</b>	<b>18.1%</b>	<b>17.5%</b>	<b>17.3%</b>	<b>17.3%</b>	<b>17.0%</b>	<b>17.2%</b>	<b>17.2%</b>	<b>17.1%</b>	<b>16.8%</b>
<b>Adjusted EBITDA</b>	<b>101,510</b>	<b>32,580</b>	<b>35,480</b>	<b>36,877</b>	<b>36,837</b>	<b>141,774</b>	<b>38,153</b>	<b>40,160</b>	<b>41,773</b>	<b>42,218</b>	<b>162,305</b>	<b>183,700</b>
<b>EBITDA margin</b>	<b>15.7%</b>	<b>17.6%</b>	<b>17.8%</b>	<b>18.1%</b>	<b>17.9%</b>	<b>17.9%</b>	<b>18.2%</b>	<b>18.6%</b>	<b>18.7%</b>	<b>18.7%</b>	<b>18.5%</b>	<b>19.0%</b>
Depreciation expense	19,100	6,900	5,000	4,734	5,167	21,801	5,458	5,482	5,471	5,473	21,883	23,987
<b>as a % of revenue</b>	<b>2.9%</b>	<b>3.7%</b>	<b>2.5%</b>	<b>1.6%</b>	<b>1.8%</b>	<b>1.9%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.8%</b>
<b>Adjusted Operating Income (EBIT)</b>	<b>82,410</b>	<b>25,680</b>	<b>30,480</b>	<b>32,143</b>	<b>31,670</b>	<b>119,973</b>	<b>32,696</b>	<b>34,679</b>	<b>36,303</b>	<b>36,745</b>	<b>140,422</b>	<b>159,713</b>
<b>Adjusted EBIT margin</b>	<b>12.7%</b>	<b>13.9%</b>	<b>15.3%</b>	<b>15.8%</b>	<b>15.4%</b>	<b>15.1%</b>	<b>15.6%</b>	<b>16.1%</b>	<b>16.3%</b>	<b>16.2%</b>	<b>16.0%</b>	<b>16.5%</b>
Interest Income	(400)	(200)	0	(26)	0	(226)	(25)	(25)	(25)	(25)	(101)	(101)
Interest Expense	60,500	14,300	12,800	12,929	12,457	52,486	5,643	5,479	5,203	5,034	21,359	17,252
Other Expense (Income)	1,600	0	0	0	0	0	0	0	0	0	0	0
<b>Pre-tax income</b>	<b>20,710</b>	<b>11,580</b>	<b>17,680</b>	<b>19,240</b>	<b>19,213</b>	<b>67,713</b>	<b>27,078</b>	<b>29,225</b>	<b>31,125</b>	<b>31,736</b>	<b>119,164</b>	<b>142,561</b>
<b>Pre-tax margin</b>	<b>3.2%</b>	<b>6.3%</b>	<b>8.9%</b>	<b>9.5%</b>	<b>9.3%</b>	<b>8.5%</b>	<b>12.9%</b>	<b>13.5%</b>	<b>13.9%</b>	<b>14.0%</b>	<b>13.6%</b>	<b>14.7%</b>
Income taxes	7,630	4,910	6,559	7,138	7,109	25,716	9,748	10,521	11,205	11,425	42,899	48,471
<b>Income tax rate</b>	<b>36.8%</b>	<b>42.4%</b>	<b>37.1%</b>	<b>37.1%</b>	<b>37.0%</b>	<b>38.0%</b>	<b>36.0%</b>	<b>36.0%</b>	<b>36.0%</b>	<b>36.0%</b>	<b>36.0%</b>	<b>34.0%</b>
<b>Adjusted Net Income</b>	<b>13,080</b>	<b>6,670</b>	<b>11,121</b>	<b>12,102</b>	<b>12,104</b>	<b>41,997</b>	<b>17,330</b>	<b>18,704</b>	<b>19,920</b>	<b>20,311</b>	<b>76,265</b>	<b>94,090</b>
Less Class C common stock dividends	500	125	125	125	-	375	-	-	-	-	-	-
<b>Adjusted Net Income attributable to common shareholders</b>	<b>12,580</b>	<b>6,545</b>	<b>10,996</b>	<b>11,977</b>	<b>12,104</b>	<b>41,622</b>	<b>17,330</b>	<b>18,704</b>	<b>19,920</b>	<b>20,311</b>	<b>76,265</b>	<b>94,090</b>
<b>Net income margin</b>	<b>1.9%</b>	<b>3.5%</b>	<b>5.5%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.3%</b>	<b>8.3%</b>	<b>8.7%</b>	<b>8.9%</b>	<b>9.0%</b>	<b>8.7%</b>	<b>9.7%</b>
Amortization of intangible assets	39,200	7,500	6,200	9,597	9,597	32,894	9,488	9,488	9,488	9,488	37,950	37,925
Other non-recurring charges	16,720	1,822	24,737	1,505	55,600	83,664	1,000	1,000	1,000	1,000	4,000	-
Tax Impact & Tax Adjustment	2,020	1,077	36,049	11,680	(8,100)	40,706	(7,750)	(7,750)	(7,750)	(7,750)	(31,000)	(28,000)
Non-recurring charges, net of tax	57,940	8,245	(5,112)	(578)	57,097	59,652	2,738	2,738	2,738	2,738	10,950	9,925
<b>Net income (GAAP reported)</b>	<b>(45,360)</b>	<b>(1,700)</b>	<b>16,108</b>	<b>12,555</b>	<b>(44,993)</b>	<b>(18,030)</b>	<b>14,593</b>	<b>15,966</b>	<b>17,182</b>	<b>17,574</b>	<b>65,315</b>	<b>84,165</b>
Diluted weighted avg. shares	52,033	51,897	52,185	52,514	58,776	53,843	63,378	63,628	63,878	64,128	63,753	64,753
<b>Adjusted EPS</b>	<b>0.24</b>	<b>0.13</b>	<b>0.21</b>	<b>0.23</b>	<b>0.21</b>	<b>0.77</b>	<b>0.27</b>	<b>0.29</b>	<b>0.31</b>	<b>0.32</b>	<b>1.20</b>	<b>1.45</b>
Reported GAAP EPS (diluted, after non-recurring items)	(0.87)	(0.03)	0.31	0.24	(0.77)	(0.33)	0.23	0.25	0.27	0.27	1.02	1.30
<b>% change year-over-year:</b>												
Net Revenues	12.0%	23.4%	25.0%	23.1%	18.0%	22.3%	13.5%	8.5%	9.9%	10.0%	10.4%	10.5%
Gross Profit	13.7%	42.3%	29.4%	31.1%	16.9%	28.9%	16.5%	12.7%	8.7%	11.2%	12.1%	11.0%
SG&A	8.4%	16.4%	17.3%	34.9%	10.8%	19.5%	15.8%	12.2%	4.0%	7.8%	9.7%	8.6%
EBITDA	20.4%	81.0%	43.1%	27.6%	23.6%	39.7%	17.1%	13.2%	13.3%	14.6%	14.5%	13.2%
EBIT	28.0%	88.8%	52.4%	32.8%	28.7%	45.6%	27.3%	13.8%	12.9%	16.0%	17.0%	13.7%
Pretax income	204.6%	-709.5%	233.6%	113.8%	131.2%	227.0%	133.8%	65.3%	61.8%	65.2%	76.0%	19.6%
Adj Net income	255.8%	-634.3%	235.7%	119.6%	138.5%	230.9%	164.8%	70.1%	66.3%	67.8%	83.2%	23.4%
Adjusted EPS	257.2%	-635.4%	235.1%	117.6%	111.0%	219.7%	116.8%	39.5%	36.7%	53.8%	54.7%	21.5%
GAAP EPS	-23.1%	-89.8%	-251.3%	-354.7%	201.0%	-61.6%	-802.9%	-18.7%	12.5%	-135.8%	-406.0%	26.9%

# Financial Projections

- INC Research 2012-16E Balance Sheet

	As of December 31,				
	2012	2013	2014E	2015E	2016E
<b>Current assets:</b>					
Cash and cash equivalents	81,363	96,972	102,925	116,242	113,591
Restricted cash	1,051	569	569	569	569
Accounts receivable and unbilled services, net	227,265	228,835	257,077	284,965	318,408
Current portion of deferred income taxes	8,988	14,378	16,950	17,384	19,132
Prepaid expenses and other current assets	35,688	35,428	36,725	39,113	43,730
Current assets	354,355	376,182	414,246	458,273	495,430
Property and equipment, net	42,196	40,947	48,085	55,963	62,927
Goodwill, net	565,118	563,365	554,780	554,780	554,780
Intangible assets, net	270,688	231,051	190,688	152,738	114,813
Deferred income taxes, less current portion	4,751	3,780	1,130	1,490	1,913
Other assets	20,546	17,786	32,786	32,786	32,786
<b>Total assets</b>	<b>1,257,654</b>	<b>1,233,111</b>	<b>1,241,716</b>	<b>1,256,030</b>	<b>1,262,650</b>
<b>Current liabilities:</b>					
Current portion of long-term debt	3,000	4,713	500	500	500
Accounts payable	17,138	9,594	16,950	18,625	21,865
Accrued liabilities	87,472	94,221	100,571	99,334	106,592
Deferred revenues	199,747	207,188	242,952	260,753	292,444
Current portion of capital lease obligations	2,915	2,292	1,130	-	-
Current liabilities	310,272	318,008	362,102	379,212	421,401
Long-term debt, net of current portion	585,786	587,202	426,500	354,300	230,500
Deferred tax liabilities	21,837	29,233	27,685	27,685	27,685
Other long-term liabilities and capital leases	22,929	22,461	22,461	22,461	22,461
<b>Total liabilities</b>	<b>940,824</b>	<b>956,904</b>	<b>838,748</b>	<b>783,658</b>	<b>702,047</b>
<b>Stockholders' equity:</b>					
Common stock	8,878	8,884	8,884	8,884	8,884
Additional paid-in capital	470,026	472,746	611,011	615,201	619,368
Treasury Stock, at cost	(5,361)	(6,751)	-	-	-
Accumulated other comprehensive income	(9,911)	(9,841)	(9,841)	(9,841)	(9,841)
Retained earnings/Accumulated Deficit	(146,802)	(188,831)	(207,087)	(141,872)	(57,808)
<b>Total stockholder's equity</b>	<b>316,830</b>	<b>276,207</b>	<b>402,967</b>	<b>472,372</b>	<b>560,603</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>1,257,654</b>	<b>1,233,111</b>	<b>1,241,716</b>	<b>1,256,030</b>	<b>1,262,650</b>

# Financial Projections

- INC Research 2014-2016E Statement of Cash Flows

	For the Year Ended December 31,		
	2014E	2015E	2016E
Net income	(18,256)	65,214	84,065
Cash flow from operating activities:			
Adjustments to reconcile net income to cash:			
Depreciation & amortization	54,501	59,833	61,912
Stock-based compensation	3,265	4,190	4,167
Deferred income taxes	(1,470)	(793)	(2,171)
Net changes in assets and liabilities:			
Accounts receivable	(28,242)	(27,889)	(33,443)
Acquisition-related receivables	(2,572)	(433)	(1,748)
Other assets	(1,297)	(2,388)	(4,617)
Accounts payable	7,356	1,675	3,240
Other current liabilities	42,113	16,565	38,949
Net cash from operating activities	95,398	115,974	150,352
Capital Expenditures	(28,739)	(29,760)	(30,951)
<b>Free cash flow</b>	66,659	86,213	119,401
Acquisition of businesses	(2,000)	0	0
Share repurchase	135,000	0	0
<b>Net Cash Flow</b>	199,659	86,213	119,401
Incremental borrowing/(Debt repayment)	(215,702)	(72,200)	(123,800)
Other	21,996	(697)	1,748
Net increase/(decrease) in cash	5,953	13,317	(2,651)
Cash and cash equivalents at beginning of period	96,972	102,925	116,242
Cash and cash equivalents at end of period	102,925	116,242	113,591

# Financial Projections

- INC Research 2011-2013 Historical Statement of Cash Flows

	For the Year Ended December 31,		
	2011	2012	2013
<b>Cash flows from operating activities:</b>			
Net income	(59,547)	(59,114)	(41,529)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation & amortization	64,136	78,811	58,473
Amortization of capitalized loan fees	11,824	5,165	7,073
Stock-based compensation	1,176	1,248	2,419
Allowance for doubtful accounts	1,090	777	77
Deferred income taxes	(36,508)	(45,195)	3,646
Foreign currency adjustments	(6,852)	(2,474)	409
Gain on purchase of equity affiliate	0	(2,735)	0
Impairment of goodwill	0	4,000	0
Loss on asset disposals	113	3,404	477
Other	1,029	-	-
Net changes in assets and liabilities, net of effects from acquisitions:			
(Increase)/decrease in restricted cash	(395)	1,530	477
(Increase)/decrease in accounts receivable and unbilled	(7,967)	37,537	(2,537)
Increase/(decrease) in accounts payable and accrued expenses	(5,455)	(2,105)	(438)
Increase/(decrease) in deferred revenues	9,950	8,363	7,036
Increase/(decrease) in other current assets & liabilities	8,873	13,787	1,687
<b>Net cash provided by operating activities</b>	<b>(18,533)</b>	<b>42,999</b>	<b>37,270</b>
<b>Cash flows from investing activities:</b>			
Acquisition of business, net of cash acquired	(364,907)	(3,383)	0
Purchase of property and equipment	(4,763)	(9,591)	(17,714)
<b>Net cash used by investing activities</b>	<b>(369,670)</b>	<b>(12,974)</b>	<b>(17,714)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of long-term debt, net of issuance costs	591,442	-	-
Payment of costs associated with issuance of long-term debt	(23,338)	0	0
Proceeds from the refinancing of long-term debt	-	-	2,835
Payments on long-term debt	(307,173)	(3,000)	(3,520)
Borrowings on the revolving line of credit	28,000	0	0
Repayments on the revolving line of credit	(21,000)	(7,000)	0
Payments of contingent consideration related to business combinations	0	(2,663)	(1,266)
Principal payments toward capital lease obligations	(1,117)	(3,420)	(3,307)
Proceeds from issuance of common stock	162,345	375	-
Proceeds from the exercise of stock options	0	31	307
Dividends paid	(4,500)	(500)	(500)
Treasury stock repurchases	(2,606)	(2,755)	(1,390)
<b>Net cash (used by) provided by financing activities</b>	<b>422,053</b>	<b>(18,932)</b>	<b>(6,841)</b>
Effect of exchange rate movements on cash	(3,627)	(690)	2,894
Net increase (decrease) in cash and cash equivalents	30,223	10,403	15,609
<b>Cash and cash equivalents at beginning of year</b>	<b>40,737</b>	<b>70,960</b>	<b>81,363</b>
<b>Cash and cash equivalents at end of year</b>	<b>70,960</b>	<b>81,363</b>	<b>96,972</b>

# Disclosures

Astellas Pharma (4503.T, ¥1,707)  
Charles River Laboratories International Inc. (CRLN, \$64.75)  
Covance, Inc. (CVDN, \$102.62)  
ICON plc (ICLR.OQ, \$65.54)  
INC Research, Inc. (INCR.OQ, \$24.39, OUTPERFORM[V], TP \$29.0)  
Lab Corporation of America (LH.N, \$104.64)  
Medidata Solutions Inc (MDSO.OQ, \$42.71)  
Otsuka Holdings (4578.T, ¥3,752)  
PAREXEL International Corp. (PRXL.OQ, \$58.51)  
PRA Health Sciences, Inc. (PRAH.OQ, \$21.84)  
Quintiles Transnational Holdings, Inc. (Q.N, \$57.82)

## Disclosure Appendix

### Important Global Disclosures

I, Jeffrey Bailin, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

### As of December 10, 2012 Analysts' stock rating are defined as follows:

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

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

*\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

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**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

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*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	46%	(54% banking clients)
Neutral/Hold*	38%	(50% banking clients)
Underperform/Sell*	14%	(44% banking clients)
Restricted	2%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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

**Method:** We arrived at our \$29 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 \$29 applying a multiple of 20x our F16 EPS estimate of \$1.45. Our EV/EBITDA analysis applies a roughly 11.7x multiple to our F16 EBITDA of \$183.7M. 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 \$29 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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The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (INCR.OQ) within the past 12 months

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