

## Equity Research

### INC Research Holdings, Inc.

INCR: Q2 2015 Earnings Full Analysis

Outperform / V

• **What to do from here.** INCR reported another strong quarter stemming from continued strong new business and improvement in backlog conversion as well as meaningful margin improvement (the company is now well-above its 20% EBITDA margin target). With a backlog burn rate that is consistently above peers, and with strong bookings, we believe INCR can continue to grow revenue above 10%. We believe this can translate to 20% EPS growth in 2016, considering a declining tax rate and a reduction in full year share count following recent repurchases. While the stock is up 85% YTD (vs. 4% for the S&P 500) and now trades at a premium to the group, we believe the premium is justified given INCR's above-peer growth profile. Remain Outperform. Raising our 2015/2016E EPS to \$1.73/\$2.07 from \$1.51/\$1.73. Increasing our valuation range to \$50-55 from \$40-43.

• **Financial highlights.** INCR reported EPS of \$0.46 (including stock comp) on revenue of \$227MM vs. consensus of \$0.34 on \$219MM. Net bookings were \$296MM (1.30 book-to-bill) vs. our estimate of \$240MM (1.10 book-to-bill) and the company achieved a stronger-than-expected 14.3% backlog burn rate (up from 13.3% last quarter. Revenues were driven by continued strong awards, a lower cancellation rate and better revenue mix. The Company remains focused on diversifying its client base, with the top 5 clients accounting for 34% of revenues in Q2, down from 40% the year prior (no client was >10% of revenue this quarter). The EPS beat was driven primarily by gross margin performance and to a lesser extent, lower SG&A spending.

• **Guidance highlights.** The company raised 2015 EPS guidance for the second consecutive quarter to \$1.69-1.80 from \$1.45-1.57 previously on revenue of \$900-910MM from \$880-905MM previously. The drivers of the revenue increase include the Q2 beat as well as expected execution on strong bookings in H2. The drivers of the \$0.23 EPS raise (at midpoint) include the revenue increases as well as stronger expected margins due to better efficiency and utilization, as well as FX.

#### Valuation Range: \$50.00 to \$55.00 from \$40.00 to \$43.00

Our valuation range is DCF-based (WACC = 8.0%; terminal NOPLAT growth = 2%) and represents 25x our 2016 EPS estimate. Risks include: (1) project cancellations or delays due to client M&A, economic weakness, pipeline reprioritization, or compound failure; (2) a reversal in the trend toward increased outsourcing; (3) regulatory risks; (4) limited track record in public equity markets; and (5) controlled company status.

#### Investment Thesis:

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

Sector: Pharmaceutical Services  
Overweight

#### Earnings Estimates Revised Up

EPS	2014A	2015E		2016E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	\$0.11	\$0.41 A	NC	\$0.50	0.41
Q2 (June)	0.29	0.46 A	0.35	0.51	0.42
Q3 (Sep.)	0.27	0.42	0.37	0.52	0.44
Q4 (Dec.)	0.25	0.43	0.39	0.54	0.46
FY	\$0.92	\$1.73	1.51	\$2.07	1.73
CY	\$0.92	\$1.73		\$2.07	
FY P/EPS	51.5x	27.4x		22.9x	
Rev.(MM)	\$810	\$906		\$1,010	

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

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

Ticker	INCR
Price (07/30/2015)	\$47.36
52-Week Range:	\$19-45
Shares Outstanding: (MM)	46.2
Market Cap.: (MM)	\$1,916.1
S&P 500:	2,074.50
Avg. Daily Vol.:	295,034
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$475.0
LT Debt/Total Cap.:	63.0%
ROE:	34.0%
3-5 Yr. Est. Growth Rate:	15.0%
CY 2015 Est. P/E-to-Growth:	1.8x
Last Reporting Date:	07/30/2015

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

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Please see page 7 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 07/30/15 unless otherwise stated.

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Together we'll go far



## Exhibit 1. Variance Table

Report Date:						7/30/2015		
FY ending December In MM except EPS	Actual		Est	Actual	Cons	Yr / Yr change	Seq change	Notes
	Q2 2014	Q1 2015	Q2 2015	Q2 2015	Q2 2015			
Total revenues	\$ 204	\$ 212	\$ 219	\$ 227	\$ 219	11.7%	7.5%	*We do not adjust for \$4.5MM net service revenue in 2014 related to higher-than-normal contract change order activity (company method adjusts for this)
Cost of revenues	131	125	139	138		5.5%	10.0%	
Gross profit	73	86	80	89		22.8%	3.8%	
Selling, general & administrative	34	36	39	37		10.4%	3.7%	
Depreciation	5	5	5	4		(12.0%)	(7.3%)	
Operating income	34	46	36	48		40.2%	5.1%	
Interest expense and other, net	13	5	5	4		(67.3%)	(21.1%)	
Pretax income	21	40	31	44		104.9%	8.6%	
Provision for income taxes	8	14	11	16		99.3%	8.5%	
Income before equity in affiliate	13	26	\$ 20	\$ 28		108.2%	8.6%	
Non-GAAP EPS	0.26	\$ 0.41	\$ 0.35	\$ 0.46	\$ 0.34	79.7%	13.3%	
Non-GAAP EPS (company method)	0.27	\$ 0.42	\$ 0.36	\$ 0.47		76.5%	13.3%	
Diluted shares outstanding	52	63	58	60				
EBITDA	\$ 39	\$ 50	\$ 41	\$ 52		33.5%	3.9%	
MARGIN ANALYSIS								
Cost of revenue	64.3%	59.3%	63.5%	60.7%		(360) bps	140 bps	*Strong GM due to facility utilization, consolidation of CTMS, FX, better operating performance
Gross margin	35.7%	40.7%	36.5%	39.3%	36.3%	360 bps	(140) bps	
SG&A / revenue	16.5%	16.9%	17.9%	16.3%		(20) bps	(60) bps	
Depreciation / revenue	2.5%	2.3%	2.1%	1.9%		(50) bps	(30) bps	
Operating margin	16.8%	21.5%	16.5%	21.0%	15.2%	430 bps	(50) bps	
Pretax margin	10.5%	19.0%	14.4%	19.2%		870 bps	20 bps	
Tax rate	37.0%	36.0%	36.0%	36.0%		(100) bps	0 bps	
Net margin	6.6%	12.2%	9.2%	12.3%		570 bps	10 bps	
EBITDA margin	19.2%	23.8%	18.6%	23.0%		370 bps	(80) bps	
REVENUE ANALYSIS								
Total revenues	\$ 204	\$ 212	\$ 219	\$ 227	\$ 219	11.7%	7.5%	
Growth: core	26.2%	19.2%	13.4%	17.3%				
Growth: FX	1.2%	(4.9%)	(6.0%)	(5.6%)				
Growth: acquisitions	0.4%	0.3%	0.0%	0.0%				
Growth: total	27.9%	14.5%	7.4%	11.7%				
Beginning backlog	\$ 1,594	\$ 1,589	\$ 1,595	\$ 1,595				
Revenue	(204)	(212)	(219)	(227)				
Net bookings	103	256	240	296		186.2%	15.8%	
Other adjustments	(1)	(38)	(7)	12				
Ending backlog	\$ 1,493	\$ 1,595	\$ 1,610	1676				
Net book-to-bill	0.51	1.21	1.10	1.30				
Backlog burn rate	12.8%	13.3%	13.7%	14.3%				

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

**Exhibit 2. Estimate Changes**

FY ending December In MM except EPS	2015E			2016E		
	Prior	Current	Change	Prior	Current	Change
Total revenues	\$ 892	\$ 906	1.6%	\$ 985	\$ 1,010	2.5%
Cost of revenues	558	553	(0.8%)	623	621	(0.3%)
Gross profit	334	353	5.5%	362	389	7.4%
Selling, general & administrative	157	155	(1.4%)	172	169	(1.9%)
Depreciation	20	18	(6.1%)	22	23	2.4%
Operating income	158	180	13.9%	168	197	17.5%
Interest expense and other, net	18	17	(5.7%)	14	13	(7.7%)
Pretax income	140	163	16.3%	153	184	19.9%
Provision for income taxes	50	60	17.9%	52	63	19.9%
Income before equity in affiliate	90	\$ 104	15.4%	101	\$ 121	19.9%
<b>Non-GAAP EPS</b>	<b>1.51</b>	<b>\$ 1.73</b>	14.0%	<b>1.73</b>	<b>\$ 2.07</b>	19.3%
Non-GAAP EPS (company method)	1.56	\$ 1.77	13.6%	1.78	\$ 2.11	18.9%
Diluted shares outstanding	59	60		58	59	
<b>EBITDA</b>	<b>\$ 178</b>	<b>\$ 198</b>	11.7%	<b>\$ 190</b>	<b>\$ 220</b>	15.8%
<b>MARGIN ANALYSIS</b>						
Cost of revenue	62.5%	61.0%	(150) bps	63.2%	61.5%	(170) bps
<b>Gross margin</b>	<b>37.5%</b>	<b>39.0%</b>	150 bps	<b>36.8%</b>	<b>38.5%</b>	170 bps
SG&A / revenue	17.6%	17.1%	(50) bps	17.4%	16.7%	(70) bps
Depreciation / revenue	2.2%	2.0%	(20) bps	2.3%	2.3%	0 bps
<b>Operating margin</b>	<b>17.7%</b>	<b>19.9%</b>	210 bps	<b>17.1%</b>	<b>19.5%</b>	250 bps
Pretax margin	15.7%	18.0%	230 bps	15.6%	18.2%	260 bps
<b>Tax rate</b>	<b>36.0%</b>	<b>36.4%</b>	50 bps	<b>34.0%</b>	<b>34.0%</b>	0 bps
Net margin	<b>10.1%</b>	<b>11.5%</b>	140 bps	<b>10.3%</b>	<b>12.0%</b>	170 bps
<b>EBITDA margin</b>	<b>19.9%</b>	<b>21.9%</b>	200 bps	<b>19.3%</b>	<b>21.8%</b>	250 bps
<b>REVENUE ANALYSIS</b>						
<b>Total revenues</b>	<b>\$ 892</b>	<b>\$ 906</b>	1.6%	<b>\$ 985</b>	<b>\$ 1,010</b>	2.5%
Growth: core	15.0%	16.3%		10.6%	11.5%	
Growth: FX	(4.9%)	(4.5%)		(0.2%)	(0.1%)	
Growth: acquisitions	0.1%	0.1%		0.0%	0.0%	
Growth: total	10.2%	11.9%		10.4%	11.5%	
Beginning backlog	\$ 1,589	\$ 1,589		\$ 1,725	\$ 1,769	
Revenue	(892)	(906)		(985)	(1,010)	
Net bookings	1,073	1,112	3.6%	1,182	1,212	2.5%
Other adjustments	(45)	(26)		-	-	
Ending backlog	\$ 1,725	1769		\$ 1,922	1971	
Net book-to-bill	1.20	1.23		1.20	1.20	
Backlog burn rate	56.1%	57.0%		57.1%	57.1%	

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

**Exhibit 3. Guidance Table**

Guidance	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	2016	Notes
<b>Consolidated Revenue (MM)</b>							
10/2/2014					\$869	\$963	Targeting 10-12% LT growth
10/23/2014					\$894	\$992	
2/24/2015	Flat to down seq				\$870-900		\$32MM FX HW
4/27/2015					\$880-905		\$40MM FX HW
7/30/2015					\$900-910		\$35.5MM FX HW
<b>Non-GAAP EPS</b>							
2/24/2015					\$1.19-1.29		
4/27/2015					\$1.40-1.52		Does not include share repos
5/14/2015					\$1.45-1.57		Includes share repos
7/30/2015					\$1.69-1.80		
<b>Adjusted EBITDA (MM) or EBITDA margin</b>							
10/2/2014					\$156	\$181	Targeting 13-15% LT growth
10/23/2014					\$167	\$189	
2/24/2015					\$159-169		FX about neutral at midpoint on \$ basis
4/27/2015		18.5-19.5% for Q2-Q4			\$175-185		
7/30/2015					\$195-205		
<b>Gross margin</b>							
4/27/2015		36-38% for Q2-Q4					
7/30/2015							
<b>Adj. Net Income (MM)</b>							
10/2/2014					\$73	\$90	Targeting 20% LT growth
10/23/2014					\$80	\$98	
2/24/2015					\$75-82		
4/27/2015					\$89.5-97.0		
5/14/2015					\$87.5-95.0		
7/30/2015					\$102-109		

Source: Company press releases and transcripts; Wells Fargo Securities, LLC  
EBITDA margin of 20% over time

## INC Research Holdings (FY Ending December)

In millions, except per share or where otherwise noted

INCOME STATEMENT	2011	2012	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3E	Q4E	2015E	2016E	2017E
Total revenue	\$ 437	\$ 579	\$ 652	\$ 185	\$ 204	\$ 208	\$ 214	\$ 810	\$ 212	\$ 227	\$ 230	\$ 238	\$ 906	\$ 1,010	\$ 1,117
Cost of revenues	280	389	432	121	131	130	134	515	125	138	142	147	553	621	681
Gross profit	157	190	220	64	73	78	80	295	86	89	87	90	353	389	435
Selling, general & administrative	95	110	117	32	34	38	41	144	36	37	40	42	155	169	184
Depreciation	16	20	19	7	5	5	5	22	5	4	4	5	18	23	27
Operating income	47	60	84	25	34	36	34	129	46	48	43	44	180	197	224
Interest expense and other, net	54	57	60	16	13	13	11	53	5	4	4	4	17	13	12
Pretax income	(7)	3	23	9	21	23	23	76	40	44	39	40	163	184	212
Provision for income taxes	(3)	1	9	3	6	8	8	26	14	16	15	15	60	63	68
Net income	\$ (4)	\$ 2	\$ 15	\$ 6	\$ 15	\$ 14	\$ 14	\$ 50	\$ 26	\$ 28	\$ 25	\$ 25	\$ 104	\$ 121	\$ 144
<b>Non-GAAP EPS</b>	<b>\$ (0.10)</b>	<b>\$ 0.04</b>	<b>\$ 0.28</b>	<b>\$ 0.11</b>	<b>\$ 0.29</b>	<b>\$ 0.27</b>	<b>\$ 0.25</b>	<b>\$ 0.92</b>	<b>\$ 0.41</b>	<b>\$ 0.46</b>	<b>\$ 0.42</b>	<b>\$ 0.43</b>	<b>\$ 1.73</b>	<b>\$ 2.07</b>	<b>\$ 2.44</b>
Non-GAAP EPS (company method)	\$ (0.08)	\$ 0.05	\$ 0.31	\$ 0.12	\$ 0.30	\$ 0.28	\$ 0.26	\$ 0.97	\$ 0.42	\$ 0.47	\$ 0.43	\$ 0.44	\$ 1.77	\$ 2.11	\$ 2.48
Diluted shares outstanding	43.9	52.2	52.0	51.9	52.2	52.5	58.8	53.9	63.1	60.5	58.5	58.6	60.2	58.7	59.1
<b>EBITDA</b>	<b>\$ 63</b>	<b>\$ 80</b>	<b>\$ 103</b>	<b>\$ 32</b>	<b>\$ 39</b>	<b>\$ 40</b>	<b>\$ 39</b>	<b>\$ 150</b>	<b>\$ 50</b>	<b>\$ 52</b>	<b>\$ 47</b>	<b>\$ 49</b>	<b>\$ 198</b>	<b>\$ 220</b>	<b>\$ 251</b>
<b>MARGIN ANALYSIS</b>															
Cost of revenue	64.0%	67.2%	66.3%	65.4%	64.3%	62.4%	62.7%	63.6%	59.3%	60.7%	62.0%	62.0%	61.0%	61.5%	61.0%
<b>Gross margin</b>	<b>36.0%</b>	<b>32.8%</b>	<b>33.7%</b>	<b>34.6%</b>	<b>35.7%</b>	<b>37.6%</b>	<b>37.3%</b>	<b>36.4%</b>	<b>40.7%</b>	<b>39.3%</b>	<b>38.0%</b>	<b>38.0%</b>	<b>39.0%</b>	<b>38.5%</b>	<b>39.0%</b>
SG&A / revenue	21.6%	18.9%	17.9%	17.3%	16.6%	18.2%	19.1%	17.8%	16.9%	16.3%	17.5%	17.5%	17.1%	16.7%	16.5%
Depreciation / revenue	3.6%	3.4%	2.9%	3.7%	2.5%	2.3%	2.3%	2.7%	2.3%	1.9%	1.9%	2.1%	2.0%	2.3%	2.4%
<b>Operating margin</b>	<b>10.7%</b>	<b>10.4%</b>	<b>12.9%</b>	<b>13.6%</b>	<b>16.7%</b>	<b>17.2%</b>	<b>15.9%</b>	<b>15.9%</b>	<b>21.5%</b>	<b>21.0%</b>	<b>18.6%</b>	<b>18.4%</b>	<b>19.9%</b>	<b>19.5%</b>	<b>20.1%</b>
Pretax margin	(1.6%)	0.5%	3.6%	5.0%	10.4%	11.0%	10.7%	9.4%	19.0%	19.2%	17.1%	17.0%	18.0%	18.2%	19.0%
<b>Tax rate</b>	<b>37.0%</b>	<b>37.5%</b>	<b>36.9%</b>	<b>36.9%</b>	<b>29.1%</b>	<b>37.0%</b>	<b>36.9%</b>	<b>34.8%</b>	<b>36.0%</b>	<b>36.0%</b>	<b>37.0%</b>	<b>37.0%</b>	<b>36.4%</b>	<b>34.0%</b>	<b>32.0%</b>
Net margin	(1.0%)	0.3%	2.3%	3.2%	7.4%	6.9%	6.7%	6.1%	12.2%	12.3%	10.8%	10.7%	11.5%	12.0%	12.9%
<b>EBITDA margin</b>	<b>14.3%</b>	<b>13.9%</b>	<b>15.8%</b>	<b>17.4%</b>	<b>19.1%</b>	<b>19.5%</b>	<b>18.2%</b>	<b>18.6%</b>	<b>23.8%</b>	<b>23.0%</b>	<b>20.5%</b>	<b>20.5%</b>	<b>21.9%</b>	<b>21.8%</b>	<b>22.5%</b>
<b>CHANGE ANALYSIS (Y/Y)</b>															
<b>Total revenues</b>		<b>32.5%</b>	<b>12.7%</b>	<b>23.3%</b>	<b>27.9%</b>	<b>22.9%</b>	<b>22.6%</b>	<b>24.1%</b>	<b>14.5%</b>	<b>11.7%</b>	<b>10.5%</b>	<b>11.1%</b>	<b>11.9%</b>	<b>11.5%</b>	<b>10.6%</b>
Cost of revenue		39.0%	11.1%	15.3%	22.8%	19.0%	19.5%	19.2%	3.9%	5.5%	9.9%	9.9%	7.4%	12.3%	9.7%
<b>Gross profit</b>		<b>20.9%</b>	<b>15.8%</b>	<b>42.2%</b>	<b>38.0%</b>	<b>29.9%</b>	<b>28.1%</b>	<b>33.8%</b>	<b>34.6%</b>	<b>22.8%</b>	<b>11.6%</b>	<b>13.2%</b>	<b>19.8%</b>	<b>10.2%</b>	<b>12.0%</b>
SG&A		16.0%	6.7%	16.8%	19.5%	37.7%	19.9%	23.2%	12.3%	9.8%	6.4%	2.0%	7.2%	9.0%	9.2%
Depreciation		26.8%	(3.7%)	54.5%	5.6%	0.1%	(4.8%)	12.7%	(30.6%)	(12.0%)	(9.6%)	(1.8%)	(15.1%)	23.9%	19.4%
<b>Operating income</b>		<b>28.9%</b>	<b>38.8%</b>	<b>90.5%</b>	<b>72.7%</b>	<b>27.3%</b>	<b>47.6%</b>	<b>53.5%</b>	<b>80.7%</b>	<b>41.0%</b>	<b>19.8%</b>	<b>28.8%</b>	<b>39.7%</b>	<b>9.7%</b>	<b>13.5%</b>
Pretax income		NA	646.4%	NA	333.7%	71.8%	231.0%	224.3%	333.3%	106.9%	72.1%	76.4%	114.9%	12.6%	15.2%
Net income		NA	654.1%	NA	387.8%	71.9%	230.1%	235.3%	340.1%	86.8%	72.1%	76.3%	109.4%	17.0%	18.6%
<b>EPS</b>		<b>NA</b>	<b>657.1%</b>	<b>NA</b>	<b>386.8%</b>	<b>70.3%</b>	<b>192.0%</b>	<b>224.0%</b>	<b>262.3%</b>	<b>61.2%</b>	<b>54.4%</b>	<b>76.9%</b>	<b>87.4%</b>	<b>19.8%</b>	<b>17.8%</b>
Diluted shares outstanding		19.1%	(0.4%)	(0.1%)	0.2%	0.9%	13.0%	3.5%	21.5%	15.9%	11.5%	(0.3%)	11.7%	(2.4%)	0.7%
<b>EBITDA</b>		<b>28.4%</b>	<b>28.3%</b>	<b>81.4%</b>	<b>59.6%</b>	<b>23.4%</b>	<b>37.9%</b>	<b>45.9%</b>	<b>56.9%</b>	<b>34.2%</b>	<b>16.4%</b>	<b>24.9%</b>	<b>31.8%</b>	<b>11.0%</b>	<b>14.1%</b>
<b>REVENUE ANALYSIS</b>															
<b>Total revenue</b>	<b>\$ 437</b>	<b>\$ 579</b>	<b>\$ 652</b>	<b>\$ 185</b>	<b>\$ 204</b>	<b>\$ 208</b>	<b>\$ 214</b>	<b>\$ 810</b>	<b>\$ 212</b>	<b>\$ 227</b>	<b>\$ 230</b>	<b>\$ 238</b>	<b>\$ 906</b>	<b>\$ 1,010</b>	<b>\$ 1,117</b>
Growth: core		4.3%	12.3%	22.6%	26.2%	22.7%	24.9%	24.1%	19.2%	17.3%	15.2%	14.0%	16.3%	11.5%	10.6%
Growth: FX		(2.2%)	0.4%	0.6%	1.2%	(0.2%)	(2.7%)	(0.4%)	(4.9%)	(5.6%)	(4.6%)	(2.9%)	(4.5%)	(0.1%)	0.0%
Growth: acquisitions		30.4%	0.0%	0.1%	0.4%	0.4%	0.4%	0.4%	0.3%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Growth: total		32.5%	12.7%	23.3%	27.9%	22.9%	22.6%	24.1%	14.5%	11.7%	10.5%	11.1%	11.9%	11.5%	10.6%
Beginning backlog		\$ 1,222	\$ 1,321	\$ 1,491	\$ 1,594	\$ 1,493	\$ 1,506	\$ 1,491	\$ 1,589	\$ 1,595	\$ 1,676	\$ 1,721	\$ 1,589	\$ 1,769	\$ 1,971
Revenue		(579)	(652)	(185)	(204)	(208)	(214)	(810)	(212)	(227)	(230)	(238)	(906)	(1,010)	(1,117)
Net bookings		676	814	281	103	249	316	950	256	296	276	285	1,112	1,212	1,340
Other adjustments		2	9	7	(1)	(28)	(20)	(42)	(38)	12	(1)	-	(26)	-	-
Ending backlog	\$ 1,222	\$ 1,321	\$ 1,491	\$ 1,594	\$ 1,493	\$ 1,506	\$ 1,589	\$ 1,589	\$ 1,595	\$ 1,676	\$ 1,721	\$ 1,769	\$ 1,769	\$ 1,971	\$ 2,194
<b>Net book-to-bill</b>		<b>1.17</b>	<b>1.25</b>	<b>1.52</b>	<b>0.51</b>	<b>1.20</b>	<b>1.48</b>	<b>1.17</b>	<b>1.21</b>	<b>1.30</b>	<b>1.20</b>	<b>1.20</b>	<b>1.23</b>	<b>1.20</b>	<b>1.20</b>
Backlog burn rate		47.4%	49.4%	12.4%	12.8%	13.9%	14.2%	54.3%	13.3%	14.3%	13.7%	13.8%	57.0%	57.1%	56.7%
<b>OTHER</b>															
Cash and equivalents		\$ 81	\$ 97	\$ 114	\$ 156	\$ 186	\$ 126	\$ 126	\$ 156	\$ 99	\$ 85	\$ 84	\$ 84	\$ 191	\$ 298
Total debt		594	594	590	589	588	420	420	419	475	470	464	464	435	397
<b>Net cash (debt)</b>		<b>\$ (513)</b>	<b>\$ (498)</b>	<b>\$ (475)</b>	<b>\$ (433)</b>	<b>\$ (403)</b>	<b>\$ (294)</b>	<b>\$ (294)</b>	<b>\$ (263)</b>	<b>\$ (377)</b>	<b>\$ (385)</b>	<b>\$ (380)</b>	<b>\$ (380)</b>	<b>\$ (244)</b>	<b>\$ (99)</b>
Debt to TTM EBITDA		0.0x	5.8x	5.0x	4.5x	4.2x	2.8x	2.8x	2.5x	2.6x	2.5x	2.3x	2.3x	2.0x	1.6x
Cash flow from operations		\$ 43	\$ 37	\$ 31	\$ 49	\$ 37	\$ 14	\$ 131	\$ 44	\$ 52	\$ 2	\$ 15	\$ 113	\$ 167	\$ 177
Capital expenditures		(10)	(18)	(5)	(8)	(5)	(8)	(26)	(5)	(3)	(10)	(10)	(28)	(29)	(30)
<b>Free cash flow</b>		<b>\$ 33</b>	<b>\$ 20</b>	<b>\$ 27</b>	<b>\$ 41</b>	<b>\$ 32</b>	<b>\$ 6</b>	<b>\$ 106</b>	<b>\$ 39</b>	<b>\$ 49</b>	<b>\$ (8)</b>	<b>\$ 5</b>	<b>\$ 85</b>	<b>\$ 138</b>	<b>\$ 147</b>
Headcount (actual)		4,890	4,850			5,500	5,600	5,600	5,805		323	645	645	1,495	2,295
Book value per share		\$ 6	\$ 5	\$ 5	\$ 6	\$ 6	\$ 7	\$ 7	\$ 6	\$ 5	\$ 5	\$ 6	\$ 5	\$ 8	\$ 10
Tangible book value per share		\$ (10)	\$ (10)	\$ (10)	\$ (9)	\$ (9)	\$ (6)	\$ (7)	\$ (5)	\$ (7)	\$ (7)	\$ (6)	\$ (6)	\$ (4)	\$ (1)

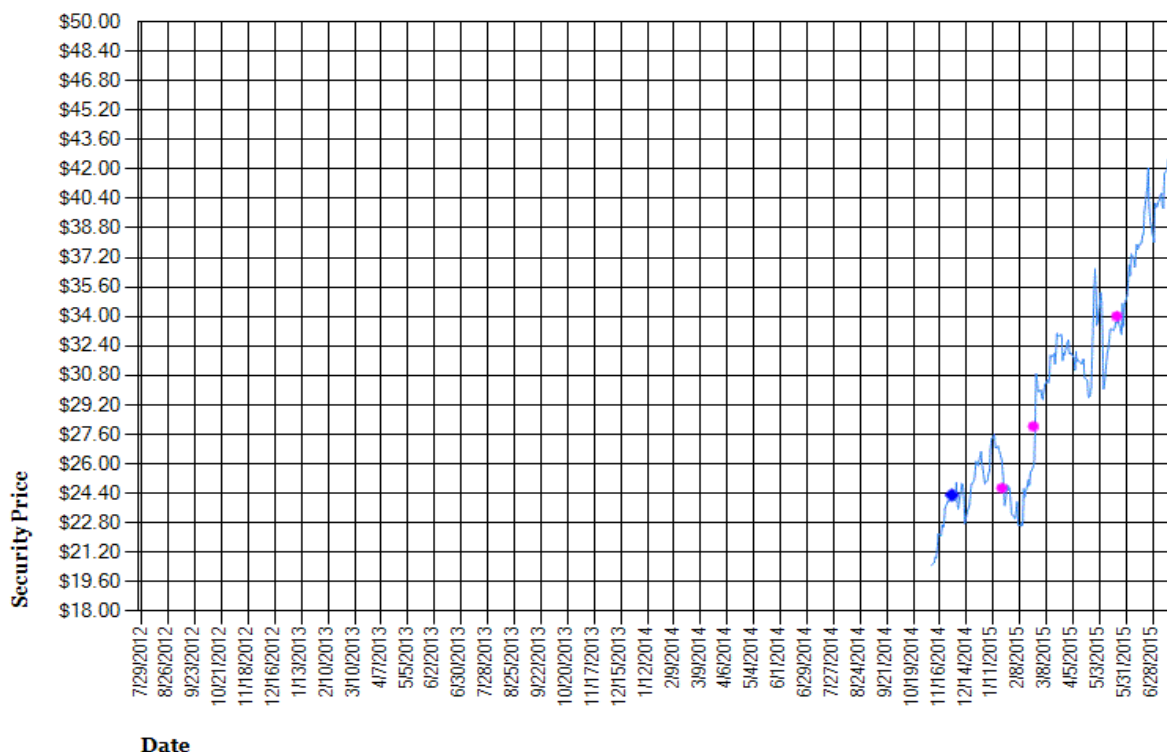
Source for all: Company reports and Wells Fargo Securities, LLC estimates

**Company Description:**

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

## Required Disclosures

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



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

Source: Wells Fargo Securities, LLC estimates and Reuters data

#### Symbol Key

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

#### Rating Code Key

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

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**Life Science Tools, Services, & Diagnostics**

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**3=Underperform:** The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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As of: July 30, 2015

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