

INC Research, Inc (INCR)

SMALL & MID CAP RESEARCH

Initiating with an Outperform Rating and a \$29 Target Price



Rating	OUTPERFORM* [V]
Price (28 Nov 14, US\$)	24.39
Target price (US\$)	29.00 ¹
52-week price range	24.39 - 20.49
Market cap. (US\$ m)	1,493.50
Enterprise value (US\$ m)	1,817.57

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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■ **Bottom Line:** We are initiating coverage of INC Research (INCR) with an Outperform rating and a \$29 target price. INCR is a global clinical contract research organization (CRO) that provides outsourced services to support all stages of the clinical development process for biopharmaceutical manufacturers. We remain positively disposed to the fundamental backdrop for the clinical CROs and believe that INCR is well positioned to take advantage of the favorable environment. Shares have performed well following the company's November 2014 IPO, however we remain comfortable that the company can sustain its momentum, driving above-average earnings growth. Our \$29 PT assumes shares can trade at 20 times our F16 EPS estimate.

■ **Estimates & Price Target:** We are introducing our 2014, 2015, and 2016 EPS estimates of \$0.77, \$1.20, and \$1.45, respectively. Our price target of \$29 implies shares can trade at 20 times our F16 EPS or ~11.7 times F16 EV/EBITDA.

■ **For a copy of our full slide deck initiation report click [here](#).**

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	0.24	0.77	1.20	1.45
Prev. EPS (US\$)	—	—	—	—
P/E (x)	100.9	31.6	20.4	16.8
P/E rel. (%)	533.8	180.0	127.4	117.4
Revenue (US\$ m)	648.4	792.8	875.3	967.2
EBITDA (US\$ m)	101.5	141.8	162.3	183.7
OCFPS (US\$)	0.71	1.76	1.82	2.32
P/OCF (x)	—	13.8	13.4	10.5
EV/EBITDA (current)	19.6	12.8	10.7	8.8
Net debt (US\$ m)	495	324	239	117
ROIC (%)	6.75	10.23	12.64	15.55
Number of shares (m)	61.23	IC (current, US\$ m)		771.15
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 28-Nov-2014)

Astellas Pharma (4503.T, ¥1,707)
Charles River Laboratories International Inc. (CRL.N, \$64.75)
Covance, Inc. (CVD.N, \$102.62)
ICON plc (ICLR.OQ, \$55.54)
INC Research, Inc (INCR.OQ, \$24.39, OUTPERFORM[V], TP \$29.0)
Lab Corporation of America (LH.N, \$104.64)
Medidata Solutions Inc (MDSO.OQ, \$42.71)
Otsuka Holdings (4578.T, ¥3,752)
PAREXEL International Corp. (PRXL.OQ, \$58.51)
PRA Health Sciences, Inc. (PRAH.OQ, \$21.84)
Quintiles Transnational Holdings, Inc. (Q.N, \$57.82)

Disclosure Appendix

Important Global Disclosures

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

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

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Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

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Underperform/Sell*	14%	(44% banking clients)
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Price Target: (12 months) for INC Research, Inc (INCR.OQ)

Method: We arrived at our \$29 target price for INC Research using an equal weighting of P/E & EV/EBITDA valuation. Our price to earnings valuation yields a price target of \$29 applying a multiple of 20x our F16 EPS estimate of \$1.45. Our EV/EBITDA analysis applies a roughly 11.7x multiple to our F16 EBITDA of \$183.7M. Our target valuation multiples are roughly in-line with target multiples at industry-leading clinical peers in light of slightly smaller scale & shorter public history balanced by a healthy growth outlook at the high end of industry growth rates. In valuing the contract research organization (CRO) stocks and INC Research, we primarily utilize P/E & EV/EBITDA multiples to assess the risk/reward profile of the individual stocks and the group as a whole since multiples provide both a historical and relative perspective. We evaluate multiples relative to historic averages to ensure that the stocks are trading in-line with our assessment of how current fundamentals fit into historical context. Multiples relative to a benchmark or to other industry peers sheds light on competitive positioning and performance.

Risk: Risks to INC Research's achievement of our \$29 target price: 1) favorable biotech funding environment could moderate; 2) smaller revenue footprint and scale; 3) controlled company status & PE ownership could represent overhang; and 4) high expectations for CRO group. With the CROs trading at elevated valuations we would acknowledge that earnings disappointments could result in contraction in group valuation multiples. Similarly, strong biotech funding environment has been viewed as a tailwind and to the extent that moderates it could impact sentiment as well as pose a revenue headwind. Finally, with a smaller revenue footprint & scale INC could be exposed to greater volatility due to the cancellation of individual trials relative to peers which could in turn negatively impact sentiment.

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See the Companies Mentioned section for full company names

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