

Equity Research

INC Research Holdings, Inc.

INCR: After Removal Of Two Overhangs, Raising Estimates

Outperform / V

Sector: Pharmaceutical Services

Overweight

Earnings Estimates Revised Up

	2014A	2015E	2016E		
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	\$0.11	\$0.41 A	0.28	\$0.41	0.35
Q2 (June)	0.26	0.35	0.29	0.42	0.36
Q3 (Sep.)	0.27	0.37	0.31	0.44	0.38
Q4 (Dec.)	0.25	0.39	0.33	0.46	0.40
FY	\$0.89	\$1.51	1.22	\$1.73	1.50
CY	\$0.89	\$1.51		\$1.73	
FY P/EPS	38.4x	22.6x		19.7x	
Rev.(MM)	\$810	\$892		\$985	

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.

• **What to do from here.** INCR reported its Q1 2015 numbers on 4/27. INCR reported a strong quarter, particularly on margin, and while some of that margin performance was one-time in nature, the underlying performance was also better than expected. The company raised its revenue guidance, despite a larger FX headwind, due in part to the Astellas contract being on more solid ground (management now believes the contract will become a full service contract, with similar profitability and size to the prior functional contract). The company is still ironing out final details of the master service agreement governing the relationship, but we think it is safe to say that the Astellas overhang has been removed. The secondary offering and related share repurchase also reduces the insider ownership overhang (the private equity holders would own just over 50% of equity after the transaction, vs. nearly 70% currently). Raising our 2015/2016E EPS to \$1.51/\$1.73 from \$1.22/\$1.50. Increasing our valuation range to \$40-43 from \$32-34.

• **Financial highlights.** INCR reported EPS of \$0.41 on revenue of \$212MM vs. consensus of \$0.28 on \$211MM. Net bookings were \$256MM (1.21 book-to-bill) vs. consensus of \$247MM (1.17 book-to-bill). The EPS beat was driven by margin performance, which was partially one-time in nature and partially solid underlying performance. Operating margin was 21.5% (or about 18.5% excluding non-recurring items) versus consensus of 15.3%.

• **Guidance highlights.** The company raised 2015 EPS guidance to \$1.40-1.52 from \$1.19-1.29 previously on revenue of \$880-905MM from \$870-900MM previously. The drivers of the \$0.22 EPS raise (at midpoint) are as follows: (1) \$0.06 from non-recurring items in Q1, (2) \$0.06 of Q1 operational outperformance, (3) \$0.05 of expected better performance in the remainder of the year, and (4) \$0.05 of accretion from debt refinancing. Guidance does not include the impact of share repurchases (which we think would put the EPS at the high end of guidance). INCR has repurchased \$150MM worth of shares from its private equity sponsors following the close of a new \$675MM credit agreement in Q2 2015 and a secondary offering.

Valuation Range: \$40.00 to \$43.00 from \$32.00 to \$34.00

Our valuation range is DCF-based (WACC = 8.0%; terminal NOPLAT growth = 2%) and represents 24x 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.

Ticker	INCR
Price (05/22/2015)	\$34.13
52-Week Range:	\$19-39
Shares Outstanding: (MM)	61.3
Market Cap.: (MM)	\$2,092.2
S&P 500:	2,128.48
Avg. Daily Vol.:	447,386
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$419.0
LT Debt/Total Cap.:	51.0%
ROE:	34.0%
3-5 Yr. Est. Growth Rate:	15.0%
CY 2015 Est. P/EPS-to-Growth:	1.5x
Last Reporting Date:	04/27/2015

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

Tim Evans, Senior Analyst

(212) 214-8010

tim.evans@wellsfargo.com

Please see page 5 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 05/22/15 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Together we'll go far



Exhibit 1. Variance Table

Report Date:

4/27/2015

FY ending December In MM except EPS	Actual		Est	Actual	Cons	Yr / Yr change	Seq change
	Q1 2014	Q4 2014	Q1 2015	Q1 2015	Q1 2015		
Total revenues	\$ 185	\$ 214	\$ 210	\$ 212	\$ 211	14.5%	(1.0%)
Cost of revenues	121	134	134	125		3.9%	(6.4%)
Gross profit	64	80	75	86		34.6%	7.9%
Selling, general & administrative	32	41	38	36		12.3%	(12.2%)
Depreciation	7	5	5	5		(30.6%)	(4.5%)
Operating income	25	34	33	46		80.7%	33.8%
Interest expense and other, net	16	11	5	5		(66.6%)	(52.5%)
Pretax income	9	23	27	40		333.3%	75.9%
Provision for income taxes	3	8	10	14		321.8%	71.2%
Income before equity in affiliate	6	14	\$ 18	\$ 26		340.1%	78.7%
Non-GAAP EPS	0.11	\$ 0.25	\$ 0.28	\$ 0.41	\$ 0.28	262.3%	66.5%
Non-GAAP EPS (company method)	0.12	\$ 0.26	\$ 0.28	\$ 0.42		250.6%	60.9%
Diluted shares outstanding	52	59	64	63			
EBITDA	\$ 32	\$ 39	\$ 38	\$ 50		56.9%	28.9%
MARGIN ANALYSIS							
Cost of revenue	65.4%	62.7%	64.1%	59.3%		(610) bps	(340) bps
Gross margin	34.6%	37.3%	35.9%	40.7%	36.0%	610 bps	340 bps
SG&A / revenue	17.3%	19.1%	18.0%	16.9%		(30) bps	(210) bps
Depreciation / revenue	3.7%	2.3%	2.3%	2.3%		(150) bps	(10) bps
Operating margin	13.6%	15.9%	15.6%	21.5%	15.3%	790 bps	560 bps
Pretax margin	5.0%	10.7%	13.1%	19.0%		1400 bps	830 bps
Tax rate	36.9%	36.9%	36.0%	36.0%		(100) bps	(100) bps
Net margin	3.2%	6.7%	8.4%	12.2%		900 bps	540 bps
EBITDA margin	17.4%	18.2%	17.9%	23.8%		640 bps	550 bps
REVENUE ANALYSIS							
Total revenues	\$ 185	\$ 214	\$ 210	\$ 212	\$ 211	14.5%	-1.0%
Growth: core	22.6%	24.9%	18.3%	19.2%			
Growth: FX	0.6%	(2.7%)	(5.1%)	(4.9%)			
Growth: acquisitions	0.1%	0.4%	0.3%	0.3%			
Growth: total	23.3%	22.6%	13.6%	14.5%			
Beginning backlog	\$ 1,491	\$ 1,506	\$ 1,589	\$ 1,589			
Revenue	(185)	(214)	(210)	(212)			
Net bookings	281	316	252	256	247	-9.0%	-19.2%
Other adjustments	7	(20)	(16)	(38)			
Ending backlog	\$ 1,594	\$ 1,589	\$ 1,615	1595	1,610		
Net book-to-bill	1.52	1.48	1.20	1.21	1.17		
Backlog burn rate	12.4%	14.2%	13.2%	13.3%			

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
Consolidated Revenue (MM)							
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
Non-GAAP EPS							
2/24/2015					\$1.19-1.29		
4/27/2015					\$1.40-1.52		Does not include share repos
Adjusted EBITDA (MM) or EBITDA margin							
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		
Gross margin							
4/27/2015			36-38% for Q2-Q4				
Adj. Net Income (MM)							
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		

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

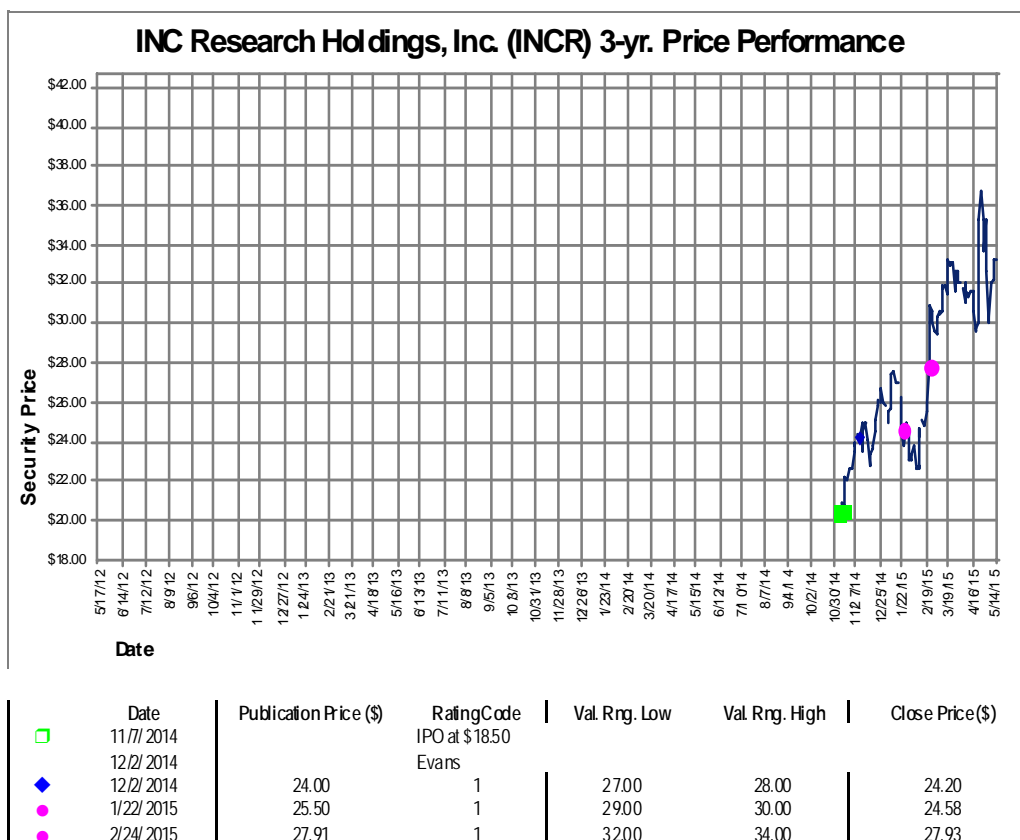
INCOME STATEMENT	2011	2012	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2E	Q3E	Q4E	2015E	2016E	2017E
Total revenues	\$ 437	\$ 579	\$ 652	\$ 185	\$ 204	\$ 208	\$ 214	\$ 810	\$ 212	\$ 219	\$ 225	\$ 237	\$ 892	\$ 985	\$ 1,089
Cost of revenues	280	389	432	121	131	130	134	515	125	139	143	150	558	623	686
Gross profit	157	190	220	64	73	78	80	295	86	80	82	86	334	362	403
Selling, general & administrative	95	110	117	32	34	38	41	144	36	39	40	42	157	172	188
Depreciation	16	20	19	7	5	5	5	22	5	5	5	5	20	22	27
Operating income	47	60	84	25	34	36	34	129	46	36	37	39	158	168	188
Interest expense and other, net	54	57	60	16	13	13	11	53	5	5	4	4	18	14	13
Pretax income	(7)	3	23	9	21	23	23	76	40	31	33	35	140	153	175
Provision for income taxes	(3)	1	9	3	8	8	8	28	14	11	12	13	50	52	56
Net income	\$ (4)	\$ 2	\$ 15	\$ 6	\$ 13	\$ 14	\$ 14	\$ 48	\$ 26	\$ 20	\$ 21	\$ 23	\$ 90	\$ 101	\$ 119
Non-GAAP EPS	\$ (0.10)	\$ 0.04	\$ 0.28	\$ 0.11	\$ 0.26	\$ 0.27	\$ 0.25	\$ 0.89	\$ 0.41	\$ 0.35	\$ 0.37	\$ 0.39	\$ 1.51	\$ 1.73	\$ 2.02
Non-GAAP EPS (company method)	\$ (0.08)	\$ 0.05	\$ 0.31	\$ 0.12	\$ 0.27	\$ 0.28	\$ 0.26	\$ 0.93	\$ 0.42	\$ 0.36	\$ 0.38	\$ 0.40	\$ 1.56	\$ 1.78	\$ 2.06
Diluted shares outstanding	43.9	52.2	52.0	51.9	52.2	52.5	58.8	53.9	63.1	58.1	58.2	58.2	59.4	58.5	58.9
EBITDA	\$ 63	\$ 80	\$ 103	\$ 32	\$ 39	\$ 40	\$ 39	\$ 151	\$ 50	\$ 41	\$ 42	\$ 44	\$ 178	\$ 190	\$ 215
MARGIN ANALYSIS															
Cost of revenue	64.0%	67.2%	66.3%	65.4%	64.3%	62.4%	62.7%	63.6%	59.3%	63.5%	63.5%	63.5%	62.5%	63.2%	63.0%
Gross margin	36.0%	32.8%	33.7%	34.6%	35.7%	37.6%	37.3%	36.4%	40.7%	36.5%	36.5%	36.5%	37.5%	36.8%	37.0%
SG&A / revenue	21.6%	18.9%	17.9%	17.3%	16.5%	18.2%	19.1%	17.8%	16.9%	17.9%	17.8%	17.7%	17.6%	17.4%	17.3%
Depreciation / revenue	3.6%	3.4%	2.9%	3.7%	2.5%	2.3%	2.3%	2.7%	2.3%	2.1%	2.2%	2.2%	2.2%	2.3%	2.5%
Operating margin	10.7%	10.4%	12.9%	13.6%	16.8%	17.2%	15.9%	15.9%	21.5%	16.5%	16.5%	16.6%	17.7%	17.1%	17.2%
Pretax margin	(1.6%)	0.5%	3.6%	5.0%	10.5%	11.0%	10.7%	9.4%	19.0%	14.4%	14.8%	15.0%	15.7%	15.6%	16.0%
Tax rate	37.0%	37.5%	36.9%	36.9%	37.0%	37.0%	36.9%	37.0%	36.0%	36.0%	36.0%	36.0%	36.0%	34.0%	32.0%
Net margin	(1.0%)	0.3%	2.3%	3.2%	6.6%	6.9%	6.7%	5.9%	12.2%	9.2%	9.5%	9.6%	10.1%	10.3%	10.9%
EBITDA margin	14.3%	13.9%	15.8%	17.4%	19.2%	19.5%	18.2%	18.6%	23.8%	18.6%	18.7%	18.8%	19.9%	19.3%	19.7%
CHANGE ANALYSIS (Y/Y)															
Total revenues		32.5%	12.7%	23.3%	27.9%	22.9%	22.6%	24.1%	14.5%	7.4%	8.5%	10.7%	10.2%	10.4%	10.6%
Cost of revenue		39.0%	11.1%	15.3%	22.8%	19.0%	19.5%	19.2%	3.9%	6.1%	10.5%	12.1%	8.2%	11.7%	10.1%
Gross profit		20.9%	15.8%	42.2%	38.0%	29.9%	28.1%	33.8%	34.6%	9.6%	5.2%	8.2%	13.5%	8.3%	11.3%
SG&A		16.0%	6.7%	16.8%	18.7%	37.7%	19.9%	23.1%	12.3%	16.4%	6.2%	2.7%	8.9%	9.5%	9.6%
Depreciation		26.8%	(3.7%)	54.5%	5.6%	0.1%	(4.8%)	12.7%	(30.6%)	(8.5%)	4.4%	5.1%	(9.6%)	13.7%	20.5%
Operating income		28.9%	38.8%	90.5%	73.8%	27.3%	47.6%	53.7%	80.7%	5.6%	4.2%	15.4%	22.4%	6.3%	11.8%
Pretax income		NA	646.4%	NA	337.9%	71.8%	231.0%	225.2%	333.3%	47.6%	46.3%	55.1%	84.2%	9.3%	13.7%
Net income		NA	654.1%	NA	337.7%	71.9%	230.1%	224.9%	340.1%	50.0%	48.6%	57.5%	87.2%	12.6%	17.2%
EPS		NA	657.1%	NA	336.8%	70.3%	192.0%	213.9%	262.3%	34.7%	34.2%	59.1%	69.7%	14.4%	16.4%
Diluted shares outstanding		19.1%	(0.4%)	(0.1%)	0.2%	0.9%	13.0%	3.5%	21.5%	11.4%	10.7%	(1.0%)	10.3%	(1.6%)	0.7%
EBITDA		28.4%	28.3%	81.4%	60.5%	23.4%	37.9%	46.1%	56.9%	3.8%	4.2%	14.0%	17.9%	7.1%	12.8%
REVENUE ANALYSIS															
Total revenue	\$ 437	\$ 579	\$ 652	\$ 185	\$ 204	\$ 208	\$ 214	\$ 810	\$ 212	\$ 219	\$ 225	\$ 237	\$ 892	\$ 985	\$ 1,089
Growth: core		4.3%	12.3%	22.6%	26.2%	22.7%	24.9%	24.1%	19.2%	13.4%	13.6%	14.1%	15.0%	10.6%	10.6%
Growth: FX		(2.2%)	0.4%	0.6%	1.2%	(0.2%)	(2.7%)	(0.4%)	(4.9%)	(6.0%)	(5.2%)	(3.4%)	(4.9%)	(0.2%)	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%	7.4%	8.5%	10.7%	10.2%	10.4%	10.6%
Beginning backlog		\$ 1,222	\$ 1,321	\$ 1,491	\$ 1,594	\$ 1,493	\$ 1,506	\$ 1,491	\$ 1,589	\$ 1,595	\$ 1,610	\$ 1,666	\$ 1,589	\$ 1,725	\$ 1,922
Revenue		(579)	(652)	(185)	(204)	(208)	(214)	(810)	(212)	(219)	(225)	(237)	(892)	(985)	(1,089)
Net bookings		676	814	281	103	249	316	950	256	240	282	296	1,073	1,182	1,307
Other adjustments		2	9	7	(1)	(28)	(20)	(42)	(38)	(7)	-	-	(45)	-	-
Ending backlog	\$ 1,222	\$ 1,321	\$ 1,491	\$ 1,594	\$ 1,493	\$ 1,506	\$ 1,589	\$ 1,589	\$ 1,595	\$ 1,610	\$ 1,666	\$ 1,725	\$ 1,725	\$ 1,922	\$ 2,140
Net book-to-bill		1.17	1.25	1.52	0.51	1.20	1.48	1.17	1.21	1.10	1.25	1.25	1.20	1.20	1.20
Backlog burn rate		47.4%	49.4%	12.4%	12.8%	13.9%	14.2%	54.3%	13.3%	13.7%	14.0%	14.2%	56.1%	57.1%	56.7%
OTHER															
Cash and equivalents		\$ 81	\$ 97	\$ 114	\$ 156	\$ 186	\$ 126	\$ 126	\$ 156	\$ 93	\$ 129	\$ 128	\$ 128	\$ 227	\$ 313
Total debt		594	594	590	589	588	420	420	419	519	514	508	508	479	441
Net cash (debt)		\$ (513)	\$ (498)	\$ (475)	\$ (433)	\$ (403)	\$ (294)	\$ (294)	\$ (263)	\$ (427)	\$ (385)	\$ (380)	\$ (380)	\$ (252)	\$ (129)
Debt to TTM EBITDA		0.0x	4.8x	4.0x	3.3x	2.9x	1.9x	1.9x	1.6x	2.5x	2.2x	2.1x	2.1x	1.3x	0.6x
Cash flow from operations		\$ 43	\$ 37	\$ 31	\$ 49	\$ 37	\$ 14	\$ 131	\$ 44	\$ (6)	\$ 50	\$ 13	\$ 101	\$ 159	\$ 155
Capital expenditures		(10)	(18)	(5)	(8)	(5)	(8)	(26)	(5)	(8)	(8)	(8)	(28)	(29)	(30)
Free cash flow		\$ 33	\$ 20	\$ 27	\$ 41	\$ 32	\$ 6	\$ 106	\$ 39	\$ (14)	\$ 42	\$ 5	\$ 73	\$ 130	\$ 125
Headcount (actual)		4,890	4,850			5,500	5,600	5,600	5,805	6,020	6,235	6,450	6,450	7,300	8,100
Book value per share		\$ 6	\$ 5	\$ 5	\$ 6	\$ 6	\$ 7	\$ 7	\$ 6	\$ 5	\$ 5	\$ 6	\$ 5	\$ 7	\$ 9
Tangible book value per share		\$ (10)	\$ (10)	\$ (10)	\$ (9)	\$ (9)	\$ (6)	\$ (7)	\$ (5)	\$ (8)	\$ (7)	\$ (7)	\$ (6)	\$ (4)	\$ (2)

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



Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
 ▼ Rating Downgrade
 ▲ Rating Upgrade
 ◆ Valuation Range Change

◆ Initiation, Resumption, Drop or Suspend
 ■ Analyst Change
 □ Split Adjustment

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

Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC maintains a market in the common stock of INC Research Holdings, Inc.
- Wells Fargo Securities, LLC or its affiliates managed or comanaged a public offering of securities for INC Research Holdings, Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from INC Research Holdings, Inc.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from INC Research Holdings, Inc. in the past 12 months.
- INC Research Holdings, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to INC Research Holdings, Inc.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from an affiliate of INC Research Holdings, Inc.

INCR: 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.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

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

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: May 22, 2015

44% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

Wells Fargo Securities, LLC has provided investment banking services for 44% of its Equity Research Outperform-rated companies.

55% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

Wells Fargo Securities, LLC has provided investment banking services for 31% of its Equity Research Market Perform-rated companies.

2% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.

Wells Fargo Securities, LLC has provided investment banking services for 29% of its Equity Research Underperform-rated companies.

Important Disclosure for International Clients

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (“the Act”), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF).

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited (“WFSAL”), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission of Hong Kong (“the SFC”) to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong), “the SFO”). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the SFC. Professional investors who receive this report should direct any queries regarding its contents to Mark Jones at WFSAL (email: wfsalresearch@wellsfargo.com).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody’s Investors Services Inc., Standard & Poor’s Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies’ websites.

About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Institutional Securities, LLC, a member of FINRA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Conduct Authority’s rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2015 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE
