

Equity Research

PRA Health Sciences, Inc.

PRAH: Q2 2015 Earnings Full Analysis

Outperform / V

Sector: Pharmaceutical Services
Overweight

Earnings Estimates Revised Up

• **What to do from here.** What to do from here. PRAH reported an in-line revenue quarter, an EPS beat (due to margin), and strong bookings. The margin outperformance was primarily related to FX, but we believe results were still fundamentally strong. We point, in particular, to the 1.2 book-to-bill, which is stronger than we anticipated (typically PRAH would have a lower book-to-bill than competitors due to a conservative bookings policy in its very large functional business). Maintain Outperform. Raising our 2015/2016E EPS to \$1.70/2.02 from \$1.61/1.96 and raising our valuation range to \$44-46 from \$32-34.

• **Financial highlights.** PRAH reported Q2 EPS of \$0.44 (including stock comp). Excluding stock comp, EPS would have been \$0.47 compared to consensus of \$0.40 due to better-than-expected gross margin and lower SG&A costs. Operating margin improved 340bps YoY to 16.1% due primarily to a favorable FX impact on direct costs (330bps) and a slight decrease in SG&A costs attributed to more efficient cost management. Reported revenue was \$337MM, which was in line with estimates and included a 4% FX headwind. The net book-to-bill in the quarter was 1.21 versus our estimate of 1.18 due to stronger-than-expected gross bookings. Backlog conversion fell 30bps YoY to 15.4%.

• **Guidance highlights.** PRAH maintained its current 2015 revenue guidance of \$1.34-1.39B. The company increased the EPS guidance to \$1.75-1.85 from \$1.62-1.72 previously primarily based on current foreign exchange rates and some improvement in the underlying business.

Valuation Range: \$44.00 to \$46.00 from \$32.00 to \$34.00

Our valuation range is DCF-based (WACC = 8.5%; terminal NOPLAT growth = 2%) and represents 16.8x our 2016E 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) significant financial leverage; (5) integration risks, and (6) controlled company status.

Investment Thesis:

Between high-single digit revenue growth, ongoing margin expansion, and a reduction in interest expense, we believe the company will be able to generate solid 20%+ earnings growth for several years, which we believe is attractive growth at current valuation levels.

	2014A	2015E	2016E		
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	\$0.20	\$0.38 A	NC	\$0.48	0.46
Q2 (June)	0.32	0.44 A	0.38	0.50	0.48
Q3 (Sep.)	0.30	0.43	0.41	0.51	0.50
Q4 (Dec.)	0.31	0.45	0.44	0.53	0.52
FY	\$1.12	\$1.70	1.61	\$2.02	1.96
CY	\$1.12	\$1.70		\$2.02	
FY P/EPS	36.3x	23.9x		20.1x	
Rev.(MM)	\$1,267	\$1,372		\$1,500	

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 purchased intangibles and certain non-recurring items

Ticker	PRAH
Price (07/27/2015)	\$40.61
52-Week Range:	\$18-41
Shares Outstanding: (MM)	59.8
Market Cap.: (MM)	\$2,429.6
S&P 500:	2,067.64
Avg. Daily Vol.:	144,928
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$919.0
LT Debt/Total Cap.:	57.0%
ROE:	30.0%
3-5 Yr. Est. Growth Rate:	19.0%
CY 2015 Est. P/EPS-to-Growth:	1.3x
Last Reporting Date:	07/27/2015

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

Tim Evans, Senior Analyst

(212) 214-8010

tim.evans@wellsfargo.com

Please see page 6 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 07/27/15 unless otherwise stated.

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Together we'll go far



Exhibit 1. Variance Table

Report Date: 7/27/2015

Report Date:						7/27/2015		
FY ending December In MM except EPS	Actual		Est	Actual	Cons	Yr / Yr change	Seq change	Notes
	Q2 2014	Q1 2015	Q2 2015	Q2 2015	Q2 2015			
Total revenues	\$ 311	\$ 332	\$ 337	\$ 337	\$ 337	8.1%	1.4%	
Cost of revenues	213	219	224	220		2.9%	0.4%	
Gross profit	98	113	113	117		19.2%	3.3%	
Selling, general & administrative	54	59	59	58		7.4%	(1.9%)	
Depreciation	5	5	5	5		3.6%	(0.8%)	
Operating income	39	49	48	54		37.3%	9.9%	
Interest expense and other, net	19	14	13	14		(28.8%)	0.3%	
Pretax income	20	35	35	40		101.3%	13.7%	
Provision for income taxes	6	11	10	12		98.5%	13.4%	
Income before equity in affiliates	14	25	\$ 24	\$ 28		102.5%	13.8%	
Equity in earnings from JV	(0)	(1)	(1)	(1)		125.5%	(14.1%)	
Net income	14	24	\$ 24	\$ 27		101.9%	14.9%	
Non-GAAP EPS	\$ 0.34	\$ 0.38	\$ 0.38	\$ 0.44		29.1%	14.5%	
Non-GAAP EPS (company method)	\$ 0.36	\$ 0.41	\$ 0.40	\$ 0.47	\$ 0.40	29.7%	14.8%	
Diluted shares outstanding	40	63	63	63		56.3%	0.3%	
EBITDA	\$ 44	\$ 54	\$ 54	\$ 59		33.6%	8.9%	
MARGIN ANALYSIS								
Cost of revenue	68.5%	65.9%	66.5%	65.3%		(330) bps	(60) bps	*Decrease in costs as a % of service revenue primarily related to favorable FX impact.
Gross margin	31.5%	34.1%	33.5%	34.7%		330 bps	60 bps	
SG&A / revenue	17.3%	17.7%	17.6%	17.2%		(10) bps	(60) bps	
Depreciation / revenue	1.6%	1.5%	1.5%	1.5%		(10) bps	0 bps	
Operating margin	12.6%	14.8%	14.4%	16.1%		340 bps	120 bps	
Pretax margin	6.4%	10.7%	10.4%	12.0%		550 bps	130 bps	
Tax rate	30.4%	30.1%	30.0%	30.0%		(40) bps	(10) bps	
Net margin	4.5%	7.5%	7.3%	8.4%		390 bps	90 bps	
EBITDA margin	14.2%	16.4%	15.9%	17.6%		340 bps	120 bps	
REVENUE ANALYSIS								
Total revenues	\$ 311	\$ 332	\$ 337	\$ 337		8.1%	1.4%	
Growth: core	4.1%	9.6%	12.4%	12.1%				
Growth: FX	3.7%	(3.0%)	(4.3%)	(4.0%)				
Growth: acquisitions	65.7%	0.0%	0.0%	0.0%				
Growth: total	73.5%	6.6%	8.1%	8.1%				
BOOKINGS & BACKLOG								
Beginning backlog	\$ 1,987	\$ 2,141	\$ 2,185	\$ 2,185		10.0%	2.1%	
Revenue	(311)	(332)	(337)	(337)				
Gross bookings	424	444	451	462		9.1%	4.1%	
Cancellations	(52)	(46)	(55)	(55)				
Other adjustments	(3)	(22)	(9)	6				
Ending backlog	\$ 2,045	\$ 2,185	\$ 2,236	\$ 2,262		10.6%	3.5%	
Total net bookings	\$ 372	\$ 398	\$ 396	\$ 408		9.7%	2.5%	
Gross book-to-bill	1.36	1.34	1.34	1.37				
Net book-to-bill	1.19	1.20	1.18	1.21				
Backlog burn rate	15.7%	15.5%	15.4%	15.4%				

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

Exhibit 2. Estimate Changes

FY ending December In MM except EPS	2015E			2016E		
	Prior	Current	Change	Prior	Current	Change
Total revenues	\$ 1,365	\$ 1,372	0.5%	\$ 1,492	\$ 1,500	0.5%
Cost of revenues	906	899	(0.7%)	992	982	(1.0%)
Gross profit	459	473	2.9%	500	517	3.5%
Selling, general & administrative	239	239	(0.1%)	258	259	0.5%
Depreciation	21	21	(0.4%)	26	26	(0.8%)
Operating income	199	213	7.0%	216	232	7.6%
Interest expense and other, net	53	54	2.0%	47	48	3.3%
Pretax income	146	158	8.8%	169	184	8.8%
Provision for income taxes	44	48	8.8%	48	52	8.8%
Income before equity in affiliates	102	\$ 111	8.8%	121	\$ 132	8.8%
Equity in earnings from JV	(1)	(4)	299.4%	3	(3)	(200.0%)
Net income	101	\$ 107	6.1%	124	\$ 129	3.8%
Non-GAAP EPS	\$ 1.61	\$ 1.70		\$ 1.96	\$ 2.02	
Non-GAAP EPS (company method)	\$ 1.67	\$ 1.83		\$ 1.95	\$ 2.13	
Diluted shares outstanding	63	63		63	64	
EBITDA	\$ 220	\$ 234	6.3%	\$ 242	\$ 258	6.7%
MARGIN ANALYSIS						
Cost of revenue	66.4%	65.5%	(80) bps	66.5%	65.5%	(100) bps
Gross margin	33.6%	34.5%	80 bps	33.5%	34.5%	100 bps
SG&A / revenue	17.5%	17.4%	(10) bps	17.3%	17.3%	0 bps
Depreciation / revenue	1.5%	1.5%	0 bps	1.7%	1.7%	0 bps
Operating margin	14.6%	15.5%	90 bps	14.5%	15.5%	100 bps
Pretax margin	10.7%	11.5%	90 bps	11.3%	12.3%	90 bps
Tax rate	30.0%	30.0%	0 bps	28.5%	28.5%	0 bps
Net margin	7.5%	8.1%	60 bps	8.1%	8.8%	70 bps
EBITDA margin	16.1%	17.0%	90 bps	16.2%	17.2%	100 bps
REVENUE ANALYSIS						
Total revenues	\$ 1,365	\$ 1,372	0.5%	\$ 1,492	\$ 1,500	0.5%
Growth: core	11.1%	11.3%		9.5%	9.3%	
Growth: FX	(3.4%)	(3.0%)		(0.1%)	(0.0%)	
Growth: acquisitions	0.0%	0.0%		0.0%	0.0%	
Growth: total	7.8%	8.3%		9.3%	9.3%	
BOOKINGS & BACKLOG						
Beginning backlog	\$ 2,141	\$ 2,141	0.0%	\$ 2,367	\$ 2,379	0.5%
Revenue	(1,365)	(1,372)		(1,492)	(1,500)	
Gross bookings	1,835	1,842		2,014	2,025	
Cancellations	(214)	(215)		(285)	(286)	
Other adjustments	(31)	(17)		-	-	
Ending backlog	\$ 2,367	\$ 2,379	0.5%	\$ 2,604	\$ 2,618	0.5%
Total net bookings	\$ 1,621	\$ 1,627	0.4%	\$ 1,730	\$ 1,739	0.5%
Gross book-to-bill	1.34	1.34		1.35	1.35	
Net book-to-bill	1.19	1.19		1.16	1.16	
Backlog burn rate	63.7%	64.1%		63.0%	63.0%	

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

Exhibit 3. Guidance Table

Guidance	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	Notes
Consolidated Revenue (MM)						
2/19/2015					\$1,350-1,400	8-12% cc growth; Assumes first of January FX rates Assumes April FX rates (1.1 for Euro) Assumes July FX rates
5/6/2015					\$1,340-1,390	
7/27/2015					\$1,340-1,390	
Taxes (MM)						
2/19/2015					30%	
5/6/2015					30%	
7/27/2015					30%	
Adjusted EPS						
2/19/2015					\$1.35-1.45	Primarily due to current FX rates and some margin improvement
5/6/2015					\$1.62-1.72	
7/27/2015					\$1.75-1.85	

Source: Company data; Wells Fargo Securities, LLC

PRA Health Sciences Summary Data (FY Ending December)

In millions, except per share or where otherwise noted

INCOME STATEMENT	2011	2012	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3E	Q4E	2015E	2016E	2017E
Total revenue	\$ 548	\$ 597	\$ 833	\$ 311	\$ 311	\$ 320	\$ 324	\$ 1,267	\$ 332	\$ 337	\$ 348	\$ 355	\$ 1,372	\$ 1,500	\$ 1,627
Cost of revenues	321	359	527	215	213	216	215	859	219	220	228	232	899	982	1,066
Gross profit	226	239	306	96	98	104	109	407	113	117	120	122	473	517	561
Selling, general & administrative	135	154	201	58	54	59	60	230	59	58	61	61	239	259	278
Depreciation	13	15	18	6	5	6	5	22	5	5	5	6	21	26	27
Operating income	78	70	87	32	39	40	43	155	49	54	54	56	213	232	256
Interest expense and other, net	31	28	53	20	19	20	17	76	14	14	14	13	54	48	43
Pretax income	47	41	34	12	20	20	27	79	35	40	40	42	158	184	213
Provision for income taxes	15	16	24	4	7	7	9	27	11	12	12	13	48	52	61
Income before equity in affiliate	\$ 32	\$ 25	\$ 10	\$ 8	\$ 13	\$ 13	\$ 17	\$ 52	\$ 25	\$ 28	\$ 28	\$ 30	\$ 111	\$ 132	\$ 153
Equity in earnings from unconsolidated subsidiaries	—	—	(1)	(0)	(0)	(0)	(1)	(2)	(1)	(1)	(1)	(1)	(4)	(3)	—
Net income	\$ 32	\$ 25	\$ 9	\$ 8	\$ 13	\$ 12	\$ 16	\$ 50	\$ 24	\$ 27	\$ 27	\$ 29	\$ 107	\$ 129	\$ 153
Non-GAAP EPS	\$ 0.78	\$ 0.63	\$ 0.22	\$ 0.20	\$ 0.32	\$ 0.30	\$ 0.31	\$ 1.12	\$ 0.38	\$ 0.44	\$ 0.43	\$ 0.45	\$ 1.70	\$ 2.02	\$ 2.37
Non-GAAP EPS (company method)	\$ 0.84	\$ 0.80	\$ 0.63	\$ 0.22	\$ 0.34	\$ 0.34	\$ 0.35	\$ 1.26	\$ 0.41	\$ 0.47	\$ 0.46	\$ 0.48	\$ 1.83	\$ 2.13	\$ 2.43
Diluted shares outstanding	41	40	40	40	41	42	53	44	63	63	63	63	63	64	65
EBITDA	\$ 92	\$ 85	\$ 105	\$ 38	\$ 44	\$ 46	\$ 49	\$ 177	\$ 54	\$ 59	\$ 59	\$ 61	\$ 234	\$ 258	\$ 283
MARGIN ANALYSIS															
Cost of revenue	58.7%	60.1%	63.3%	69.1%	68.5%	67.4%	66.4%	67.8%	65.9%	65.3%	65.5%	65.5%	65.5%	65.5%	65.5%
Gross margin	41.3%	39.9%	36.7%	30.9%	31.5%	32.6%	33.6%	32.2%	34.1%	34.7%	34.5%	34.5%	34.5%	34.5%	34.5%
SG&A / revenue	24.6%	25.8%	24.1%	18.6%	17.3%	18.4%	18.5%	18.2%	17.7%	17.2%	17.5%	17.3%	17.4%	17.3%	17.1%
Depreciation / revenue	2.4%	2.5%	2.2%	1.9%	1.6%	1.9%	1.7%	1.8%	1.5%	1.5%	1.5%	1.6%	1.5%	1.7%	1.7%
Operating margin	14.3%	11.6%	10.5%	10.4%	12.6%	12.4%	13.4%	12.2%	14.8%	16.1%	15.5%	15.6%	15.5%	15.5%	15.7%
Pretax margin	8.6%	6.9%	4.1%	3.9%	6.4%	6.3%	8.2%	6.2%	10.7%	12.0%	11.6%	11.9%	11.5%	12.3%	13.1%
Tax rate	32.3%	39.4%	70.5%	33.7%	33.6%	35.3%	34.8%	34.4%	30.1%	30.0%	30.0%	30.0%	30.0%	28.5%	28.5%
Net margin	5.8%	4.2%	1.2%	2.6%	4.3%	4.1%	5.3%	4.1%	7.5%	8.4%	8.1%	8.3%	8.1%	8.8%	9.4%
EBITDA margin	16.7%	14.2%	12.6%	12.3%	14.2%	14.2%	15.1%	14.0%	16.4%	17.6%	17.0%	17.2%	17.0%	17.2%	17.4%
CHANGE ANALYSIS (Y/Y)															
Total revenues	21.4%	9.0%	39.5%	87.0%	73.5%	70.1%	8.4%	52.1%	6.6%	8.1%	8.9%	9.6%	8.3%	9.3%	8.5%
Cost of revenue	29.3%	11.6%	46.9%	114.8%	101.2%	86.7%	4.8%	63.1%	1.7%	2.9%	5.8%	8.2%	4.6%	9.3%	8.5%
Gross profit	11.7%	5.3%	28.3%	45.0%	33.6%	43.7%	16.1%	33.1%	17.7%	19.2%	15.2%	12.5%	16.0%	9.5%	8.5%
SG&A	15.9%	14.1%	30.4%	12.3%	29.4%	21.1%	1.4%	14.7%	1.7%	7.4%	3.8%	2.5%	3.8%	8.6%	7.2%
Depreciation	9.9%	13.6%	20.0%	42.3%	23.4%	34.7%	(1.3)%	23.0%	(13.0)%	3.6%	(11.0)%	1.8%	(5.2)%	21.1%	6.0%
Operating income	5.4%	(11.2)%	25.5%	204.7%	41.4%	101.7%	49.2%	77.5%	51.6%	37.3%	36.2%	27.7%	37.3%	9.3%	10.1%
Pretax income	15.9%	(12.6%)	(16.2%)	1263.3%	18.8%	156.5%	200.2%	128.9%	192.5%	101.3%	101.4%	59.3%	101.2%	16.3%	15.9%
Net income	51.5%	(21.8%)	(64.1%)	2910.2%	10.5%	NA	73.1%	455.1%	203.5%	111.7%	118.2%	75.8%	116.1%	20.1%	18.6%
EPS	47.8%	(19.9)%	(64.7)%					406.7%	94.6%	36.9%	45.1%	47.2%	51.2%	18.9%	17.2%
Diluted shares outstanding	2.5%	(2.4%)	1.6%					9.6%	55.9%	54.7%	50.4%	19.4%	43.0%	1.0%	1.3%
EBITDA	6.0%	(7.6)%	24.5%	159.2%	39.1%	89.3%	41.2%	68.1%	41.7%	33.6%	30.0%	24.8%	32.0%	10.4%	9.7%
REVENUE ANALYSIS															
Total revenues	\$ 548	\$ 597	\$ 833	\$ 311	\$ 311	\$ 320	\$ 324	\$ 1,267	\$ 332	\$ 337	\$ 348	\$ 355	\$ 1,372	\$ 1,500	\$ 1,627
Growth: core	19.1%	10.2%	15.2%	11.7%	4.1%	10.4%	8.3%	8.5%	9.6%	12.1%	12.0%	11.6%	11.3%	9.3%	8.5%
Growth: FX	2.3%	(1.2%)	(0.4%)	2.5%	3.7%	0.2%	(1.6)%	0.8%	(3.0)%	(4.0)%	(3.2)%	(2.0)%	(3.0)%	(0.0)%	0.0%
Growth: acquisitions	0.0%	0.0%	24.7%	72.8%	65.7%	59.5%	1.7%	42.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Growth: total	21.4%	9.0%	39.5%	87.0%	73.5%	70.1%	8.4%	52.1%	6.6%	8.1%	8.9%	9.6%	8.3%	9.3%	8.5%
BOOKINGS & BACKLOG															
Beginning backlog		\$ 1,314	\$ 1,383	\$ 1,940	\$ 1,987	\$ 2,045	\$ 2,091	\$ 1,940	\$ 2,141	\$ 2,185	\$ 2,262	\$ 2,320	\$ 2,141	\$ 2,379	\$ 2,618
Revenue		(597)	(833)	(311)	(311)	(320)	(324)	(1,267)	(332)	(337)	(348)	(355)	(1,372)	(1,500)	(1,627)
Gross bookings		948	998	423	424	442	457	1,745	444	462	463	472	1,842	2,025	2,196
Cancellations		(294)	(223)	(72)	(52)	(60)	(68)	(252)	(46)	(55)	(57)	(58)	(215)	(286)	(315)
Other adjustments		12	615	8	(3)	(15)	(15)	(26)	(22)	6	(1)	—	(17)	—	—
Ending backlog	\$ 1,314	\$ 1,383	\$ 1,940	\$ 1,987	\$ 2,045	\$ 2,091	\$ 2,141	\$ 2,141	\$ 2,185	\$ 2,262	\$ 2,320	2,379	\$ 2,379	\$ 2,618	\$ 2,873
Total net bookings		653.50	774	\$ 351	\$ 372	\$ 382	\$ 388	1,494	\$ 398	\$ 408	\$ 407	\$ 414	\$ 1,627	\$ 1,739	\$ 1,882
Gross book-to-bill		1.59	1.20	1.36	1.36	1.38	1.41	1.38	1.34	1.37	1.33	1.33	1.34	1.35	1.35
Net book-to-bill	1.09	0.93	1.13	1.19	1.19	1.19	1.20	1.18	1.20	1.21	1.17	1.17	1.19	1.16	1.16
Backlog burn rate		45.4%	60.2%	16.1%	15.7%	15.7%	15.5%	65.3%	15.5%	15.4%	15.4%	15.3%	64.1%	63.0%	62.1%
OTHER															
Cash and equivalents		\$ 109	\$ 72	\$ 58	\$ 58	\$ 49	\$ 85	\$ 85	\$ 64	\$ 61	\$ 90	\$ 104	\$ 104	\$ 125	\$ 168
Total debt		454	1,265	1,283	1,251	1,249	949	949	934	919	905	891	891	795	699
Net cash (debt)	\$ (345)	\$ (1,193)	\$ (1,225)	\$ (1,194)	\$ (1,200)	\$ (863)	\$ (863)	\$ (863)	\$ (870)	\$ (858)	\$ (815)	\$ (787)	\$ (787)	\$ (670)	\$ (531)
Debt to TTM EBITDA	4.1x	11.3x	9.5x	8.4x	7.4x	4.9x	4.9x	4.9x	4.5x	2.6x	3.7x	3.4x	3.4x	2.6x	1.9x
Cash flow from operations	\$ 99	\$ 25	\$ (40)	\$ 37	\$ 5	\$ 21	\$ 23	\$ 23	\$ 3	\$ 27	\$ 52	\$ 37	\$ 118	\$ 153	\$ 173
Capital expenditures	(18)	(20)	(6)	(6)	(7)	(8)	(8)	(27)	(8)	(9)	(8)	(8)	(33)	(32)	(30)
Free cash flow	\$ 81	\$ 6	\$ (46)	\$ 31	\$ (2)	\$ 13	\$ (5)	\$ (4)	\$ 17	\$ 44	\$ 29	\$ 29	\$ 85	\$ 121	\$ 143
Headcount (actual)			10,200	10,250	10,300	10,600	11,000	11,000	11,125	11,250	11,375	11,500	11,500	12,000	12,500
Book value per share	\$ 4	\$ 12	\$ 11	\$ 11	\$ 10	\$ 13	\$ 15	\$ 15	\$ 10	\$ 11	\$ 11	\$ 11	\$ 11	\$ 13	\$ 15
Tangible book value per share	\$ (11)	\$ (33)	\$ (33)	\$ (32)	\$ (30)	\$ (18)	\$ (22)	\$ (22)	\$ (15)	\$ (14)	\$ (14)	\$ (14)	\$ (14)	\$ (11)	\$ (9)

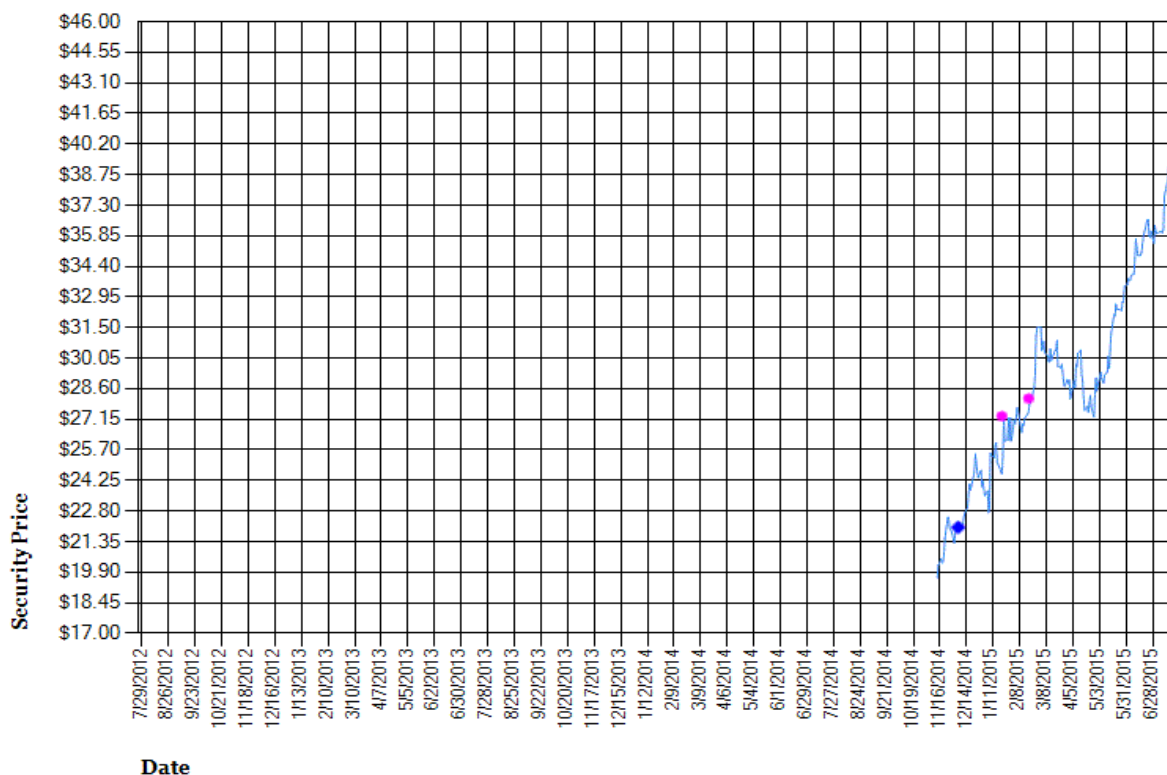
Source for all: Company reports and Wells Fargo Securities, LLC estimates

Company Description:

Raleigh, North Carolina-based PRA Health Sciences, Inc. (NASDAQ: PRAH) is a top-five clinical contract research organization by revenue. The company is a pure play in clinical (phase I-IV) development and is differentiated by a large footprint in non-programmatic outsourcing (e.g., functional outsourcing). It operates in one segment.

Required Disclosures

PRA Health Sciences, Inc. (PRAH) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
12/8/2014		Evans			
12/8/2014	22.06	1	25.00	26.00	21.92
1/22/2015	25.35	1	27.00	28.00	27.25
2/19/2015	28.04	1	32.00	34.00	28.04

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

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

Rating Code Key

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

Additional Information Available Upon Request

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PRA Health Sciences, Inc.

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PRAH: 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) significant financial leverage; (5) integration risks, and (6) controlled company status.

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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.

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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: July 27, 2015

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