

October 29, 2015

## INC Research Holdings, Inc.

### First Look at Very Strong Third-Quarter Results; Excellent Bookings and Guidance Increased

- Quarterly Result Overview.** INC reported very strong third-quarter results on Thursday morning, October 29—the company's fourth earnings release since its initial public offering. EPS exceeded our target by \$0.14 on much better margins. The EBITDA margin was 510 basis points above our target, driven mainly by gross margins that were 420 basis points better than our target. We note that the adjusted EPS total of \$0.58 reported by the company excludes stock compensation expenses, and thus enhances quarterly performance by roughly \$0.02. Relative to our model, better revenue (less than a penny) and EBIT margin (about \$0.13) drove the majority of the outperformance. While foreign exchange rates had a negative impact on net service revenues (roughly \$10.3 million), INC also realizes a margin benefit as a higher percentage of costs are denominated in local currencies as compared with revenue. Net revenue increased 17.8% on a constant-currency basis, compared with our 17.0% estimate.

#### Exhibit 1. Third-Quarter EPS Performance Relative to William Blair Estimates

Revenues	\$ 0.005
Gross Profit	\$ 0.109
Selling & Marketing	\$ 0.024
Depreciation	\$ 0.006
Interest	\$ 0.008
Taxes	\$ 0.000
Share Count	\$ (0.009)
<b>Total</b>	<b>\$ 0.144</b>

Sources: Company reports and William Blair & Company, L.L.C. estimates

- Solid Bookings.** Net new business was \$327.7 million, producing a book-to-bill ratio of 1.4 times, the best in the group so far. We had modeled \$278.3 million in bookings and a book-to-bill ratio of 1.20 times. We look for commentary regarding the mix of biotech clients as a proportion of this total on the call, but note that so far, CROs have not suggested that the slower biotech funding this quarter has translated into lower demand from that client cohort. We suspect demand from biotechs can remain strong for the next several quarters based on funding already secured. Furthermore, we believe that small, underfunded biotech companies make up a relatively small percentage of backlog for the CRO group, probably between 10% and 20%.
- Updated 2015 Guidance.** Given strong quarterly results, management increased calendar 2015 guidance, calling for revenues of \$910 million to \$914 million, which implies an increase of 12.4% to 12.9% despite several points of currency-related headwind. Management's guidance is roughly \$6 million and \$4 million above our estimate and consensus, respectively, at the midpoint and is \$7 million above prior guidance. Management also increased its 2015 EPS target to a range of \$1.91 to \$1.97 (up 117% to 124%). Guidance was increased an impressive \$0.19 at the midpoint.

INC Research is one of the top 10 largest CROs, with an annual revenue base exceeding \$800 million. Founded in 1985 as a niche CRO focused on central nervous system disorders, INC now employs 5,400 associates across 50 countries, and its focus has broadened to include oncology and other complex diseases.

Please refer to important disclosures on pages 3-4. Analyst certification is on page 3. William Blair or an affiliate does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making an investment decision.

*William Blair*

John Kreger +1 312 364 8597  
jkreger@williamblair.com

Roberto Fatta +1 312 364 8797  
rfatta@williamblair.com

Stock Rating: **Outperform**  
Company Profile: **Aggressive Growth**

Symbol: INCR (NASDAQ)  
Price: \$39.98 (52-Wk.: \$20-\$52)  
Market Value (mil.): \$2,252  
Long-Term EPS Growth Rate: 20%  
Dividend/Yield: None  
Fiscal Year End: December

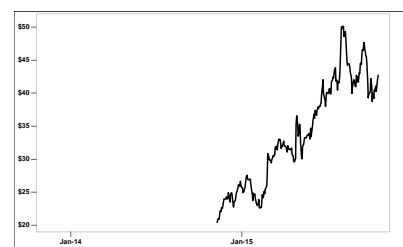
	2014A	2015E	2016E
<b>Estimates</b>			
EPS Q1	\$0.12	A\$0.42	NA
Q2	\$0.27	A\$0.47	NA
Q3	\$0.28	\$0.43	NA
Q4	\$0.26	\$0.42	NA
FY	\$0.93	\$1.75	\$2.07
CY		\$1.75	\$2.07

<b>Valuation</b>			
FY P/E	43.0x	22.8x	19.3x
CY P/E		22.8x	19.3x

<b>Trading Data (FactSet)</b>			
Shares Outstanding (mil.)			56
Float (mil.)			5
Average Daily Volume			402,922

<b>Financial Data (FactSet)</b>			
Book Value Per Share (MRQ)			5.0
Return on Equity (TTM)			-8.1

#### Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

## Exhibit 2. Current 2015 Guidance Relative to William Blair Estimates and Consensus

	2015 Guidance		2015 Estimates	
	Updated	Prior to Call	WB - Prior to Call	Consensus - Prior to Call
Revenue (\$M)	\$910 to 914	\$900 to 910	\$906	\$908
Growth	12.4% to 12.9%	11.1% to 12.4%	11.9%	12.1%
Adjusted EPS (excl. SBC)	\$1.91 to \$1.97	\$1.69 to \$1.80	\$1.75	\$1.77
Growth (decline)	117% to 124%	92% to 105%	110.8%	113.3%
Adjusted EPS (incl. SBC)	\$1.86 to \$1.92	\$1.64 to \$1.75	\$1.68	NA
Growth (decline)	124% to 131%	108% to 122%	112.7%	

Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

- Valuation and stock thoughts.** As of Wednesday's close, INC trades at 19.9 times our current 2016 EPS estimate of \$2.01 (up 20%), which includes stock-based comp. Currently, the clinical CRO peer group trades at 17.2 times (ICON [ICLR \$67.09; Outperform] 14.4 times, Quintiles [Q \$66.99; Outperform] 18.8 times, PRA [PRAH \$36.31; Outperform] 18.2 times, and Parexel [PRXL \$64.01; Outperform] 17.5 times). While revenues continue to be hampered by currency headwinds, we maintain our Outperform rating on INC given the company's industry-leading organic growth profile and impressive margin improvement of late, both of which suggest the stock's premium versus its peers is justified. We will update our model following Thursday's earnings call, and expect to increase our overall 2015 EPS estimate by about \$0.20. Exhibits 1 and 3 break down the third quarter versus our expectations.

## Exhibit 3. Third Quarter 2015 EPS Variance Analysis

October 29, 2015	3Q 2015 (Actual)	3Q 2014 (Actual)	Year/Year % Change	3Q 2015 (Estimate)	Year/Year % Change	Act.-Est. Difference
Total Net Revenue	234,494	207,763	12.9%	231,953	11.6%	2,541
Direct Costs	135,530	129,557	4.6%	143,811	11.0%	(8,281)
Selling, general, and administrative (incl options)	40,315	42,263	-4.6%	42,215	-0.1%	(1,900)
Stock-based comp expense	(1,668)	(881)	89.3%	(1,826)	107.3%	158
Total operating expenses	174,177	170,939	1.9%	184,200	7.8%	(10,023)
<b>EBITDA (excluding SBC)</b>	<b>60,317</b>	<b>36,824</b>	<b>63.8%</b>	<b>47,753</b>	<b>29.7%</b>	<b>12,564</b>
Depreciation	4,357	4,734	-8.0%	4,871	2.9%	(514)
Operating income (excluding SBC)	55,960	32,090	74.4%	42,882	33.6%	13,078
Interest and other income (expense)	(3,037)	(12,903)	-76.5%	(3,788)	-70.6%	751
Earnings before tax	52,923	19,187	175.8%	39,094	103.8%	13,829
Income taxes (expense) benefit	(19,052)	(7,100)	168.3%	(14,074)	98.2%	(4,978)
<b>Adjusted net income (excluding SBC)</b>	<b>33,871</b>	<b>12,087</b>	<b>180%</b>	<b>25,020</b>	<b>107.0%</b>	<b>8,851</b>
Extraordinary Items	3,943	468		(4,290)		
<b>Net income (GAAP)</b>	<b>37,814</b>	<b>12,555</b>		<b>20,730</b>		
Shares outstanding	58,764	52,514	11.9%	57,878	10.2%	886
<b>EPS (excluding SBC)</b>	<b>\$0.58</b>	<b>\$0.23</b>	<b>150%</b>	<b>\$0.43</b>	<b>87.8%</b>	<b>0.14</b>
<b>EPS (including SBC)</b>	<b>\$0.56</b>	<b>\$0.22</b>	<b>154%</b>	<b>\$0.41</b>	<b>87.7%</b>	<b>0.15</b>
<b>EPS (GAAP)</b>	<b>\$0.64</b>			<b>\$0.36</b>		
<b>% of Net Revenue:</b>			<b>Change</b>		<b>Difference</b>	
Gross profit	42.20	37.64	4.56	38.00	0.36	4.20
Selling, general and administrative	17.19	20.34	(3.15)	18.20	(2.14)	(1.01)
Stock-based comp expense	0.71	0.42	0.29	0.79	0.36	(0.08)
EBITDA	25.72	17.72	8.00	20.59	2.86	5.13
Depreciation	1.86	2.28	(0.42)	2.10	(0.18)	(0.24)
EBITA	23.86	15.45	8.42	18.49	3.04	5.38
Tax rate	36.00	37.00	(1.00)	36.00	(1.00)	(0.00)
Net Income	14.44	5.82	8.63	10.79	4.97	3.66
<b>Bookings</b>						
Net new business	327,700	249,229	78,471	278,344	29,115	49,356
Net Book-to-Bill	1.40	1.20		1.20		

Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

## IMPORTANT DISCLOSURES

William Blair or an affiliate was a manager or co-manager of a public offering of equity securities for INC Research Holdings, Inc. within the prior 12 months.

William Blair or an affiliate is a market maker in the security of INC Research Holdings, Inc.

William Blair or an affiliate expects to receive or intends to seek compensation for investment banking services from INC Research Holdings, Inc. within the next three months.

William Blair or an affiliate received compensation for investment banking services from INC Research Holdings, Inc. within the last 12 months. INC Research Holdings, Inc. is or was, within the last 12 months, an investment banking client of William Blair & Company and/or one or more of its affiliates.

Additional information is available upon request.

This report is available in electronic form to registered users via R\*Docs™ at [www.rdocs.com](http://www.rdocs.com) or [www.williamblair.com](http://www.williamblair.com).

Please contact us at +1 800 621 0687 or consult [williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx](http://williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx) for all disclosures.

John Kreger attests that 1) all of the views expressed in this research report accurately reflect his/her personal views about any and all of the securities and companies covered by this report, and 2) no part of his/her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed by him/her in this report. We seek to update our research as appropriate, but various regulations may prohibit us from doing so. Other than certain periodical industry reports, the majority of reports are published at irregular intervals as deemed appropriate by the analyst.

DOW JONES: 17,779.52

S&P 500: 2,090.35

NASDAQ: 5,095.69



## Current Rating Distribution (as of 09/30/15)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	67	Outperform (Buy)	16
Market Perform (Hold)	31	Market Perform (Hold)	3
Underperform (Sell)	2	Underperform (Sell)	0

\*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm's departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

### **OTHER IMPORTANT DISCLOSURES**

Stock ratings, price targets, and valuation methodologies: William Blair & Company, L.L.C. uses a three-point system to rate stocks. Individual ratings and price targets (where used) reflect the expected performance of the stock relative to the broader market (generally the S&P 500, unless otherwise indicated) over the next 12 months. The assessment of expected performance is a function of near-, intermediate-, and long-term company fundamentals, industry outlook, confidence in earnings estimates, valuation (and our valuation methodology), and other factors. Outperform (O) – stock expected to outperform the broader market over the next 12 months; Market Perform (M) – stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) – stock expected to underperform the broader market over the next 12 months; not rated (NR) – the stock is not currently rated. The valuation methodologies used to determine price targets (where used) include (but are not limited to) price-to-earnings multiple (P/E), relative P/E (compared with the relevant market), P/E-to-growth-rate (PEG) ratio, market capitalization/revenue multiple, enterprise value/EBITDA ratio, discounted cash flow, and others.

Company Profile: The William Blair research philosophy is focused on quality growth companies. Growth companies by their nature tend to be more volatile than the overall stock market. Company profile is a fundamental assessment, over a longer-term horizon, of the business risk of the company relative to the broader William Blair universe. Factors assessed include: 1) durability and strength of franchise (management strength and track record, market leadership, distinctive capabilities); 2) financial profile (earnings growth rate/consistency, cash flow generation, return on investment, balance sheet, accounting); 3) other factors such as sector or industry conditions, economic environment, confidence in long-term growth prospects, etc. Established Growth (E) – Fundamental risk is lower relative to the broader William Blair universe; Core Growth (C) – Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

The ratings, price targets (where used), valuation methodologies, and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies—to our clients and our trading desks—that are contrary to opinions expressed in this research. Certain outstanding reports may contain discussions or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent report on a company or issuer before making an investment decision. Our asset management and trading desks may make investment decisions that are inconsistent with recommendations or views expressed in this report. We will from time to time have long or short positions in, act as principal in, and buy or sell the securities referred to in this report. Our research is disseminated primarily electronically, and in some instances in printed form. Electronic research is simultaneously available to all clients. This research is for our clients only. No part of this material may be copied or duplicated in any form by any means or redistributed without the prior written consent of William Blair & Company, L.L.C.

This is not in any sense a solicitation or offer of the purchase or sale of securities. The factual statements herein have been taken from sources we believe to be reliable, but such statements are made without any representation as to accuracy or completeness or otherwise. Opinions expressed are our own unless otherwise stated. Prices shown are approximate.

This material is distributed in the United Kingdom and the European Economic Area (EEA) by William Blair International, Ltd., authorized and regulated by the Financial Conduct Authority (FCA), and is only directed at and is only made available to persons falling within articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). This document is intended for persons regarded as professional investors (or equivalent) and is not to be distributed to or passed onto any “retail clients.” No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.

“William Blair” and “R\*Docs” are registered trademarks of William Blair & Company, L.L.C. Copyright 2015, William Blair & Company, L.L.C. All rights reserved.