COMPANY NOTE

Initiating Coverage

USA | Healthcare | Pharmaceutical Svcs.

May 18, 2015

Jefferies

INC Research (INCR)

INC-ing Profits in Complex Studies; Initiating w/Hold on Valuation

HOLD
Price target $35.00
Price $33.32

EQUITY RESEARCH AMERICAS

Key Takeaway

We are initiating INCR with a Hold rating and a $35 PT. INCR has punched above its weight, growing revenue faster than all public peers. Its focused execution delivers above average industry margin. We do see limitations to upside, as INCR expands client base and therapeutic areas beyond its optimal targets. INCR's 13% premium valuation balances potential near-term upside (conservative guidance from a newly public team) with moderating long-term growth.

Jefferies was a joint bookrunner in INCR's secondary offering on May 6, 2015.

Focus, Specialization Lead to High Margin. INCR focuses on only Phase I-IV clinical operations - no preclinical, no central lab, no software development. It focuses on complex study areas - oncology, CNS, and complex areas of infectious disease, genetic disorders, and orphan indications. Finally, we believe INCR's focus on science-driven (as opposed to procurement-driven) outsourcing clients also has contributed to its high margins.

Aligned with High Growth Therapeutic Areas. Oncology and CNS are deep and growing therapeutic areas in the industry pipeline and comprise 55% of INCR's backlog. Overweighting these areas is favorable though not unique. Most CROs are heavy in oncology, and a few also pair that with a strong franchise in CNS.

M&A is an Important Strategy. INC Research has acquired successfully a Phase II-IV business that doubled its size, not once but twice in its history. These acquisitions gave it the mass to compete for global programs and strategic partnerships, while its strong execution culture helped to fix the targets' broken elements. We think INC can expand its customer base and therapeutic expertise with M&A.

Slowing TTM Book-to-Bill and Flat Backlog. 1Q15 was a blowout beat and raise, but TTM book-to-bill declined to 1.1x. Backlog at 3/31 was flat YoY, lowest in the group. Yet, INCR's revenue outlook is the highest among late-stage CROs.

Valuation/Risks

Our 12-month PT of $35 reflects a 19.2x P/E on our $1.82 2016 EPS estimate. Peer comparability requires normalizing for add-backs across the group. INCR's higher recent growth is reflected in a 15% premium to the CRO average P/E multiple. Moreover, management's guidance reflects a moderation of that growth. We note flat backlog and limited margin upside. Risks: 1) Project cancellations, 2) Failure to penetrate new clients, 3) Pricing pressure from new or existing clients.

USD	*Prev.*	2013A	*Prev.*	2014A	*Prev.*	2015E	*Prev.*	2016E
Rev. (MM)	--	652.4	--	809.7	--	899.1	--	987.7
EBITDA (MM)	--	103.1	--	150.9	--	190.0	--	215.1
Cons. EPS	--	--	--	--	--	1.40	--	1.64
EPS Non-GAAP								
Mar	--	(0.03)	--	0.13	--	0.41A	--	--
Jun	--	0.06	--	0.25	--	0.35	--	--
Sep	--	0.15	--	0.33	--	0.39	--	--
Dec	--	0.07	--	0.26	--	0.42	--	--
FY Dec	--	0.25	--	0.97	--	1.56	--	1.82
EV/Rev		3.6x		2.9x		2.6x		2.4x

Financial Summary	
Book Value (MM):	$290.0
Net Debt (MM):	$386.7
Long-Term Debt (MM):	$516.8
Cash & ST Invest. (MM):	$130.1
Backlog:	1,595
Market Data	
52 Week Range:	$38.76 - $18.50
Total Entprs. Value (MM):	$2,322.6
Market Cap. (MM):	$1,935.9
Shares Out. (MM):	58.1
Float (MM):	17.0
Avg. Daily Vol.:	227,191

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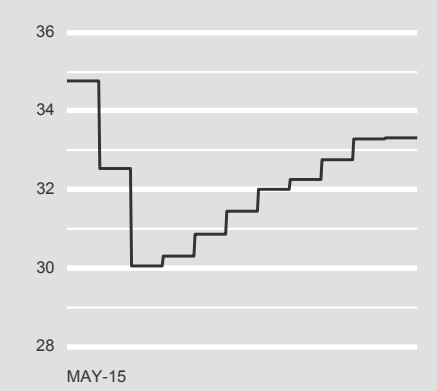
Price Performance



INC Research Holdings, Inc. (INCR)

HOLD: $35.00 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- BtB remains slightly above 1.20x for the rest of 2015; averages 1.20x for 2016
- Revenue grows ~10%
- Disciplined approach to trial management and fixed-cost leverage drive '16 EBITDA margin to nearly 22%
- INCR is successful at expanding client base to drive LT backlog and revenue growth
- 2016 EPS: $1.82; Target Multiple: 19.2x; Target Price: $35.00

Upside Scenario

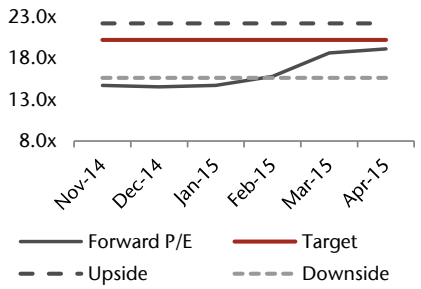
- Bookings growth accelerates slightly; BtB exceeds 1.25x
- Astellas relationship leads to increased share of wallet; Otsuka returns to low-teens % of revenue
- Revenue grows >12.5%
- Facility utilization and other SG&A goals achieved quickly
- EBITDA margin improves to >22%
- 2016 EPS: $1.90; Target Multiple: 21x; Target Price: $40.00

Downside Scenario

- New business wins slow, BtB averages ~1.1x in 2016
- Slower backlog growth continues to trail peers
- INCR experiences the lengthening backlog duration that is common in the sector; burn rate slows, revenue grows sub-6%
- Slower revenue growth limits margin improvements; costs tightly controlled to mitigate impact
- 2016 EPS: $1.65; Target Multiple: 15.0x; Target Price: $25.00

Long Term Analysis

1 Year Forward P/E



Source: FactSet and Jefferies LLC

Long Term Financial Model Drivers

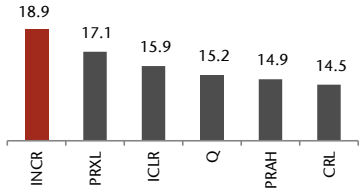
LT EPS CAGR	13-15%
Revenue Growth	**9-12%**
Operating Margin	**18-20%**
Effective Tax Rate	**36%**
Leverage Ratio	**<2.5x**

Other Considerations

INCR has been very successful at acquiring, integrating and turning around lagging competitors. MDS and KNDL are examples. We would view the announcement of a similar, large transaction as an opportunity for the company to diversify its currently-narrow therapeutic focus and lengthen its revenue growth runway.

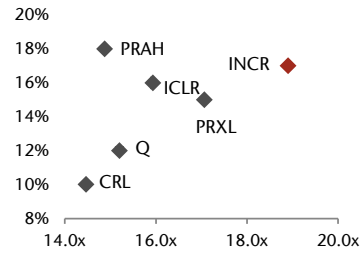
Peer Group

Group 2016 P/Es



Source: FactSet and Jefferies estimates

Earnings Growth vs P/E



Source: FactSet and Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
CRL	BUY	$82.00
ICLR	BUY	$80.00
INCR	**HOLD**	**$35.00**
PRAH	BUY	$36.00
PRXL	HOLD	$62.00
Q	BUY	$79.00

Catalysts

- Announcement of additional large acquisitions
- Growth in pharma R&D budgets and/or the amount of clinical work being outsourced
- Additional margin improvement
- Signing of strategic partnerships

Company Description

INC Research is a contract research organization (CRO) that provides various clinical development services for the biopharmaceutical and medical device industries. The company offers a range of services focusing on Phase I to Phase IV clinical trials in the areas of central nervous system, oncology, and other complex diseases, such as genetic disorders and infectious diseases. INC was incorporated in 1998 and is headquartered in Raleigh, North Carolina.

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Executive Summary

We are initiating coverage of INC Research (INCR) with a Hold rating and a $35 price target. INCR is an up-and-coming global player that punches above its weight. It is growing revenue faster than all public peers, and its executional focus is delivering above average industry margin. We see limitations to margin upside from current levels though, as management prioritizes revenue growth. As INCR seeks to expand its client base, we cannot rule out some margin pressure. With valuation well-above the next closest CRO, and INCR's growth premium likely narrowing with the absence of meaningful margin leverage, we think INCR's risk/reward is only moderately favorable, balancing potential near-term upside (conservative NT guidance) with moderating long-term growth.

Through two key, transformative acquisitions, solid functional and cultural integration, and strong organic growth, INC Research has positioned itself as the 7th largest CRO in the world with a competitive international footprint and a reputation for strong execution. Like most of the publicly traded CROs, its focus is Phase II-IV clinical trials where most biopharma development dollars are spent.

INCR's key differentiators are as follows:

- **Therapeutic focus on select therapeutic areas.** INC Research has focused its business development efforts on companies with deep pipelines in central nervous system, oncology (which is actually more common than not), and complex niches within infectious disease, genetic disorders, and ophthalmology.
- **Trusted Process®** frames clinical programs into four phases – QuickStart, PlanActivation, ProgramAccelerate, and QualityFinish. Since 2006, INCR has continually refined this process to delivery studies predictably, efficiently, and with reduced operational risk.
- **Strong execution in complex areas drives margin.** Applying its Trusted Process in areas of high trial complexity – where those process disciplines can deliver high value – has enabled INCR to garner high repeat business and high margin, despite its relatively smaller scale.

Valuation

INCR is the second most expensive CRO in our coverage universe at 18.3x 2016 EPS, behind only WX at 20.1x on its proposed go-private by Chairman/CEO Ge Li. We note that the recent IPOs in the Pharma Services sector have been LBOs with substantial acquired intangible amortization and other non-cash charges that they were in the habit of adding back. They have carried varying degrees of these reporting patterns forward to the public market. As a result, investors are seeing a variety of EPS bases in consensus estimates for the group. INCR and PRAH are adding back more than Q, and all three are adding back items that the long-time public CROs are not.

On an apples-to-apples basis, INCR trades at 21.4x 2015 and 18.3x 2016, compared to 18.5x and 16.3x, respectively. We see the peer group trading to ~18-18.5x 2016 and INCR's premium to the group narrowing by at least 50% (i.e. from nearly 3x to 1-1.5x). With a $1.82 estimate for 2016, we believe $35 is a full 12-month price target.

Risks

Primary risks include: (1) the loss (or cancellation) of a large client or study program; (2) margin pressure as the company expands its customer base, potentially into more price sensitive clients; (3) margin pressure on faster SG&A cost growth to drive customer acquisition; and (4) reliance on 3rd party software vendors to innovate at a rapid pace.

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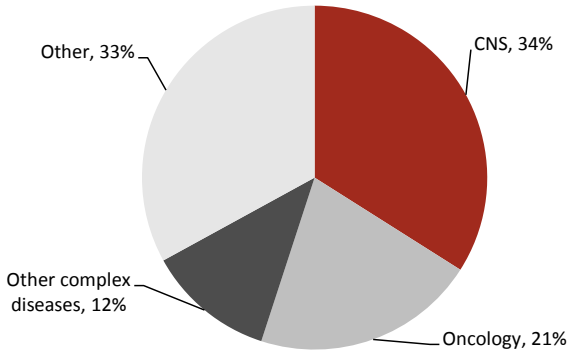
Key to Mastery: Focus, Practice, Experience, Learn, Repeat

Therapeutic Focus on High Growth Indications

With the pipeline proliferation of oncologics and renewed enthusiasm for intractable CNS areas like Alzheimer's, Parkinson's, multiple sclerosis, and more, Oncology and Central Nervous System (CNS) therapeutic areas are large and growing. They also tend to be complex trials to run with challenges ranging from competitor trials soaking up potential trial participants to complex protocols requiring additional screenings, data collection, and investigator oversight.

INCR positions itself as an expert in complex clinical trial execution. Management estimates that oncology, CNS, and "other complex diseases" comprise 60% of the industry pipeline and 73% of INCR's backlog at 12/31. That dropped to 65% in 1Q15 based on timing of awards, but management expects it to bounce back over the course of the year.

Chart 1: Majority of Backlog in Complex Disease Categories



Source: Company Data

Leveraging Expertise in Complex Study Management into Additional Areas

Oncology and CNS, the company's foundational pillars, are dominant areas of the drug development pipeline; thus, many CROs "follow the money" toward those areas. However, they are also complex, and INC has developed, refined, and IP-protected a study execution framework that helps to ensure accurate and efficient delivery for clients. That framework draws its origins in study start-up with QuickStart in the 2006 time frame and has broadened into the "Trusted Process®."

INC has developed, refined, and IP-protected a study execution framework, called the Trusted Process®, that helps to ensure accurate and efficient delivery for clients.

While not all of its work is in complex trials, those do comprise the large majority. INC believes that it has a comparative advantage in complex trials via its process and focus. Thus, it has continued to expand its franchise into complex indications beyond oncology and CNS (infectious disease, for example) and into new clients with appealing pipelines. Management plans to continue expansion along these two axes.

Therapeutically Aligned Teams Fortify the Focus

INC management emphasizes the benefits of business units or departments aligned by therapeutic classifications rather than functional classifications. This approach reinforces INC's knowledge base in the areas the client cares about...the disease state, its nuances, and medical challenges to running a trial in a narrowly-defined area.

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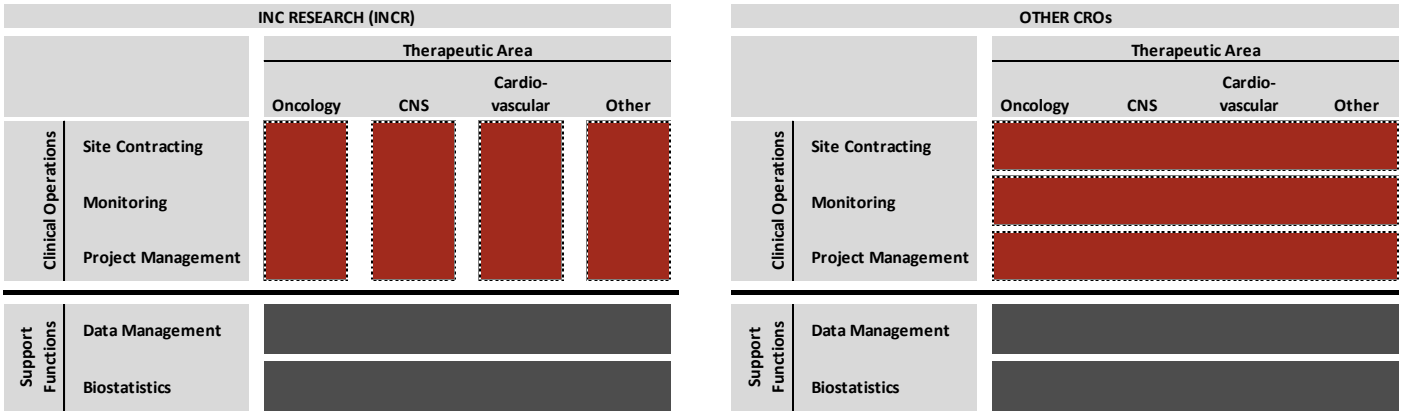
How do they do it? A clinical trial requires resources across numerous functional areas: project management, patient recruitment, monitoring, medical writing, regulatory affairs, and drug safety/pharmacovigilance. Data capture, data management, and biostatistics also are important supporting functions that serve as the "catcher" for the sites and monitors data "pitches." Most pharmaceutical companies and CROs align their workforces in departments along the above descriptions...project management group, monitoring department, etc. CROs have commonly aligned their staff the same way (see right side of Chart 2).

Chart 2: INC Research Drives Efficiency via Therapeutic Focus



Source: Jefferies, company data

INC Research believes it applies more specialized expertise to clients' programs than its peers. INCR believes 85% of its clinical research associates (CRAs) are principally focused in one therapeutic area, and over 70% of INC's CRAs are solely focused in a single therapeutic area of expertise.

INC's units/departments are organized by major therapeutic area; thus, project management, monitoring, and other clinical operations professionals in the oncology unit repetitively work on oncology trials (see left side of Chart 2). In some cases, that may mean the expertise is as precise as solid tumor vs. blood/liquid tumor studies. INC Research believes 85% of its clinical research associates (CRAs) are principally focused in one therapeutic area, and over 70% of INC's CRAs are solely focused in a single therapeutic area of expertise. As a result, INC benefits in several areas:

- RFP win rate should be somewhat higher because of the relevant experience of the team.
- Lower training costs for project staff should yield better margin to INC (to the extent it keeps the savings) and/or more competitive pricing to customers.
- More effective interaction with investigator sites. INC Research was ranked #1 in CenterWatch's biannual Global Investigative Site Relationship Survey in 2015 and 2013, and is the only CRO to rank in the Top 3 in all such surveys since 2007. Better engagement and responsiveness from the sites should lead to better designed and executed trials for the biopharma client.
- On-time, on-budget execution because indication-specific challenges to patient recruitment, investigator oversight, and/or data collection will have been better anticipated up front.

IP-protected, Differentiated Study Execution Process

Through rigorous testing, documentation, analysis, and optimization, INC has developed and formalized a metrics-driven trial execution methodology called the Trusted Process®.

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Management sees the Trusted Process® reducing operational risk and variability by standardizing clinical development services and implementing quality controls.

The Trusted Process® is comprised of four key parts, which match four stages of a clinical program's cycle.

- PlanActivation - the design phase where a project is analyzed and a strategy developed utilizing our therapeutic and clinical experience, forming the basis of a customized project proposal. The strategy continues to be refined based on discussions with the customer through new business award.
- QuickStart - the initiating phase which serves to align the customer's and our project teams to a single set of objectives, create shared expectations and develop a joint plan for project implementation.
- ProgramAccelerate - the execution and control phase which includes the processes of patient recruitment as well as clinical monitoring and data management. Data is proactively processed and reviewed to ensure quality and project timelines are actively managed, while maintaining strong relationships with investigative sites.
- QualityFinish - the closing phase which is triggered by the first enrolled patient completing the clinical trial. This phase is focused on assuring high quality, actionable data is used to develop the final deliverables which make up the basis of the documentation necessary for filing with regulatory agencies.

INC Research's Trusted Process® proprietary methodology is designed to reduce operational risk and variability by standardizing clinical development services and implement quality controls. Management leveraged technology with the Trusted Process® to reduce monitoring trip report production times by 25%.

INC Research delivers high quality service through the internally developed, metrics-driven Trusted Process®, which is its proprietary methodology designed to reduce operational risk and variability by standardizing clinical development services and implement quality controls throughout the clinical development process. Management believes that Trusted Process® leads customers to faster, better-informed drug development decisions. It identifies process efficiencies that involve both human and IT workflow enhancements. Further, it believes that this attention to the interplay between available technologies and clinical trial processes allows INCR to adopt and leverage the best available third-party software without having to invest significant capital to develop and maintain proprietary software.

In an example of gains from this methodology, INC leveraged technology to streamline a process whereby clinical monitoring trip reports (i.e. monitor visits investigator site to audit data and activities; captures findings in trip report) were finalized 25% faster. Applied across the platform, this efficiency could reduce headcount by 1%.

Is There a Catch?

This Jefferies analyst team covers both the peer CROs and Medidata, the leader in clinical development IT solutions. We also have familiarity with some of the historical clinical trial software competitors. Two significant points bear mentioning here:

- In our Medidata research, we continue to assess both the end market size and competitive landscape for clinical development solutions beyond EDC. Medidata has developed 13 solutions in total, including several addressing more advanced analytics roughly akin to the solutions being developed by CROs. Yet, both Medidata and the CROs indicate that the solutions are more complementary than competitive. To the extent this is true (and we think only partially), INCR's lack of investment in software means that its competitors are developing tools that INCR cannot access in the short run.

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- Medidata is the most advanced solution set in the clinical development software market. It also is the most expensive. Thus, savings from using that platform are likely to come more from sunsetting the other, less effective systems. That activity is still in front of INCR, as it plans to consolidate from 5 clinical trial management systems (CTMSs) down to 3 or 2 during 2015, and eventually 1 – Medidata.

Savings from the Medidata platform are likely to come more from sunsetting the other, less effective systems. That activity is still in front of INCR, as it plans to consolidate from 5 clinical trial management systems (CTMSs) down to 3 or 2 during 2015, and eventually 1 – Medidata.

Culture of Execution; Regimented Adherence to Process/Discipline

The success of the Trusted Process® cannot simply be the existence of these methodologies. These would be too easy to replicate by competitors. By analogy, every major accounting firm has access to tons of data that inform its standard audit plan. Even Arthur Andersen had that, and financial audits are miles more predictable than clinical trials.

The key to consistent, sustained and superior performance from this tool is the extent to which the corporate culture is congruent with and reinforces the importance of the process.

Over many years of research in this sector, we've been asked about persistent margin differences among CROs. Business mix can explain away some of it. Global expansion (i.e. timing of entering a new country) can account for differences in utilization levels and operating leverage. However, some of the starkest contrasts can only be reconciled by acknowledging the different managerial attitudes toward tight execution, profit margin, and investing "ahead of the curve." Dr. Fred Eshelman is the best example we can produce of a founder/CEO who set a culture of high profit margins by force of will.

In INC's case, the Trusted Process® is the manifestation of the leadership styles of the company's CEO through its formative growth years, Jim Ogle – a retired Lieutenant Colonel US Army – and its SVP, Global Operations Management, Jeff Kueffer – also retired military. The Trusted Process®, created by Mr. Kueffer, is a regimented approach to clinical trials; an attempt to reduce variability in an inherently ambiguous, long-term project business.

Focus on Clinical Trials, Not Distracted by Early Development, Lab

Consistent with INC's bias toward excellence through focus, it focuses exclusively on Phase I-IV clinical trials. It is not involved in preclinical animal studies upstream, central lab activities midstream, or marketing and sales downstream. It only executes and consults on clinical programs. As we highlighted above, it further focuses on comparatively complex clinical trials within the late-stage development market segment.

While germane to clinical trials, INCR also is avoiding being a software developer, as well. All of INC's global CRO competitors are investing in software to some degree. A few are investing in backbone transactions systems, as in PAREXEL's ClinPhone RTMS system and DataLabs EDC system. In fact, when INC acquired Kendle, for which Mr. MacDonald served as COO for a brief period before the sale, it was still nursing along its own software platform, TrialWare. INC retired that system.

A deeper list of competitors is developing analytical tools for "big data" analysis of clinical, operational, and financial metrics in clinical trials. On the other hand, INC is tightly aligning with third party vendors, principally Medidata, to design those tools.

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Mastery Has its Limitations

The Pieces Do Not All Quite Fit

We struggle to equate the elements of strategy (focus on complex studies, with science-driven clients) to the expected outcome (both above industry average revenue growth and margin expansion from already above industry average levels).

- INCR focuses its selling efforts on clinical programs in highly complex areas. According to management's assessment of the pipeline, this is about 55-60% of the market. To be fair, personalized medicine is likely to drive that percentage higher.
- INCR also focuses its relationship building on clients who value scientific expertise significantly more than low cost. This may be a majority of clients. We'll be generous and call that 75% and acknowledge that biopharmas with complex pipelines are correlated with those that demand expertise.
- Still, with these preferences (we'll call them preferences, instead of limitations), INCR is pursuing business in a pool about half as big as the other global players (60% x 75% = 45% and round up).
- Moreover, that pool is the most attractive to ALL the competitors. Oncology is **every** publicly traded CRO's top therapeutic category.
- INCR's differentiated value-proposition is not so pronounced that its win rate is double the industry average.
- Thus, it can grow faster on a small base for a while, but not sustainably without running into limitations due to the size of the submarket or some margin headwinds as INCR tries to expand into adjacencies, in our opinion.

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Client Base Needs Expansion, Not Replacement

INCR describes what we would call a land and expand strategy. It has added a significant numbers of clients in the last two years, but like many CROs, its top 10 represent a significant percentage, about 50% in INCR's case, and the remaining 300+ represent the other half. INCR hopes to attract a client's attention with its therapeutic focus and Trusted Process, win a trial, perform well, and gain share of wallet.

We believe the fluctuations in the top 2 clients are worth noting. First, Astellas has been INCR's one big FSP client and a strategic client. This relationship is up for renewal now. Management expects renewal and indicates that the nature of the work will move to a traditional, programmatic relationship. Astellas historically has outsourced programmatic work, as well, to other CROs. Thus, the pool would seem to be bigger on the programmatic side. At this point, management is setting expectations for similar margin levels from Astellas.

Second, INCR's top client in 2014, Otsuka at 14% of 2014 revenue, dropped below 10% in 1Q15. It was no longer depicted separately in the slides, but management did say that Otsuka was 9.4% of 1Q15 revenue on the call. Using those percentages, Otsuka revenue dropped by at least $5.1M YoY, or 20%.

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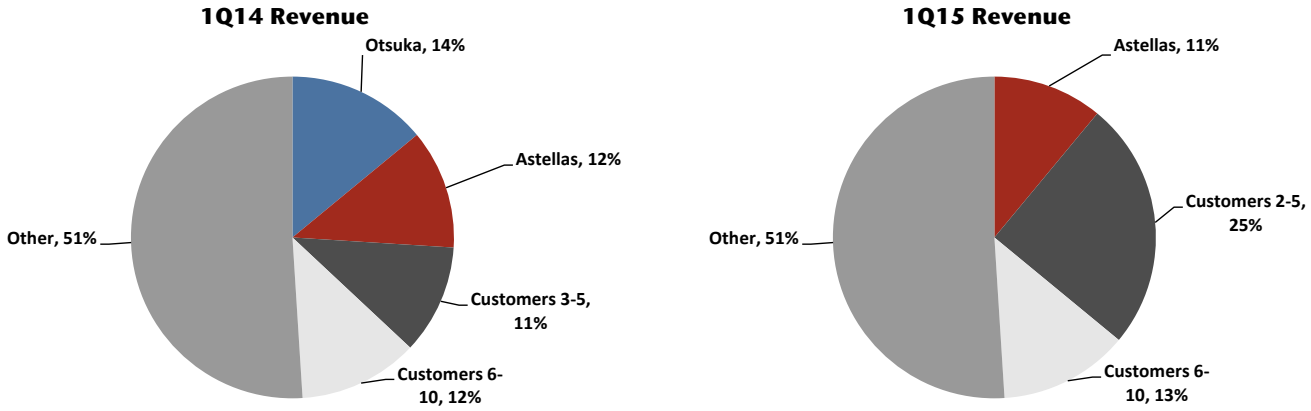
We do not want to overcall either of these situations. On Astellas, logic would suggest two things: 1) Astellas would negotiate pricing toward parity between the old deal and new deal, but 2) programmatic outsourcing would facilitate better coordination for INCR, yielding higher margin, and a larger pool would give INCR an opportunity to grow its share of wallet...both coming over the long-term. Management expects Otsuka to move back into double digits for FY2015.

Chart 3: Shifts in Diversified Client Base



Source: Company Data

Investors are concerned about the impact of Pfizer's concentration on ICLR, despite PFE's 30% growth YoY. ICLR is forecasting 7% growth overall for the remainder of 2015. INCR has two clients representing 25% of 2014 revenue, which collectively declined by $3M or ~6.5%. INCR is forecasting 9% growth for the remainder of 2015. INCR trades at a 15% premium to ICLR.

What is our point? The market is very concerned about the impact of Pfizer's concentration on ICLR. It is very high (~33%) and assumed not to grow, though management has indicated that the PFE book-to-bill was >1.0 in 1Q15. PFE revenue grew 30% YoY and 9% sequentially. ICLR is forecasting 7% growth for the remainder of 2015. INCR has two clients representing 25% of 2014 revenue, which collectively declined by $3M or ~6.5%. INCR is forecasting 9% growth for the remainder of 2015. INCR trades at a 15% premium to ICLR.

Client expansion goal may challenge margins

INCR has driven its recent growth on wins outside the Western pharma "household" names. Instead of PFE, GSK, and BMY, INCR's top clients are Otsuka and Astellas. Three of its top five are Japanese clients. We see no problem with that. In fact, to the extent those clients value science over scale or cost, they are attractive clients to have.

Differences in client approach (procurement-driven vs. science-driven) have existed for years across the pharma outsourcing continuum. Management suggests that the pendulum swing between cost focus and quality/expertise focus is shifting back toward the science. From our channel checks, surveys, and relationships in the space, we have not seen that. Yes, some outsourcing leadership seats are changing, but vendor lists still are expected to narrow, and purchasing power for the client is an important goal of that narrowing.

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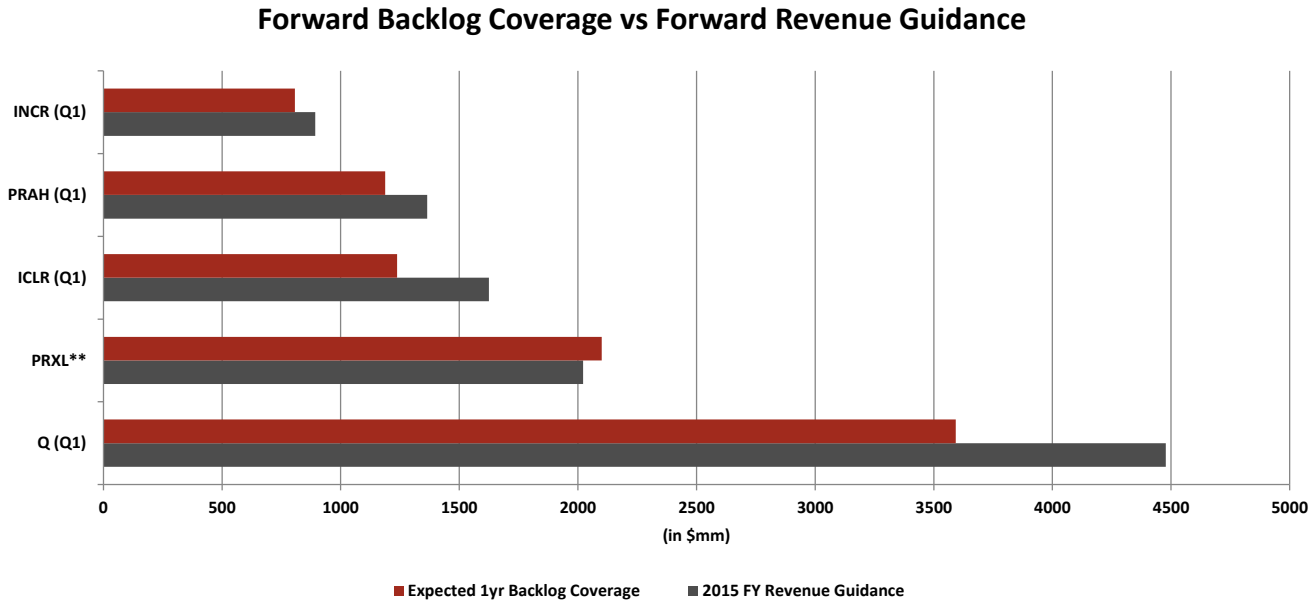
INCR's top-line growth goals require expanding its addressable audience. We do not think the incremental client (or the incremental therapeutic area) is higher margin, as a generalization. Certainly, in the early learning curve phase or ramp of a new client, margin can be quite low.

Chart 4: FTM Backlog to FTM Revenue – Late-stage Focused CROs



Source: Jefferies estimates, company data

M&A – A Solution to Consider

CROs are acquisitive, though typically small, bolt-on targets rather than transformative acquisitions. PRAH's acquisition of RPS in 2013 meaningfully changed its size perception, vaulting it over $1B in revenue and rebalancing its client exposure to add big pharma back to its mostly smid biopharma base. Yet, even that acquisition was only about 40-50% the size of PRA at the time.

In two different transactions, INC Research acquired a Phase II-IV business as big as itself. It bought the MDS Pharma Services Phase II-IV business in 2009, and then bought Kendle International in 2011. Both operations were troubled, and we covered both.

MDS Pharma Services

The MDS unit was declining in 2009 from a $218M revenue base in 2008. Based on our notes dating back to that period, we think the unit generated about $155-160M in 2009 revenue. We believe INC was generating $140M in revenue at that time. MDS unit EBITDA margin was certainly less than 5% and might have been break-even or worse. INC EBITDA margin was in the high-teens to low-twenties (%) range.

Kendle International

In 2011, Kendle was facing the maturity of a broken convert and inadequate cash or access to capital to pay that off. On a TTM basis, Kendle generated ~$325M in revenue with EBITDA margin below 10%. The acquisition took the combined entity to $600-700M in revenue and 5,000 employees globally and made INC Research a more legitimate

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player for global studies and full programs. Assuming the $650M midpoint of the range, INC was about $325M as well at the time of the transaction, and was swallowing an equally-sized acquisition.

Interestingly, INC Research generated just $579M in 2012 revenue, so the business shrunk after catching the Kendle "falling knife" before it resumed a growth path. However, that growth has been fairly steep over the last three years with 17.6% CAGR from '12 to '14 and 14.5% growth in 1Q15.

INC has demonstrated a strong enough culture to swallow a large, struggling CRO acquisition and fix it, rather than see the reasons for INC's historical success diluted by the mediocrity of the target.

Two Conclusions

1. INC Research's strong culture around execution and Trusted Process makes it a superior consolidator. Our long-term view of this company's evolution shows a solidified foundation; a strong culture; a transferrable, executable process; and an ability to successfully integrate the type of transactions that many in this industry view as extraordinarily difficult. The company also has a need to expand its client base and diversify its therapeutic expertise to grow its addressable market. For this company, a large acquisition might actually work.

2. The building blocks of INC Research have not been a mixed bag of growth – INC a solid grower, but Kendle and MDS definitively not. With a broader platform and fortified leadership team, growth has accelerated over the last 2+ years.

Conservative Backlog, Depends on Perspective

The Assertions

A common theme among management teams new to the public CRO scene has been a posture of conservative backlog, particularly true of PRAH and INCR. For its part, INCR includes a project in backlog based on 4 criteria:

- Receipt of a signed contract or other written commitment (i.e. Letter of Intent)
- Internal funding for the project is approved by the customer
- The project is not contingent upon other events (i.e. successful completion of a preceding Phase II, before starting the awarded Phase III)
- Work expected to start within 12 months

The signal behind this posture is that companies with conservative backlog policies can produce their forecasted revenue growth (in INCR's case higher growth than peers), despite having smaller backlogs relative to those forecasts. If the backlog truly is conservatively recorded, that could be true. In particular, not recording any contingent work in backlog would help to mitigate the impact of delays and/or cancellations resulting from studies other than the ones actually in backlog.

An Example

That said, determining the degree of conservatism is a difficult exercise. The number of scenarios that fall in grey area, even with a stated framework, is probably endless. Here is an example.

> *Historically, key customers occasionally ask their "go-to" vendor to start work on a program, perhaps due to time sensitivity, for which the contract or even a written agreement had not yet navigated the client's bureaucracy. How does the CRO deal with this? A) Refuse to start the work without signed authorization; B) Start the work, even with no value for the project reflected in bookings or backlog; or C) Start*

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the work and include the project in bookings and backlog, even though written agreement has not been received. We think most follow C).

In fact, the management team of Kendle, which INCR acquired in 2011, described that scenario to us most often. As for further evaluation of the qualifiers, we think the following:

- All CROs claim to require written commitment or contract.
- Most say that they do not include a contingent project in backlog.
- We have only heard PRXL state a timeframe by which work must be scheduled to begin. In their case, the time is a more conservative 6 months.

Programmatic vs. Functional Backlog Makes a Difference

Functional service provider (FSP) work throws another wrench in the analysis. FSP is sized by the number of staff over a period of time, typically several years. It does not rise and fall with the start and end of a study. Thus, it is actually more predictable in terms of the stream of revenue and tends to be highly recurring. On the downside, FSP work typically carries lower margin.

The key questions on backlog are whether INCR's backlog policies are more conservative than peers, and enough so to overcome a significant negative spread between backlog growth and revenue vis a vis the peer group. We are concerned that this is asking too much.

- INCR has very little FSP work in its backlog. It does include the full value of the contract in its backlog (i.e. multiple years), which would have the impact of increasing backlog and decreasing burn relative to including work one project at a time, as done on traditional studies. However, FSP work is a small enough portion of INCR's revenue that it doesn't move the needle that much. With Astellas' potential conversion to program outsourcing, even that amount could go away.
- Quintiles has proportionally more FSP work in its backlog, though still not a majority. We know that it includes the full contract value in backlog at time of award. In 3Q14, management called out an FSP renewal that inflated book-to-bill for that quarter. We estimate that the FSP inclusion accounted for 0.4-0.5 of the 1.64 book-to-bill for 3Q14.
- PRAH has the highest proportion of FSP-type work in its revenue mix. Instead of recognizing the full amount of a new win or renewal in the period of the award, it includes a rolling 12 months revenue amount in backlog. This means each quarterly update pulls out of backlog the FSP revenue just recognized in the reported results and adds in the revenue expected to be earned 4 quarters out. If the business is growing, the FSP book-to-bill will be above 1.0 (typically in the 1.05-1.1x range). This is the most conservative treatment of FSP work among the publicly traded CROs.

Conservative vs. Visible

As a final point, we want to highlight the trade-off between backlog duration and backlog conversion rate. Longer duration backlogs inherently burn slower (lower percentage). A lower backlog burn rate by itself is not a negative. Rather, the judgment hinges on the reasons that backlog duration has grown. If clients are awarding CROs large, long-lived studies that extend the average duration (like the mega-registries Q has discussed); the long visibility is actually a positive. On the other hand, if management teams are loading the backlog with lots of contingent Phase IIIs or speculative studies which the customer's senior management has not funded, the visibility is an illusion.

Each CRO's burn rate must be compared to itself, for the most part. A change in the (expected) burn rate for a company is a much more meaningful indicator than having a

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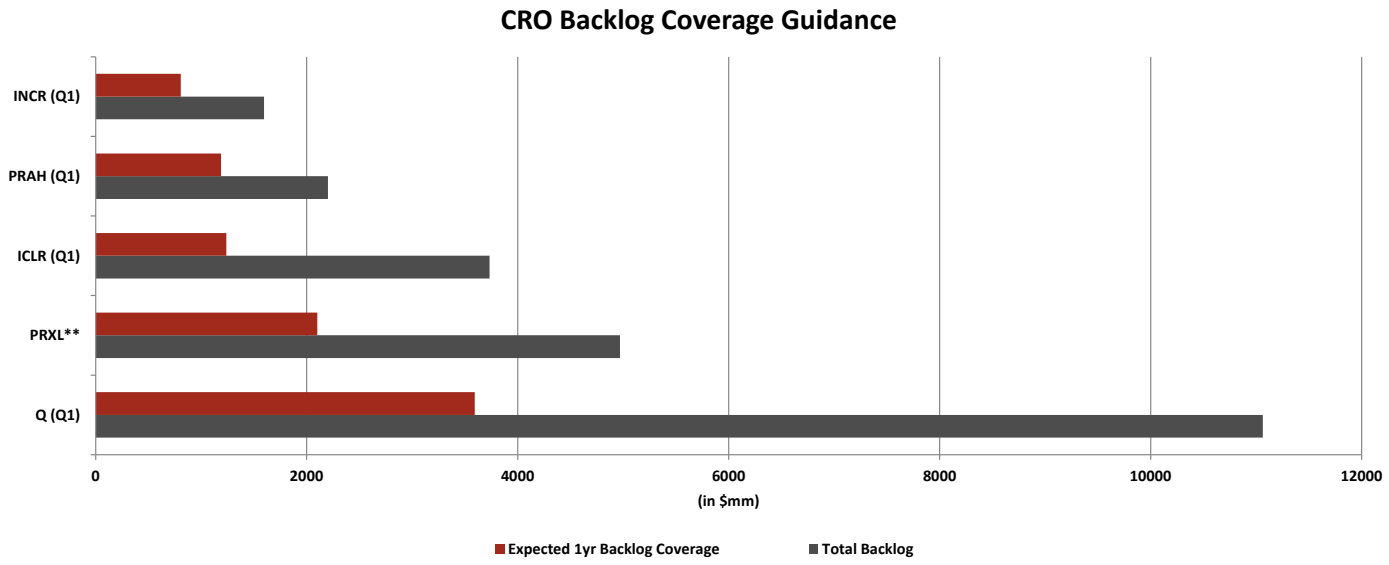
lower burn rate than a competitor. If the burn rate is expected to drop, revenue growth will slow.

Bottom line: Judging the relative backlog conservatism of each company is difficult because of varying business mix, recording practices, and lack of standards (GAAP does not govern backlog). We would caution investors away from anchoring investment theses on the conservatism of a smallish looking backlog relative to the CRO's revenue size.

Chart 5: Forward 12-month Backlog to Total Backlog



Source: Jefferies estimates, company data

Superior Margin at a Smaller Size

INC Research is generating operating margin at levels rivalling competitors that are 2.5-4x larger. One would not expect INCR to gain the same benefits of scale and leverage on SG&A that Quintiles, for example, can achieve. Thus, INCR's margin must come from other levers. We suggest three:

- Better pricing
- Efficient, effective delivery of complex trials
- Limited spending on internal technology development.

Better pricing

INCR's top clients are not the familiar Western biopharma companies that have entered the strategic partnerships, typically with two CROs. By its own description, INC does well with sponsors where science drives the decision. It tends to shy away from those where cost-focused procurement teams carry stronger influence in the selection process. It doesn't chase price down.

In terms of opportunity, our views diverge from management. INC management believes that companies are moving away from the cost-conscious, procurement-driven decision. The pendulum is swinging back. While we would acknowledge that the industry has not seen significant 2-vendor deals like the 2010-2012 period, we do not see these deals

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going away either. Many of the original deals by the likes of BMY, GSK, MRK, and PFE have been expanded with existing vendors. Reducing the stops on the shopping list has continued as a theme. Clients want to outsource more functions to fewer vendors, leverage buying power for larger discounts, and simplify their vendor/partner management effort.

INCR's primary growth focus is revenue. Management wants to expand the customer base (land and expand). We could not disprove the existence of incremental clients with a more science-driven selection process, but we think procurement groups are continuing to gain power. The number of additional opportunities with clients that facilitate INCR's wider margins, rather than threaten them, is shrinking, not growing.

Efficient Delivery

INCR's Trusted Process® is a more regimented, robust approach to managing trials, which supports the company's efficient delivery on complex trials. Our relationship with INC dates back to ~2008, and notes from that time remind us of the company's disciplined approach to study start. Fast Start was the original cornerstone of the Trusted Process®. It has since been expanded to 4 key phases, each framed by a prescribed set of client interactions, facilitated discussions and planning sessions. These processes help INCR to anticipate study challenges with the client, which reduces the risk of substantial change orders, and to resolve problems when they do happen. We would credit this process for meaningful contribution to INCR's margin performance.

Let the Experts Handle It

This seems to capture management's attitude toward software development. It has shied away from spending significant capital on development of internal systems. INCR is a heavy user of Medidata's cloud platform, and also sources information about investigator sites and ongoing competitive trials from a family of products provided by Citeline.

One of INCR's key differentiators is its IT strategy. It is an aggressive Medidata user. In fact, it plans to standardize its CTMS on Medidata, despite currently running a majority of studies on a competitor product. INCR is NOT internally developing analytical tools to lay on top of the transaction systems, as other CROs are. INCR believes this saves points of margin.

Management believes that a software development firm will produce a more advanced, effective software tool than a CRO in the end. This is an area where CFO Greg Rush's prior experience in software companies brings insight, while confirming CEO MacDonald's long-standing views. This compares to the meaningful technology and informatics investments made by basically all of INCR's larger peers:

- Quintiles Transnational – Infosario
- Covance – Xcellerate
- PAREXEL International – PAREXEL Informatics
- ICON plc – ICONIK
- PRA Health Sciences – Project "P"

We do not have insight into all these CROs' technology/informatics spending; however, we do know that Covance dramatically increased its IT budget over the 2012 and 2013 time frame. Total annual IT spending for CVD was ~$235M in 2013 or 10% of revenue. Presuming only a quarter of that was for big data and analytics, the avoidance of that could explain a differential contributor to INCR's margin performance. To be clear, INCR is not refusing to use technology. It is simply leveraging existing, commercially available systems.

Perhaps the most intuitive savings for a CRO is consolidating the number of duplicative systems used in the organization. Many CROs must support and train on multiple electronic data capture (EDC), randomization, and CTMS systems. To the extent the EDC variation is required by the client, the extra cost is unavoidable. However, INCR has

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focused on maximal leverage of MDSO's leading platform, and leaving the software development to the experts. Management believes this saves INCR points of margin, and our analysis of CVD's situation above suggests that could be reasonable.

Data Lake to Bathtub to Basin

Management refers to the "data lake" to highlight that the clinical trial industry has an abundance of direct and tangential data...a lake of data. This data, of course, includes the efficacy and safety data of the investigational drugs. Clinical operations departments also track monitoring, regulatory, investigator site, and data management data around cost and cycle times.

At least as early as 2001, CROs also began reaching outside the clinical trials industry for data to augment their views – pharmaceutical prescribing activity (IMS Health), pharmacy and medical claims, and electronic health records.

The challenge for CROs is to funnel the data lake into condensed, actionable information. INCR management believes that several areas of focus contribute to greater agility with this information.

- Focus on clinical trials
- Focus on oncology, CNS, and other complex trial areas in infectious disease, genetic disorders, ophthalmology, and a few other areas. Narrower focus, deeper expertise.
- Focus on very strong relationships with investigator sites. INC Research has been voted a top CRO to work with (#2 overall) in Centerwatch's 2015 survey of sites, following a #1 rank in the 2013 survey. These physician expert relationships help to inform its trial strategies, which are an integral part of the pitch to clients' clinical development decision-makers.

Recent Results: 1Q15 Beat and Raise

Summary

INCR's headlines certainly made its early public investors happy. Revenue, adj EBITDA, EPS, and 2015 guidance were higher than prior targets. Book-to-bill was a solid 1.2x on a net basis, and management called cancellations relatively subdued. EPS of $0.41 vs. consensus of $0.28 included $0.06 of operational outperformance and $0.06 of 1-time items (the rest is share count and rounding).

Revenue Posts Solid Growth, Absorbs FX Headwind

INCR generated a YoY revenue growth rate of 14.5% in the first quarter of 2015 with net service revenue increasing to $211.5 million from $184.7 million a year ago. Accelerated growth in INCR's focus areas of complex studies (CNS, Oncology, and other complex therapeutic areas) contributed to the strong performance. Revenue narrowly topped consensus (~$200K), despite weathering a $9.1M impact from FX headwinds. Revenue growth on a constant currency basis grew by 19.5% YoY.

Focus Delivers High Margin Performance

INCR's determined focus on cost controls helped expand adjusted 1Q EBIT margins to 22.0%, increasing 810 bps from 13.9% in 1Q14 and 550 bps from 16.5% in 4Q14. Adjusted income from operations nearly doubled to $46.0 million (1Q15) versus $26.0 million (1Q14). FX had a positive impact on all margin percentages as currency headwinds reduced direct costs by a greater proportion than revenues. Management did indicate that FX had a negligible impact on adjusted EBIT dollars.

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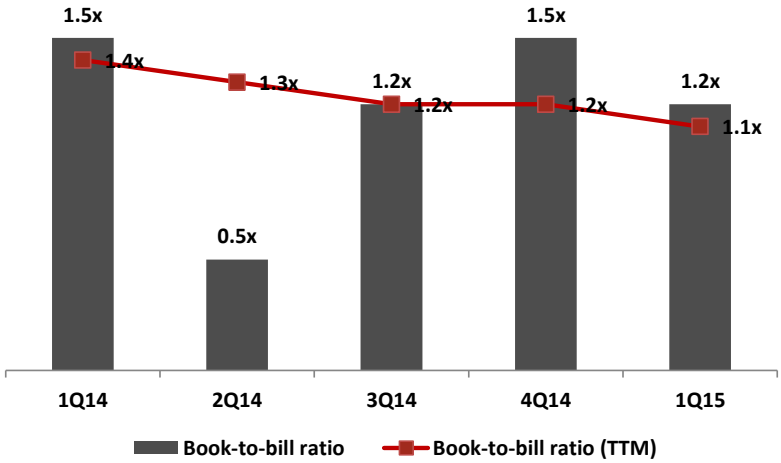
The company's quarterly book-to-bill declined from 1.5 (4Q14) to 1.2 (1Q15) while INCR's TTM book-to-bill settled to 1.1 compared to 1.2 at 12/31/2014. If the company can generate a ~1.2x book-to-bill in 2Q15, TTM book-to-bill should rebound to 1.3.

Book-to-Bill Calms after a Hot 4Q14

The company's quarterly book-to-bill declined from 1.5 (4Q14) to 1.2 (1Q15) while INCR's TTM book-to-bill settled to 1.1 compared to 1.2 at 12/31/2014. Net new business awards declined in Q1 to $255.5 million versus $280.9 million in Q1 of 2014. The decline in TTM book-to-bill came as INCR lapped a strong 1.5x book-to-bill in 1Q14, while still including the 0.5x book-to-bill from 2Q14 (resulting from an outsized $132 million cancellation of interrelated programs due to the customer's scientific concerns with the viability of compounds). Barring another very weak net bookings quarter in 2Q15, TTM book-to-bill should rise at 6/20/15.

FX headwinds led to a reduction of $38.9 million on the backlog for 1Q15. The company achieved a revenue burn rate of 13.30% in 1Q15 and concluded the three month period with an ending backlog of $1.60 billion of which $0.6 billion in revenues is expected to be recognized over the balance of 2015.

Chart 6: Book-to-Bill by Quarter and TTM



Source: Company Data

DSOs Remain Low, Support Strong Operating Cash Flow

Net DSO for the company remained low, declining from 0.3 (4Q14) to -2.9 (1Q15). The decline in DSO boosted operating cash flows from $31.2 million (1Q14) and $14.1M (4Q14) to $43.6 million (1Q15). INCR's low DSO reflects a strong focus on contract negotiation, timely billing and follow up, and the benefits of positive client relationships (i.e. minimizing change orders that lead to disputes on amounts owed). The industry is seeing DSOs rise marginally, as strategic relationships represent higher percentages of revenue. INCR may experience the same, as it expands its client base.

Financial Guidance

Guidance Increased Materially; Pulls Growth Forward a Year

INCR increased guidance on all fronts; showing stronger growth in revenues and EPS. The company expects to achieve a midpoint revenue level of $892.5 million versus previous midpoint guidance of $885 million, increasing the lower end of guidance by $10m from $870m to $ 880m. On a constant currency basis, revenue is expected to grow ~16.5% with a low range of 14.9% and a high range of 18.0%. The company maintains optimism in earnings growth as management issued a revised adjusted midpoint EPS of $1.46 for FY2015, a 22 cent increase compared to the previously expected $1.24 adjusted EPS which management released in February 2015.

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Chart 7: INC Research 2015 Financial Guidance

	Previous		Revised Post-1Q		Revised Post-Secondary	
	Range	Growth	Range	Growth	Range	Growth
Net Service Revenue	$870-900M	8.7-12.4%	$880-905M	9.9-13.0%	$880-905M	9.9-13.0%
Adjusted EBITDA	$159-169M	9.4-16.3%	$175-185M	20.5-27.3%	$175-185M	20.5-27.3%
Adjusted Net Income	$75-82M	68.0-83.7%	$89.5-97.0M	100.5-117.3%	$87.5-95.0M	96.2-113%
Adjusted EPS	$1.19-1.29	43.4-55.4%	$1.40-1.52	68.7-83.1%	$1.45-1.57	74.7-89.2%
GAAP EPS	$1.00-1.17	NM	$1.13-1.29	NM	$1.15-1.31	NM

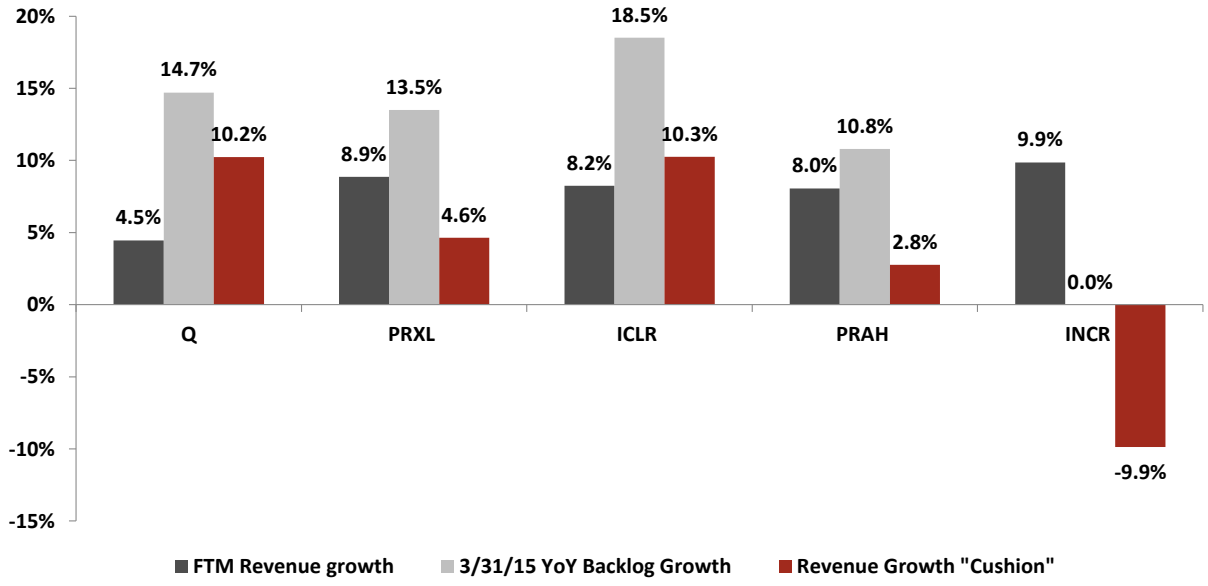
Source: Company Data

We hesitate to bet against near-term numbers, particularly after management's beat-and-raise in 1Q15, yet the backlog support doesn't suggest continued outperformance into late-2015 and 2016.

Chart 6 shows that TTM book-to-bill has steadily declined, in part due to the noted drag from 2Q14. As a result backlog at 3/31/15 was basically flat YoY (up $1M). For every other late-stage CRO backlog has grown double-digits YoY – range = 10.8 – 18.5%. Yet, INCR is expected to grow the fastest in the group. We could explain away small differences with varying contributions by acquisitions or differences in backlog recording policies, but not a 15-20% spread between relative backlog growth and expected revenue growth.

We hesitate to bet against near-term numbers, particularly after management's beat-and-raise in 1Q15, yet the backlog support doesn't suggest continued outperformance into late-2015 and 2016.

Chart 8: Backlog Growth to Support Future Revenue Growth



Source: Jefferies estimates, company data

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Company Description

INC Research is a global Contract Research Organization, or CRO, that exclusively focuses on Phase I to Phase IV clinical development services for the biopharmaceutical and medical device industries. INC Research aligns its project teams along therapeutic lines, with a particular focus in Central Nervous System (CNS), oncology, and other complex diseases.

The company seeks to deliver clinical development services in complex environments while offering a proprietary, operational approach to clinical trials through the company's Trusted Process® methodology. INC Research also provides service offerings focused on optimizing the development and prospective commercial appeal of its customers' new biopharmaceutical compounds, enhancing returns on research and development, investments, and operational processes.

The company was founded in 1998, upon the incorporation of an academic research organization focused on the central nervous system area. INC has built a global contract research organization focused on CNS and oncology therapeutic areas while also focused on cultivating long-lived and productive relationships with investigative sites. INC was named "Top CRO to work with" by sites in 2013 (#2 in 2015) in CenterWatch's biannual survey. Globally, INC Research conducts its services in 50 countries across North and South America, Central, Southern, and Western Europe, as well as the Middle East, Asia Pacific and Africa. The company currently employs a workforce of ~5,600 people and is headquartered in Raleigh, North Carolina.

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Secondary Offering Modestly Reduces Overhang

Deal Announced April 27, 2015

INCR announced a secondary offering of 8M shares of its Class A common stock, plus 1.2M share in the overallotment option. Concurrently, the company announced a plan to repurchase approximately $150.0 million of its Class A shares. The share repurchase is expected to result in accretion of approximately $0.04 pro forma adjusted net income per share for 2015, assuming a repurchase price of $33.67 per share and 4,454,568 common shares. Share repurchase, debt issuance costs and expenses will be funded by the company's $54.4 million cash on hand and $101.1 million in proceeds provided by the new credit agreement for 2015.

The new senior secured credit agreement for 2015 will convert existing Term Loan B debt to Term Loan A debt, increasing the principal amount of the overall loan agreement by ~24% from $423.9 million to $525.0 million. Borrowing capacity will also expand as the company's Revolving Credit Facility will increase from $100.0 million to $150.0 million. Relative to the 2014 loan agreement, the newly instituted loan will reduce the existing 7-year term to 5 years while the Applicable Margin will decline from 350bps to 200-225bps. Amortization of the 5-year loan facility expects quarterly payments of annual rates at 5.0% (year 1), 7.5% (year 2), 7.5% (year 3), 10.0% (year 4), and 12.5% (year 5).

Chart 9: Principal and Selling Shareholders in the May 2015 Secondary Offering

	Shares Held by Insiders before Nov. 3, 2014 Offering	Number of Shares being Offered	Number of shares subject to option	Shares Held by Insiders after Nov. 3, 2014 Offering (assuming no exercise of the Green Shoe)	Shares Held by Insiders after Nov. 3, 2014 Offering (assuming full exercise of the Green Shoe)	*Class B Shares*
5% stockholders:						
Avista	25,988,005	3,486,227	531,794	19,920,046	19,388,252	
OTPP	14,846,912	3,337,712	509,139	9,037,450	8,528,311	*10,033,994*
Named executive officers and directors:						
D. Jamie MacDonald- CEO and Director	269,827	0	0	269,827	269,827	
Gregory S. Rush- Executive VP and CFO	112,426	12,455	1,091	86,176	83,875	
Alistair Macdonald- COO	180,808	0	0	180,808	180,808	
Christopher L. Gaenzle- CAO, General Counsel and Secretary	43,789	0	0	43,789	43,789	
James T. Ogle- Chairman of the Board	441,467	25,569	2,255	393,653	389,462	
Robert W. Breckon- Director	41,421	8,226	721	31,750	30,902	
Charles C. Harwood- Director	37,279	0	0	37,279	37,279	
All Other	899,988	129,811	9,067	762,343	756,649	
Total		**7,000,000**	**1,054,067**			

Source: Company Data

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Management

D. Jamie MacDonald – Chief Executive Officer and Director

Jamie Macdonald has been the Chief Executive Officer and a member of the Board since January 2013. He joined the Company in July 2011 as Chief Operating Officer when the company acquired Kendle, where Mr. MacDonald was the Chief Operating Officer from May 2011 to July 2011. Prior to joining Kendle, Mr. Macdonald served for 15 years in various senior operational and finance roles at Quintiles Transnational Holdings Inc., where he most recently was Senior Vice President and Head of Global Project Management from December 2008 to January 2011. Prior to Quintiles, Mr. Macdonald began his career in the pharmaceutical sector while in the UK, where he worked with Syntex Corporation (acquired by Roche Holdings, Inc. in 1994), before joining Quintiles through a transfer of undertakings in 1995. Mr. Macdonald earned a B.A. in Economics from Heriot-Watt University in Edinburgh, Scotland and is a UK qualified Chartered Management Accountant (ACMA).

Gregory S. Rush – Executive Vice President and Chief Financial Officer

Greg Rush joined the Company in August 2013 as Executive Vice President and Chief Financial Officer. From April 2010 to August 2013, Mr. Rush served as Senior Vice President and Chief Financial Officer of Tekelec, Inc., which was acquired by Oracle Corporation in June 2013, after serving as Interim Chief Financial Officer in March 2010. Mr. Rush joined Tekelec as Vice President and Corporate Controller in May 2005 and served as Vice President, Corporate Controller and Chief Accounting Officer from May 2006 to March 2010. His previous experience also includes roles in various senior financial positions with Siebel Systems, Inc., Quintiles Transnational Holdings Inc., PricewaterhouseCoopers and Ernst & Young. Mr. Rush received his Bachelor of Science in Business and Master of Accounting degrees from the University of North Carolina at Chapel Hill, graduating with honors, and is a Certified Public Accountant.

Alistair Macdonald – Chief Operating Officer

Alistair Macdonald has been the company's Chief Operating Officer since January 2013. He joined the Company in 2002 and has served in various senior leadership roles during that time. Prior to his current role, Mr. Macdonald most recently served as the company's President of Clinical Development Services from March 2012 to January 2013, where he oversaw Study Start-up, Regulatory Consulting and Submissions, Drug Safety, Phase I Services, Global Clinical Operations Management, Alliance Delivery and Functional Service Provision as well as the company's Latin America region. He also served as Executive Vice President of INC Research's 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. He received his Master of Science in Environmental Diagnostics from Cranfield University.

Christopher L. Gaenzle – Chief Administrative Officer, General Counsel and Secretary

Chris Gaenzle joined the Company in April 2012 as General Counsel and Secretary. Since August 2013, he has also served as the Chief Administrative Officer. Prior to joining INC Research, Mr. Gaenzle served for five years in various senior legal positions at Pfizer Inc., where he was most recently Assistant General Counsel from 2010 to 2012. Prior to Pfizer, Mr. Gaenzle was a partner at Hunton and Williams LLP, where he was a practicing attorney from 1998 to 2007. Mr. Gaenzle has 20 years of private practice and corporate legal experience, the majority of which is in the pharmaceutical, medical and clinical research industries. Mr. Gaenzle received his Bachelor of Arts from Colgate University and his J.D. from Syracuse University.

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James T. Ogle – Chairman of the Board

Jim Ogle joined the Company in June 2003 and served as Chief Executive Officer from July 2003 to December 2012. He has served as a member of the Board since June 2003 and became Chairman of the Board in September 2010. Mr. Ogle has been non-employee Chairman of the Board since January 2013. He is also a member of the compensation committee. He was previously the Chief Operating Officer of Nascent Pharmaceuticals, a private biotechnology company from 2002 to 2003 and a director of Nascent Pharmaceuticals from 2002 to 2004. Mr. Ogle also was a director of OpGen, Inc., a company specializing in genomic and DNA analysis systems and services, from 2001 to 2007. Prior to that, Mr. Ogle was an executive at Quintiles Transnational Holdings Inc., where he served as President and Chief Operating Officer of the Quintiles Product Development Group from 1998 to 2000 and as President of Quintiles America from 1996 to 1998. He served as Chief Operating Officer and subsequently as Chief Executive Officer of BRI International, a privately-held international CRO from 1992 to 1996, before its sale to Quintiles. Mr. Ogle received his Bachelor of Science from the United States Military Academy at West Point and his Master of Science in Industrial Engineering from the University of Alabama.

Risks

Cancellations, a Risk for All CROs

Cancellations are a normal, if unfortunate, part of a CRO's business. Studies can be substantially delayed or terminated for a variety of reasons. Most of the time, the factors are out of the CRO's control – the investigational drug or one of its peers in the pipeline shows safety problems in trial, regulators fail to approve a drug that impacts the development program the CRO is working on, or budget priorities change. Occasionally, the reasons are more unflattering – a "rescue CRO" is called in to take over and fix a trial that has not kept pace with expectations.

INCR appears to rank high on the execution side. Nonetheless, it did experience a very large cancellation in 2Q14, which 2Q14 drove book-to-bill to 0.51 and has depressed the TTM book-to-bill since then.

Client M&A

Large M&A transactions between biopharmaceutical companies can cause disruption to their CRO vendors revenue streams. R&D synergies are often, though not always, a source of savings in these deals. If projects are cancelled or their progress slowed due to changes in decision making or decision makers, that slowdown can cause shortfalls in the CROs revenue performance. This tends to occur more often when large companies combine than in cases where an emerging biotechnology company is acquired for its pipeline.

Client Concentration

INCR has neither the most diversified nor the least diversified client base. Its relationships with its top clients appear strong, and its higher exposure to the Japanese pharma base is somewhat non-traditional relative to other public CROs. INCR does have 2 clients that hover in the low-double digit percent of revenue, and changes in outsourcing strategy or vendors used could have a negative impact on INCR's business.

IT Platform

INCR's strategy to eschew internal software development, particularly at its relative size, is a logical one. We believe this does facilitate some of INCR's superior margin. That said, we also believe that INCR's peers have resorted to building internal tools because they have been unable to find specific tools from third party vendors.

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Competition in the clinical development software market is relatively limited; leaving INCR somewhat confined to Medidata's development priorities. We believe INCR is a strong partner to MDSO in its evaluation of opportunities and design of tools, which mitigates that risk to some degree.

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Chart 10: Pharmaceutical Services Comparison Table

Ticker	Company	05/15/15 Price	Rating	Price Target	Upside to PT	PT / '16 EPS	52 Week Range Low	52 Week Range High	Avg Day Volume	Short % Shs Out	MCap ($000)	EV ($000)	Debt/ EBITDA	LT EPS Growth	PEG	FCF Yield	Dividend Yield	FYE	Earnings Date (Est.)
Q	Quintiles Transnational Holdings, Inc.	$ 67.14	BUY	$ 79.00	17.7%	22.1x	$ 48.93	$ 70.00	660,710	2.4%	$ 8,557,262	$ 10,069,622	2.1x	12%	1.56x	4.8%	-	Dec	07/30/2015
ICLR	ICON Plc	66.26	BUY	80.00	20.7%	19.4x	39.50	72.40	491,676	2.5%	4,098,602	3,926,927	0.0x	16%	1.00x	5.2%	-	Dec	07/28/2015
WST	West Pharmaceutical Services, Inc.	54.20	HOLD	59.00	8.9%	26.7x	39.11	60.30	336,572	2.9%	3,972,860	4,096,460	0.5x	15%	1.64x	1.1%	1.4%	Dec	07/30/2015
PRXL	PAREXEL International Corporation	66.48	HOLD	62.00	(6.7%)	18.4x	46.20	71.42	452,364	7.0%	3,712,110	3,801,759	0.3x	15%	1.32x	4.7%	-	Jun	08/05/2015
CTLT	Catalent Inc	30.43	BUY	32.00	5.2%	21.3x	19.30	31.66	601,753	0.8%	3,842,233	5,607,933	4.0x	11%	1.85x	3.4%	-	Jun	09/03/2015
CRL	Charles River Laboratories International	70.54	BUY	82.00	16.2%	20.1x	52.02	84.69	527,730	4.2%	3,376,609	4,011,103	2.1x	10%	1.73x	5.4%	-	Dec	08/04/2015
WX	Wuxi PharmaTech (Cayman) Inc. Sponsor	43.34	HOLD	46.00	6.1%	28.0x	30.38	46.14	776,353	2.5%	3,112,845	2,862,724	0.0x	13%	2.03x	1.5%	-	Dec	08/10/2015
INCR	INC Research Holdings, Inc. Class A	33.32	HOLD	35.00	5.0%	22.5x	19.61	38.76	240,781	1.1%	2,102,592	2,364,717	1.8x	17%	1.26x	4.8%	-	Dec	TBD
PRAH	PRA Health Sciences, Inc.	31.19	BUY	36.00	15.4%	18.9x	18.47	32.46	212,322	1.3%	1,958,015	2,821,016	4.6x	18%	0.91x	4.3%	-	Dec	TBD

Ticker	Company	EV / Revenue 2014	EV / Revenue 2015	EV / Revenue 2016	EV / EBITDA 2014	EV / EBITDA 2015	EV / EBITDA 2016	P / E 2014	P / E 2015	P / E 2016	Net Revenue 2014	Net Revenue 2015	Net Revenue 2016	Adjusted EBITDA 2014	Adjusted EBITDA 2015	Adjusted EBITDA 2016	Adjusted EPS (non-GAAP) 2014	Adjusted EPS (non-GAAP) 2015	Adjusted EPS (non-GAAP) 2016
Q	Quintiles Transnational Holdings, Inc.	2.4x	2.3x	2.2x	14.0x	12.9x	11.6x	24.9x	21.7x	18.8x	$ 4,165,822	$ 4,300,100	$ 4,613,409	$ 720,391	$ 779,670	$ 870,123	$ 2.70	$ 3.09	$ 3.58
ICLR	ICON Plc	2.6x	2.4x	2.2x	14.9x	12.1x	10.8x	23.2x	18.2x	16.0x	1,503,316	1,624,532	1,780,240	263,688	325,570	364,388	2.85	3.64	4.13
WST	West Pharmaceutical Services, Inc.	2.9x	2.9x	2.7x	15.0x	14.4x	12.6x	30.4x	30.0x	24.6x	1,421,400	1,407,263	1,518,787	273,200	284,127	324,846	1.78	1.81	2.21
PRXL	PAREXEL International Corporation	1.9x	1.8x	1.6x	12.7x	11.9x	10.5x	25.9x	23.1x	19.8x	1,993,935	2,126,481	2,318,697	299,586	320,732	361,094	2.57	2.88	3.36
CTLT	Catalent Inc	3.0x	3.0x	2.8x	12.8x	12.8x	11.7x	23.6x	22.6x	20.3x	1,846,800	1,899,998	2,038,763	438,200	438,032	479,368	1.29	1.35	1.50
CRL	Charles River Laboratories International	3.1x	3.0x	2.8x	13.4x	12.0x	10.7x	20.4x	19.9x	17.3x	1,297,662	1,334,092	1,424,502	299,178	333,277	375,773	3.46	3.54	4.09
WX	Wuxi PharmaTech (Cayman) Inc. Sponsor	4.2x	3.6x	3.1x	19.1x	18.9x	14.5x	27.8x	34.1x	26.4x	674,278	798,264	920,063	149,674	151,072	197,306	1.56	1.27	1.64
INCR	INC Research Holdings, Inc. Class A	2.9x	2.6x	2.6x	16.3x	12.4x	12.4x	40.1x	21.4x	21.4x	809,728	899,065	899,065	145,276	190,744	190,744	0.83	1.56	1.56
PRAH	PRA Health Sciences, Inc.	2.2x	2.1x	1.9x	15.0x	12.1x	11.4x	24.2x	18.0x	16.4x	1,266,596	1,361,755	1,487,147	187,655	233,925	248,074	1.29	1.74	1.90
Pharma Services Mean		**2.8x**	**2.6x**	**2.4x**	**14.8x**	**13.3x**	**11.8x**	**26.7x**	**23.2x**	**20.1x**									
Pharma Services Median		**2.9x**	**2.6x**	**2.6x**	**14.9x**	**12.4x**	**11.6x**	**24.9x**	**21.7x**	**19.8x**									

Source: Jefferies estimates, company data and FactSet

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Please see important disclosure information on pages 27 - 30 of this report.

Chart 11: INC Research Income Statement Model

FY December	2013-A					2014-A					2015E					
($ in 000s, except for EPS)	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4	2014	Q1-A	Q2	Q3	Q4	2015	2016E
Net service revenue	$ 149,743	$ 159,202	$ 169,108	$ 174,365	$ 652,418	$ 184,700	$ 203,540	$ 207,763	$ 213,725	$ 809,728	$ 211,514	$ 217,985	$ 228,990	$ 240,577	$ 899,065	$ 987,712
Direct costs	104,768	106,497	108,917	112,080	432,262	120,764	130,781	129,557	133,957	515,059	125,448	136,792	142,107	149,343	553,691	604,176
SG&A	27,313	28,312	27,418	34,011	117,054	31,890	33,616	37,763	40,494	143,763	35,579	37,310	40,476	41,973	155,338	168,394
FOREX	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adj EBITDA	*17,662*	*24,393*	*32,773*	*28,274*	*103,102*	*32,046*	*39,143*	*40,443*	*39,274*	*150,906*	*50,487*	*43,883*	*46,407*	*49,260*	*190,037*	*215,141*
Depreciation	4,446	4,758	4,730	5,241	19,175	6,869	5,025	4,734	4,991	21,619	4,766	4,934	5,104	5,268	20,072	22,777
Total expenses	136,527	139,567	141,065	151,332	568,491	159,523	169,422	172,054	179,442	680,441	165,793	179,036	187,687	196,584	729,100	795,348
Adj EBITA	13,216	19,635	28,043	23,033	83,927	25,177	34,118	35,709	34,283	129,287	45,721	38,949	41,303	43,992	169,965	192,364
Interest income (expense)	(14,817)	(14,772)	(14,769)	(16,131)	(60,489)	(15,901)	(12,823)	(12,903)	(11,160)	(52,787)	(5,305)	(5,150)	(5,719)	(5,651)	(21,826)	(21,921)
Other income (expense)	(1,035)	(30)	(371)	(213)	(1,649)	1,378	(337)	5,136	1,512	7,689	-	-	-	-	-	-
Pretax income	(2,636)	4,833	12,903	6,689	21,789	10,654	20,958	27,942	24,635	84,189	40,416	33,798	35,583	38,341	148,139	170,442
Taxes	(844)	1,923	4,896	3,054	9,029	4,138	8,085	10,665	9,509	32,397	14,805	12,167	12,810	13,803	53,585	61,359
Adj Net income	(1,792)	2,910	8,007	3,635	12,760	6,516	12,873	17,277	15,126	51,792	25,611	21,631	22,773	24,539	94,554	109,083
Adj EPS b/f charges	**$ (0.03)**	**$ 0.06**	**$ 0.15**	**$ 0.07**	**$ 0.25**	**$ 0.13**	**$ 0.25**	**$ 0.33**	**$ 0.26**	**$ 0.97**	**$ 0.41**	**$ 0.35**	**$ 0.39**	**$ 0.42**	**$ 1.56**	**$ 1.82**
Diluted shares	52,008	52,038	52,017	51,973	52,009	51,947	52,185	52,514	57,504	53,538	63,103	61,160	58,782	58,843	60,682	60,014
Common Size:																
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth																
Direct costs	70.0%	66.9%	64.4%	64.3%	66.3%	65.4%	64.3%	62.4%	62.7%	63.6%	59.3%	62.8%	62.1%	62.1%	61.6%	61.2%
Gross margin	*30.0%*	*33.1%*	*35.6%*	*35.7%*	*33.7%*	*34.6%*	*35.7%*	*37.6%*	*37.3%*	*36.4%*	*40.7%*	*37.2%*	*37.9%*	*37.9%*	*38.4%*	*38.8%*
SG&A	18.2%	17.8%	16.2%	19.5%	17.9%	17.3%	16.5%	18.2%	18.9%	17.8%	16.8%	17.1%	17.7%	17.4%	17.3%	17.0%
Adj EBITDA	*11.8%*	*15.3%*	*19.4%*	*16.2%*	*15.8%*	*17.4%*	*19.2%*	*19.5%*	*18.4%*	*18.6%*	*23.9%*	*20.1%*	*20.3%*	*20.5%*	*21.1%*	*21.8%*
Depreciation	3.0%	3.0%	2.8%	3.0%	2.9%	3.7%	2.5%	2.3%	2.3%	2.7%	2.3%	2.3%	2.2%	2.2%	2.2%	2.3%
Total expenses	91.2%	87.7%	83.4%	86.8%	87.1%	86.4%	83.2%	82.8%	84.0%	84.0%	78.4%	82.1%	82.0%	81.7%	81.1%	80.5%
Adj EBITA	8.8%	12.3%	16.6%	13.2%	12.9%	13.6%	16.8%	17.2%	16.0%	16.0%	21.6%	17.9%	18.0%	18.3%	18.9%	19.5%
Interest income (expense)	-9.9%	-9.3%	-8.7%	-9.3%	-9.3%	-8.6%	-6.3%	-6.2%	-5.2%	-6.5%	-2.5%	-2.4%	-2.5%	-2.3%	-2.4%	-2.2%
Other income (expense)	-0.7%	0.0%	-0.2%	-0.1%	-0.3%	0.7%	-0.2%	2.5%	0.7%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax income	-1.8%	3.0%	7.6%	3.8%	3.3%	5.8%	10.3%	13.4%	11.5%	10.4%	19.1%	15.5%	15.5%	15.9%	16.5%	17.3%
Taxes	32.0%	39.8%	37.9%	45.7%	38.9%	38.8%	38.6%	38.2%	38.6%	38.5%	36.6%	36.0%	36.0%	36.0%	36.2%	36.0%
Adjusted net income	-1.2%	1.8%	4.7%	2.1%	2.0%	3.5%	6.3%	8.3%	7.1%	6.4%	12.1%	9.9%	9.9%	10.2%	10.5%	11.0%

Source: Jefferies estimates, company data

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Chart 12: INC Research Balance Sheet

Source: Jefferies & Co.	2013-A					2014-A					2015E					
FY December, $000	**Q1**	**Q2**	**Q3**	**Q4**	**2013**	**Q1**	**Q2**	**Q3**	**Q4**	**2014**	**Q1-A**	**Q2**	**Q3**	**Q4**	**2015**	**2016E**
Balance Sheet																
Cash & equivalents	$60,410	$68,811	$77,910	$96,972	$96,972	$114,159	$155,549	$185,803	$126,453	$126,453	$156,349	$130,063	$157,824	$184,941	$184,941	$302,685
Restricted cash	1,277	1,565	1,528	569	569	569	581	539	505	505	480	495	520	546	546	597
Accounts receivable																
Billed, net	123,744	112,580	120,098	129,628	129,628	117,261	154,913	130,433	130,270	130,270	149,745	154,326	162,117	170,320	170,320	186,198
Unbilled services	119,773	126,491	124,910	99,207	99,207	100,177	108,503	107,375	118,101	118,101	122,701	126,455	132,839	139,561	139,561	152,570
Deferred income taxes	9,352	9,346	9,405	14,378		14,687	14,688	14,667	16,177	16,177	17,082	17,605	18,493	19,429	19,429	21,240
Other current assets	37,731	36,747	34,635	35,428	35,428	35,080	37,496	39,802	35,393	35,393	30,965	31,912	33,523	35,220	35,220	38,503
Total current assets	352,287	355,540	368,486	376,182	376,182	381,933	471,730	478,619	426,899	426,899	477,322	460,855	505,316	550,017	550,017	701,793
Property & equipment, net	41,111	39,918	40,825	40,947	40,947	38,839	41,963	41,515	43,725	43,725	41,813	45,444	45,390	48,184	48,184	52,957
Goodwill	565,188	563,749	563,581	563,365	563,365	566,883	556,980	556,336	556,863	556,863	553,597	553,597	553,597	553,597	553,597	553,597
Intangible assets, net	260,858	250,738	240,952	231,051	231,051	223,621	209,783	200,051	190,359	190,359	180,801	180,801	180,801	180,801	180,801	180,801
Deferred income taxes	4,047	4,733	4,755	3,780	3,780	3,319	25,229	25,491	15,665	15,665	11,355	11,355	11,355	11,355	11,355	11,355
Other long-term assets	19,225	18,130	16,935	17,786	17,786	15,030	14,836	14,029	11,576	11,576	11,615	11,615	11,615	11,615	11,615	11,615
Total assets	**1,242,716**	**1,232,808**	**1,235,534**	**1,233,111**	**1,233,111**	**1,229,625**	**1,320,521**	**1,316,041**	**1,245,087**	**1,245,087**	**1,276,503**	**1,263,667**	**1,308,074**	**1,355,569**	**1,355,569**	**1,512,119**
Liabilities & Equity																
Accounts payable & accrued expenses	30,547	27,120	20,686	9,594	9,594	8,748	17,222	15,221	16,548	16,548	14,010	14,439	15,168	15,935	15,935	17,420
Accrued liabilities	77,313	76,776	80,831	94,221		85,599	105,057	108,112	111,655	111,655	97,026	99,994	105,043	110,358	110,358	120,645
Deferred revenue	197,335	204,411	210,990	207,188	207,188	219,484	268,845	257,254	246,902	246,902	282,510	291,153	305,852	321,328	321,328	351,282
Current portion, L-T debt	3,000	980	1,730	4,713	4,713	-	-	-	4,250	4,250	4,250	4,250	4,250	4,250	4,250	4,250
Current portion, capital lease obligations	2,980	2,982	2,964	2,292	2,292	1,986	1,367	628	441	441	254	262	275	289	289	316
Total current liabilities	311,175	312,269	317,201	318,008	318,008	315,817	392,491	381,215	379,796	379,796	398,050	410,097	430,587	452,159	452,159	493,914
L-T debt, less current	588,232	587,932	587,630	587,202	587,202	587,265	587,481	587,728	415,277	415,277	414,450	516,775	516,774	516,773	516,773	516,768
Capital lease obligations, less current	1,972	1,321	580	272		333	151	49	11	11	-	-	-	-	-	-
Deferred taxes	21,194	21,634	21,993	29,233	29,233	29,288	27,893	29,470	30,368	30,368	28,526	28,526	28,526	28,526	28,526	28,526
Other long-term liabilities	19,931	19,720	20,472	22,189	22,189	23,461	23,478	24,091	27,426	27,426	26,523	26,523	26,523	26,523	26,523	26,523
Shareholders' equity	300,212	289,932	287,658	276,207	276,207	273,461	289,027	293,488	392,209	392,209	408,954	281,746	305,664	331,587	331,587	446,388
Total liabilities & equity	**1,242,716**	**1,232,808**	**1,235,534**	**1,233,111**	**1,233,111**	**1,229,625**	**1,320,521**	**1,316,041**	**1,245,087**	**1,245,087**	**1,276,503**	**1,263,667**	**1,308,074**	**1,355,569**	**1,355,569**	**1,512,119**
check	0	0	0	0		0	0	0	0		0	0	0	0		
Ratios:										$415,288						
Net Cash/Share	$(10.21)	$(10.03)	$(9.86)	$(9.48)		$(9.15)	$(8.30)	$(7.67)	$(5.03)		$(4.09)	$(6.33)	$(6.11)	$(5.64)		
DSO	75.2	64.4	65.3	68.4		57.8	69.3	57.1	56.1		64.4	64.4	65.1	65.1		
Net A/R + Unbilled - Adv. Bills	46,182	34,660	34,018	21,647		(2,046)	(5,429)	(19,446)	1,469		(10,064)	(10,372)	(10,896)	(11,447)		
Net DSO	28.1	19.8	18.5	11.4		(1.0)	(2.4)	(8.5)	0.6		(4.3)	(4.3)	(4.4)	(4.4)		
Book value	$5.77	$5.57	$5.53	$5.31		$5.26	$5.54	$5.59	$6.82		$6.48	$4.61	$5.20	$5.64		
Tangible book value	$(5.09)	$(5.26)	$(5.30)	$(5.53)		$(5.65)	$(5.13)	$(5.01)	$(2.86)		$(2.29)	$(4.44)	$(4.22)	$(3.77)		
Debt/total capitalization	66.3%	67.1%	67.2%	68.1%		68.3%	67.1%	66.7%	51.5%		50.3%	64.7%	62.8%	60.9%		
ROE					9.2%					15.5%					26.1%	28.0%

Source: Jefferies estimates, company data

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Chart 13: INC Research Cash Flow Model

Source: Jefferies & Co.	2013-A					2014-A					2015E					
FY December, $000	**Q1**	**Q2**	**Q3**	**Q4**	**2013**	**Q1**	**Q2**	**Q3**	**Q4**	**2014**	**Q1-A**	**Q2**	**Q3**	**Q4**	**2015**	**2016E**
Cash Flow Statement																
Operating cash flow																
Net income (loss)	$(16,746)	$(10,634)	$(1,170)	$(12,979)	$(41,529)	$(1,552)	$15,307	$12,555	$(49,780)	$(23,470)	$25,256	$21,631	$22,773	$24,539	$94,199	$109,083
Depreciation	4,446	4,758	4,730	5,241	19,175	6,869	5,025	4,734	4,991	21,619	4,766	4,934	5,104	5,268	20,072	22,777
Amortization	9,834	9,830	9,823	9,811	39,298	7,502	6,238	9,597	9,587	32,924	9,478					
Debt issuance/extinguishment	1,334	1,366	1,330	3,043	7,073	2,944	900	974	47,632	52,450					-	-
Stock-based compensation	355	364	134	1,566	2,419	531	893	881	1,065	3,370	707	1,161	1,145	1,385	4,398	5,717
Foreign currency adjustments	1,735	665	(1,402)	(589)	409	(2,328)	(2,613)	(5,756)	3,307	(7,390)	(2,389)	-	-	-	(2,389)	-
Other	267	(339)	(641)	4,913	4,200	1,088	(4,518)	1,641	8,256	6,467	5,406				5,406	-
Changes in working capital					-					-		2,228	3,789	3,990	10,007	7,722
Restricted cash	(298)	(289)	146	918	477	-	(6)	26	11	31						
A/R & unbilled services	(22,163)	4,536	(3,168)	18,258	(2,537)	12,176	(46,321)	22,772	(12,886)	(24,259)	(28,001)	-	-	-	(28,001)	-
Other	(3,229)	908	3,214	794	1,687	2,743	(3,109)	(1,749)	3,335	1,220	2,683	-	-	-	2,683	-
Current liabilities	6,759	3,065	2,887	(6,113)	6,598	1,237	77,390	(8,743)	(1,399)	68,485	25,725	-	-	-	25,725	-
Total operating cash flow	**(17,706)**	**14,230**	**15,883**	**24,863**	**37,270**	**31,210**	**49,186**	**36,932**	**14,119**	**131,447**	**43,631**	**29,954**	**32,812**	**35,181**	**132,099**	**145,299**
Capital expenditures	(3,703)	(3,538)	(5,318)	(5,155)	(17,714)	(4,624)	(8,315)	(4,800)	(7,812)	(25,551)	(4,870)	(8,565)	(5,050)	(8,062)	(26,547)	(27,551)
Acquisitions/Divestitures	-	-	-	-	-	(2,302)	-	-	-	(2,302)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total investing cash flow	**(3,703)**	**(3,538)**	**(5,318)**	**(5,155)**	**(17,714)**	**(6,926)**	**(8,315)**	**(4,800)**	**(7,812)**	**(27,853)**	**(4,870)**	**(8,565)**	**(5,050)**	**(8,062)**	**(26,547)**	**(27,551)**
Net changes in debt	1,296	(3,418)	(890)	(980)	(3,992)	(6,266)	(800)	(842)	(206,887)	(214,795)	(1,262)	102,325	(1)	(1)	101,061	(4)
Net changes in equity	(112)	157	(550)	(1,078)	(1,583)	(125)	(132)	(48)	152,766	152,461	-	(150,000)	-	-	(150,000)	-
Payment of M&A contingent considerati	-	-	(1,266)	-	(1,266)	-	-	-	-	-	-					
Other	-	-	-	-	-	-	-	-	(5,364)	(5,364)	-	-	-	-	-	-
Total financing cash flow	**1,184**	**(3,261)**	**(2,706)**	**(2,058)**	**(6,841)**	**(6,391)**	**(932)**	**(890)**	**(59,485)**	**(67,698)**	**(1,262)**	**(47,675)**	**(1)**	**(1)**	**(48,939)**	**(4)**
FX impact	(728)	970	1,240	1,412	2,894	(706)	1,451	(988)	(6,172)	(6,415)	(7,603)	-	-	-	(7,603)	-
Net increase(decrease) in cash	(20,953)	8,401	9,099	19,062	15,609	17,187	41,390	30,254	(59,350)	29,481	29,896	(26,286)	27,761	27,118	49,010	117,744
Beginning cash	81,363	60,410	68,811	77,910	81,363	96,972	114,159	155,549	185,803	96,972	126,453	156,349	130,063	157,824	126,453	175,463
Ending cash	**60,410**	**68,811**	**77,910**	**96,972**	**96,972**	**114,159**	**155,549**	**185,803**	**126,453**	**126,453**	**156,349**	**130,063**	**157,824**	**184,941**	**175,463**	**293,207**

Source: Jefferies estimates, company data

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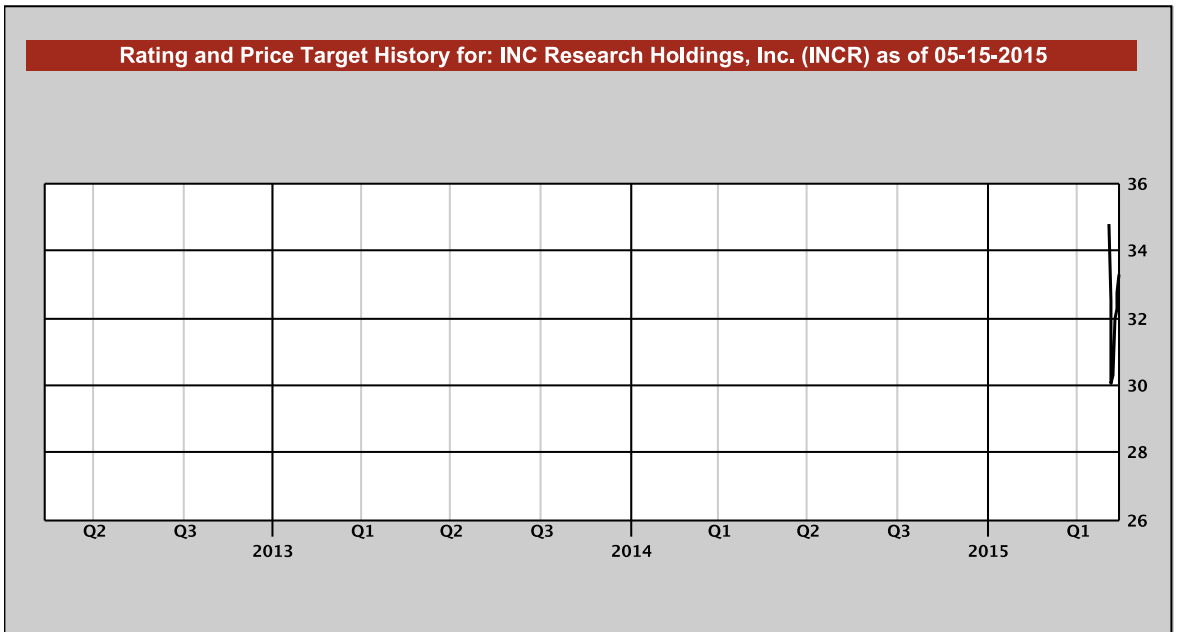
Other Companies Mentioned in This Report

- Astellas Pharma (4503 JP: ¥1,760, BUY)
- Bristol-Myers Squibb (BMY: $67.64, HOLD)
- Catalent, Inc. (CTLT: $30.43, BUY)
- Charles River Laboratories, Inc. (CRL: $70.54, BUY)
- GlaxoSmithKline Plc (GSK LN: p1,418.50, HOLD)
- ICON plc (ICLR: $66.26, BUY)
- Medidata Solutions, Inc (MDSO: $53.16, HOLD)
- Merck & Co. (MRK: $60.23, HOLD)
- Otsuka Holdings (4578 JP: ¥3,821, HOLD)
- PAREXEL International Corporation (PRXL: $66.48, HOLD)
- Pfizer, Inc. (PFE: $33.99, BUY)
- PRA Health Sciences (PRAH: $31.19, BUY)
- Quintiles Inc. (Q: $67.14, BUY)
- West Pharmaceutical Services, Inc. (WST: $54.20, HOLD)
- WuXi PharmaTech Inc. (WX: $43.34, HOLD)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1063	51.30%	289	27.19%
HOLD	839	40.49%	160	19.07%
UNDERPERFORM	170	8.20%	11	6.47%

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