

# PRA Health Sciences Inc

## Good Times Should Keep on Rolling

### A 'conservative' quarter coming up? Expecting EPS of \$0.43

The company is expected to report in late July/early August. For the quarter, we're expecting revenues of \$339 mil (Street \$337 mil) and EBITDA of \$56 mil (Street \$55 mil) and bookings of \$392 mil, which translates into a book to bill of 1.15. Altogether, this comes to an EPS of \$0.43 (Street \$0.40). Recall the company's guidance was 'conservative' in the view of management, which may lead to possibly greater upside, particularly in the EBITDA margins, which we expect to be 16.5%, which would be down 30 bps sequentially but up 190 bps y/y.

### Industry dynamics continue to favor diverse CROs

In our view, the positive customer demand dynamics should continue well into 2016. Indeed, the bellwether of the CRO industry recently commented of continued strong funding dynamics within the industry, with a greater amount allocated towards biotech/emerging pharma. More importantly, the funding from these companies has yet to be fully deployed, which sets up for a solid backdrop moving forward for the CRO industry. For PRAH in particular, the company has a significantly more diverse client base and is more geared towards biotech, which we think should bode well.

### Raising 2016E EPS to \$2.02 (was \$1.95) on strong industry dynamics

Alongside the strong industry dynamics, we believe the company will be able to expand margins slightly faster than our original expectations along with slightly higher sales, particularly with management characterizing current FY15 guidance as conservative. Additionally, recall mgmt indicated that the company currently has no major backlog conversion issues (in the context of other CROs seeing disruption tied to this), which we believe should bode well for continued revenue generation and margin expansion. We make no changes to FY15E but raise our FY16E EPS to \$2.02 from \$1.95.

### Valuation: Raise PT to \$41 (was \$35); Maintain Buy rating

With the strong industry dynamics and the possibility for greater margin expansion than expected, coupled with a more robust backlog and no visible backlog timing issues, we are raising our price target to \$41 (was \$35) based on 20x (was 18x) our CY16 EPS estimate of \$2.02 (was \$1.95). This equates to 13x EBITDA (was 12x).

## Equities

Americas  
Healthcare Providers

12-month rating **Buy**

12m price target **US\$41.00**  
*Prior: US\$35.00*

Price **US\$36.02**

RIC: PRAH.O BBG: PRAH US

### Trading data and key metrics

52-wk range	US\$36.62-0.00
Market cap.	US\$2.26bn
Shares o/s	62.7m (COM)
Free float	100%
Avg. daily volume ('000)	193
Avg. daily value (m)	US\$6.1
Common s/h equity (12/15E)	US\$0.65bn
P/BV (12/15E)	3.4x
Net debt / EBITDA (12/15E)	3.5x

### EPS (UBS, diluted) (US\$)

	12/15E			
	From	To	% ch	Cons.
Q1	0.41	0.41	0.00	0.41
Q2E	0.43	0.43	0.00	0.40
Q3E	0.42	0.42	0.00	0.42
Q4E	0.43	0.43	0.00	0.43
12/15E	1.69	1.69	0.00	1.67
12/16E	1.95	2.02	3.92	1.95
12/17E	2.20	2.27	3.07	2.20

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Highlights (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	597	833	1,267	1,369	1,478	1,581	1,690	1,801
EBIT (UBS)	81	113	162	200	224	243	266	291
Net earnings (UBS)	32	25	55	105	125	142	161	179
EPS (UBS, diluted) (US\$)	0.80	0.61	1.26	1.69	2.02	2.27	2.55	2.82
DPS (US\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(345)	(1,184)	(857)	(769)	(641)	(501)	(353)	(197)
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	13.6	13.5	12.8	14.6	15.2	15.4	15.8	16.1
ROIC (EBIT) %	-	-	10.4	13.9	16.7	19.2	22.4	25.9
EV/EBITDA (core) x	-	-	-	13.6	11.8	10.5	9.1	7.9
P/E (UBS, diluted) x	-	-	-	21.4	17.8	15.9	14.1	12.8
Equity FCF (UBS) yield %	-	-	-	4.6	6.0	6.5	6.8	7.2
Net dividend yield %	-	-	-	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$36.02 on 06 Jul 2015 16:12 EDT

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# Investment Thesis

## PRA Health Sciences Inc

### Investment case

PRA Health Sciences is a CRO focused primarily on the late-stage clinical trial market segment, with a niche therapeutic approach in both CNS and oncology (among others). Of great importance, PRA seems to have greater customer mix in the faster growing biotech and small- to mid-size pharma customer base, which should allow the company to consistently report top-line growth that is at least in line with overall industry growth. PRA derives ~40% of sales from biotech companies (one of the highest in the industry). PRAH's recent acquisitions should bolster the company's future prospects and we rate PRAH a Buy with a price target of \$41 based on a PE of 20x our 2016 EPS estimate of \$2.02.

### Upside scenario

In our upside scenario to our thesis, PRAH will sign a strategic partnership with a major top 10 pharmaceutical company. This contract along with growth in the market and better economics as the company streamlines acquisitions would warrant a higher PE multiple given the EPS growth from the contract. Applying a hypothetical 23x PE to an EPS of \$2.02 equates to a valuation of \$46/sh.

### Downside scenario

In the downside scenario to our thesis, the company could lose a strategic partner while seeing difficulties in the integration of the various acquisitions completed over the past few years. The integration issues could materialize in higher costs, which we estimate could result in a hypothetical lower 2016E EPS of \$1.66. On a slightly lower multiple of ~17x, this leads to a valuation of \$28/sh.

### Upcoming catalysts

August 2015 – 2Q15 Earnings Results

12-month rating

**Buy**

12m price target

**US\$41.00**

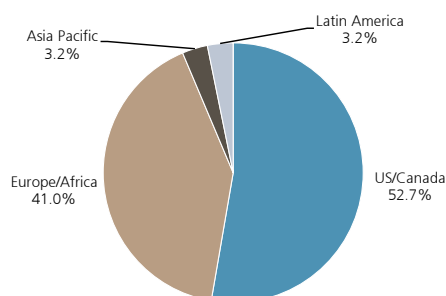
### Business description

PRA Health Sciences Inc. is a contract research organization. The company provides biopharmaceutical development services to pharmaceutical and biotechnology companies. The company has historically catered to smaller biotech and pharma companies. During 2013, PRAH acquired CRL Lifetree, ClinStar, and RPS. The acquisition of RPS greatly expanded the company's relationships with large pharma companies while providing a global presence to conduct clinical trials. The company IPOed in November 2014.

### Industry outlook

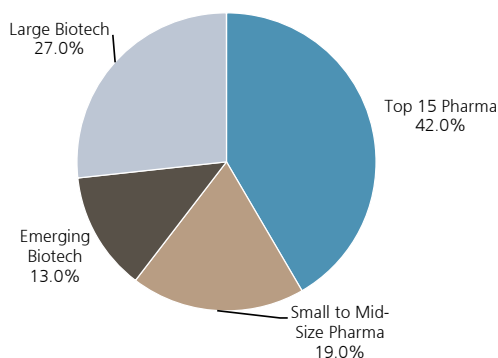
The CRO industry has been growing at a steady clip, primarily the result of significant growth in the phase II-IV market. However, we expect the early development market to have relatively flat growth through 2018. We expect the overall CRO industry to grow at a CAGR of ~6-7% through 2018, with CRO market penetration accelerating through the years. We expect the CRO market penetration to increase from ~42% in 2013 to ~52% in 2018. We expect the largest CROs to be the primary beneficiaries of increased outsourcing trends.

### Revenues by region (2014)



Source: Company documents

### Revenues by Customer Segment (2014)



Source: Company documents

Figure 1: PRA Health – 2015 Guidance Table

PRA Health: Company Guidance Table		
Guidance For Period: Date Announced:	FY15 2/18/2015	FY15 5/6/2015
Consolidated Services Revenues	\$1.35 - 1.40 bil	\$1.34 - 1.39 bil
Effective Tax Rate	30.0%	30.0%
Non-GAAP Diluted EPS	\$1.35 - 1.45	\$1.62 - 1.72
Non-GAAP EPS Y-O-Y Growth	+7 - 15%	+29 - 37%
GAAP Diluted EPS	\$0.60 - 0.65	\$0.70 - 0.80
FX	Assumes 1/1/15 rates	Assumes 4/1/15 rates
Note:		

Source: Company reports

Figure 2: PRA Health – Quarterly Revenue Model & Statistics (\$ mil)

PRAH - Quarterly Revenue Model (\$ mil)								
	PRAH 03/31/14 Actual	PRAH 06/30/14 Actual	PRAH 09/30/14 Actual	PRAH 12/31/14 Actual	PRAH 03/31/15 Actual	06/30/15 Projected	09/30/15 Projected	12/31/15 Projected
<b>Revenues:</b>								
Gross Revenues	\$354.7	\$357.5	\$377.3	\$370.0	\$388.6	\$389.7	\$411.3	\$399.6
Reimbursable Revenue	(43.4)	(46.1)	(57.3)	(46.2)	(56.6)	(50.3)	(63.6)	(49.7)
<b>Net Revenues</b>	<b>\$311.4</b>	<b>\$311.4</b>	<b>\$320.1</b>	<b>\$323.8</b>	<b>\$332.0</b>	<b>\$339.4</b>	<b>\$347.7</b>	<b>\$349.9</b>
Yr/Yr Growth	87.0%	73.5%	70.1%	8.4%	6.6%	9.0%	8.6%	8.1%
<b>Backlog:</b>								
Backlog	\$1,987	\$2,045	\$2,091	\$2,141	\$2,200	\$2,249	\$2,301	\$2,345
Yr/Yr Growth	39.8%	41.6%	42.7%	10.4%	10.7%	10.0%	10.0%	9.5%
Gross New business	\$422.8	\$423.8	\$442.0	\$456.8	\$444.3	\$466.2	\$486.2	\$502.5
Net New business	\$351.3	\$371.9	\$382.0	\$388.4	\$398.0	\$391.6	\$403.5	\$417.1
Net new business growth y-o-y	91.7%	86.6%	101.3%	92.4%	13.3%	5.3%	5.6%	7.4%
Net book-to-bill ratio	1.13	1.19	1.19	1.20	1.20	1.15	1.16	1.19
Cancellations	(\$71.5)	(\$51.9)	(\$60.0)	(\$68.4)	(\$46.3)	(\$74.6)	(\$82.7)	(\$85.4)
As a % of Beginning Backlog	3.7%	2.6%	2.9%	3.3%	2.2%	3.4%	3.7%	3.7%
Burn Rate	16.1%	15.7%	15.7%	15.5%	15.5%	15.4%	15.5%	15.2%
<b>Net revenue % by geographical area</b>								
US/Canada	57.5%	58.7%	56.0%	59.7%	60.8%	--	--	--
Europe/Africa	34.1%	33.1%	33.0%	31.8%	30.4%	--	--	--
Asia Pacific	3.9%	4.2%	5.0%	4.1%	4.1%	--	--	--
Latin America	4.5%	4.0%	6.0%	4.4%	4.7%	--	--	--
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	--	--	--
<b>Net revenue by geographical area</b>								
US/Canada	\$179.1	\$182.9	\$179.2	\$193.4	\$202.0	--	--	--
Europe/Africa	106.1	103.0	105.6	102.9	101.0	--	--	--
Asia Pacific	12.3	13.0	16.0	13.4	13.4	--	--	--
Latin America	13.9	12.5	19.2	14.1	15.5	--	--	--
<b>Total</b>	<b>\$311.4</b>	<b>\$311.4</b>	<b>\$320.1</b>	<b>\$323.8</b>	<b>\$332.0</b>	--	--	--

Source: Company documents; UBS estimates

Figure 3: PRA Health Sciences – Quarterly Income Statement (\$ mil)

PRAH - Quarterly Income Statement (\$ mil)								
Revenues	PRAH 03/31/14 Actual	PRAH 06/30/14 Actual	PRAH 09/30/14 Actual	PRAH 12/31/14 Actual	PRAH 03/31/15 Actual	06/30/15 Projected	09/30/15 Projected	12/31/15 Projected
<b>Total Revenue</b>	<b>\$311.4</b>	<b>\$311.4</b>	<b>\$320.1</b>	<b>\$323.8</b>	<b>\$332.0</b>	<b>\$339.4</b>	<b>\$347.7</b>	<b>\$349.9</b>
% change	87.0%	73.5%	70.1%	8.4%	6.6%	9.0%	8.6%	8.1%
<b>Expenses</b>								
COGS	215.2	213.4	215.7	214.9	219.0	225.4	230.2	230.9
% of revenue	69.1%	68.5%	67.4%	66.4%	66.0%	66.4%	66.2%	66.0%
Gross Profit (incl stock comp exp)	96.2	98.0	104.3	108.8	113.0	114.1	117.5	119.0
% of revenue	30.9%	31.5%	32.6%	33.6%	34.0%	33.6%	33.8%	34.0%
SG&A (incl stock comp exp)	60.8	56.0	63.4	61.8	60.8	60.1	64.7	64.7
% of revenue	19.5%	18.0%	19.8%	19.1%	18.3%	17.7%	18.6%	18.5%
Stock Comp (Addback to EBITDA)	(0.9)	(0.9)	(1.0)	(0.7)	(0.8)	(1.0)	(0.9)	(0.8)
Other Op Exp. (Addback to EBITDA)	(3.5)	(2.6)	(5.2)	(2.9)	(2.8)	(1.0)	(1.0)	(1.0)
<i>Adjusted EBITDA check line</i>	<i>39.7</i>	<i>45.5</i>	<i>47.0</i>	<i>50.6</i>	<i>55.7</i>			
<b>Adjusted EBITDA</b>	<b>39.7</b>	<b>45.5</b>	<b>47.0</b>	<b>50.6</b>	<b>55.7</b>	<b>56.0</b>	<b>54.8</b>	<b>56.0</b>
% of revenue	12.8%	14.6%	14.7%	15.6%	16.8%	16.5%	15.7%	16.0%
Depreciation (ex Deal Amortization)	5.9	4.9	4.5	5.4	5.1	5.6	5.7	5.8
% of revenue	1.9%	1.6%	1.4%	1.7%	1.5%	1.6%	1.6%	1.7%
Other expense exclude from net income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income	33.8	40.6	42.5	45.2	50.6	50.4	49.1	50.2
% of revenue	10.9%	13.0%	13.3%	14.0%	15.2%	14.8%	14.1%	14.4%
Interest Expense (Income), net	20.3	19.4	21.0	17.0	13.7	12.2	12.0	11.7
Other Expense (income), net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	13.5	21.2	21.5	28.2	36.9	38.2	37.1	38.6
% of revenue	4.3%	6.8%	6.7%	8.7%	11.1%	11.2%	10.7%	11.0%
Income Taxes	5.4	6.7	7.3	9.6	11.1	11.4	11.1	11.8
Tax Rate (%)	40.0%	31.6%	34.0%	34.0%	30.0%	30.0%	30.0%	30.5%
Minority Interest (Income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	8.1	14.5	14.2	18.6	25.8	26.7	26.0	26.8
% of revenue	2.6%	4.7%	4.4%	5.8%	7.8%	7.9%	7.5%	7.7%
	<i>\$0.20</i>	<i>\$0.36</i>	<i>\$0.34</i>	<i>\$0.35</i>	<i>\$0.41</i>			
<b>EPS - Fully Diluted</b>	<b>\$0.20</b>	<b>\$0.36</b>	<b>\$0.34</b>	<b>\$0.35</b>	<b>\$0.41</b>	<b>\$0.43</b>	<b>\$0.42</b>	<b>\$0.43</b>
% change	-6.5%	18.1%	-313.9%	37.7%	104.4%	20.2%	23.3%	23.0%
Fully Diluted Shares (mil.)	40.3	40.8	42.1	53.0	62.8	62.5	62.5	62.0
<b>P&amp;L Line Growth Comparison:</b>								
Revenues	87.0%	73.5%	70.1%	8.4%	6.6%	9.0%	8.6%	8.1%
COGS	114.8%	101.2%	86.7%	4.8%	1.8%	5.6%	6.7%	7.4%
Gross Profit (incl stock comp exp)	45.0%	33.6%	43.7%	16.1%	17.5%	16.3%	12.7%	9.3%
SG&A (incl stock comp exp)	15.4%	25.0%	25.0%	-4.0%	0.0%	7.3%	2.0%	4.8%
EBITDA	35.6%	37.6%	42.5%	43.6%	40.3%	23.1%	16.5%	10.7%
Depreciation and Amortization	42.3%	23.4%	1.3%	-1.3%	-13.0%	14.1%	26.6%	7.1%
Operating Income	34.5%	39.6%	48.9%	51.8%	49.6%	24.2%	15.4%	11.1%
Interest Expense	108.3%	75.8%	78.0%	-16.5%	-32.4%	-36.9%	-43.1%	-31.3%
Pretax Income	-12.3%	17.5%	28.4%	198.4%	173.2%	80.0%	72.6%	36.6%
Net Income	-10.4%	14.7%	-314.3%	79.8%	218.6%	84.2%	83.1%	43.8%
EPS	-6.5%	18.1%	-313.9%	37.7%	104.4%	20.2%	23.3%	23.0%
Shares Outstanding	-4.1%	-2.9%	0.2%	30.6%	55.9%	53.2%	48.6%	17.0%
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Source: Company documents; UBS estimates

Figure 4: PRA Health Sciences – Annual Revenue Model & Statistics (\$ mil)

PRAH - Annual Revenue Model								
	PRAH FY12 Actual	PRAH FY13 Actual	PRAH FY14 Actual	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
<b>Revenues:</b>								
Gross Revenues	\$699.7	\$991.3	\$1,459.6	\$1,589.2	\$1,714.7	\$1,834.7	\$1,959.5	\$2,088.8
Reimbursable Revenue	(102.7)	(158.4)	(193.0)	(220.1)	(236.9)	(253.4)	(269.9)	(287.5)
<b>Net Revenues</b>	<b>\$699.7</b>	<b>\$832.9</b>	<b>\$1,266.6</b>	<b>\$1,369.0</b>	<b>\$1,477.8</b>	<b>\$1,581.3</b>	<b>\$1,689.6</b>	<b>\$1,801.4</b>
Yr/Yr Growth	27.8%	19.0%	52.1%	8.1%	7.9%	7.0%	6.8%	6.6%
<b>Backlog:</b>								
Backlog	\$1,383	\$1,940	\$2,141	\$2,345	\$2,567	\$2,809	\$3,070	\$3,346
Yr/Yr Growth	5.2%	40.3%	10.4%	9.5%	9.5%	9.4%	9.3%	9.0%
Gross New business	\$947.8	\$997.7	\$1,745.4	\$1,899.2	\$2,043.5	\$2,196.8	\$2,350.5	\$2,503.3
Net New business	\$653.5	\$774.3	\$1,493.6	\$1,610.2	\$1,731.0	\$1,852.1	\$1,972.5	\$2,090.9
Net new business growth y-o-y	-11.3%	18.5%	92.9%	7.8%	7.5%	7.0%	6.5%	6.0%
Net book-to-bill ratio	0.93	0.93	1.18	1.18	1.17	1.17	1.17	1.16
Cancellations	\$294.3	\$223.4	\$251.8	\$289.0	\$312.5	\$344.6	\$378.0	\$412.4
As a % of Beginning Backlog	22.4%	16.2%	13.0%	13.5%	13.3%	13.4%	13.5%	13.4%
Burn Rate	11.4%	14.5%	15.7%	15.4%	15.8%	15.4%	15.0%	14.7%
<b>Net revenue % by geographical area</b>								
US/Canada	53.9%	52.7%	58.0%	--	--	--	--	--
Europe/Africa	40.8%	41.0%	33.0%	--	--	--	--	--
Asia Pacific	3.2%	3.2%	4.3%	--	--	--	--	--
Latin America	2.1%	3.2%	4.7%	--	--	--	--	--
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Net revenue by geographical area</b>								
US/Canada	\$321.7	\$438.9	\$734.6	--	--	--	--	--
Europe/Africa	243.8	341.1	417.7	--	--	--	--	--
Asia Pacific	19.3	26.4	54.7	--	--	--	--	--
Latin America	12.3	26.5	59.7	--	--	--	--	--
<b>Total</b>	<b>\$597.1</b>	<b>\$832.9</b>	<b>\$1,266.6</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>

Source: Company documents; UBS estimates

Figure 5: PRA Health Sciences – Annual Income Statement (\$ mil)

PRAH - Annual Income Statement (Millions)								
Revenues	PRAH FY12 Actual	PRAH FY13 Actual	PRAH FY14 Actual	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
<b>Total Revenue</b>	<b>\$597.1</b>	<b>\$832.9</b>	<b>\$1,266.6</b>	<b>\$1,369.0</b>	<b>\$1,477.8</b>	<b>\$1,581.3</b>	<b>\$1,689.6</b>	<b>\$1,801.4</b>
% change	9.0%	39.5%	52.1%	8.1%	7.9%	7.0%	6.8%	6.6%
<b>Expenses</b>								
COGS	358.6	526.9	859.2	905.5	976.9	1,046.8	1,120.2	1,194.3
% of revenue	60.1%	63.3%	67.8%	66.1%	66.1%	66.2%	66.3%	66.3%
Gross Profit (incl stock comp exp)	238.5	306.0	407.4	463.6	501.0	534.5	569.4	607.1
% of revenue	39.9%	36.7%	32.2%	33.9%	33.9%	33.8%	33.7%	33.7%
SG&A (incl stock comp exp)	160.6	212.6	242.1	250.3	263.1	276.7	288.9	302.6
% of revenue	26.9%	25.5%	19.1%	18.3%	17.8%	17.5%	17.1%	16.8%
Stock Comp (Addback to EBITDA)	(11.6)	(24.7)	(3.5)	(3.5)	(4.0)	(4.5)	(5.0)	(5.5)
Other Op Exp. (Addback to EBITDA)	(6.7)	(12.4)	(14.1)	(5.8)	(5.0)	(4.5)	(5.0)	(5.0)
<i>Adjusted EBITDA check line</i>	<i>96.2</i>	<i>130.6</i>	<i>182.8</i>					
<b>Adjusted EBITDA</b>	<b>96.2</b>	<b>130.6</b>	<b>182.8</b>	<b>222.5</b>	<b>246.9</b>	<b>266.8</b>	<b>290.5</b>	<b>314.9</b>
% of revenue	16.1%	15.7%	14.4%	16.3%	16.7%	16.9%	17.2%	17.5%
Depreciation (ex Deal Amortization)	15.0	18.1	20.7	22.2	23.0	23.5	24.0	24.4
% of revenue	2.5%	2.2%	1.6%	1.6%	1.6%	1.5%	1.4%	1.4%
Other expense exclude from net income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income	81.1	112.5	162.1	200.3	223.9	243.3	266.5	290.5
% of revenue	13.6%	13.5%	12.8%	14.6%	15.2%	15.4%	15.8%	16.1%
Interest Expense (Income), net	28.5	52.9	77.7	49.6	46.0	43.0	41.0	40.0
Other Expense (income), net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	52.6	59.6	84.4	150.7	177.9	200.3	225.5	250.5
% of revenue	8.8%	7.2%	6.7%	11.0%	12.0%	12.7%	13.3%	13.9%
Income Taxes	20.7	34.2	29.0	45.4	52.5	58.3	64.9	71.4
Tax Rate (%)	39.4%	57.3%	34.4%	30.1%	29.5%	29.1%	28.8%	28.5%
Minority Interest (Income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	31.9	25.4	55.4	105.3	125.4	142.0	160.5	179.1
% of revenue	5.3%	3.1%	4.4%	7.7%	8.5%	9.0%	9.5%	9.9%
<i>Reported EPS from Cont. Ops.</i>	<i>\$0.80</i>	<i>\$0.61</i>	<i>\$1.26</i>					
<b>EPS - Fully Diluted</b>	<b>\$0.80</b>	<b>\$0.61</b>	<b>\$1.26</b>	<b>\$1.69</b>	<b>\$2.02</b>	<b>\$2.27</b>	<b>\$2.55</b>	<b>\$2.82</b>
% change	-4.6%	-24.0%	107.4%	34.2%	20.0%	12.3%	12.2%	10.7%
Fully Diluted Shares (mil.)	40.0	42.0	44.1	62.4	62.0	62.5	63.0	63.5
<b>P&amp;L Line Growth Comparison:</b>								
Revenues	9.0%	39.5%	52.1%	8.1%	7.9%	7.0%	6.8%	6.6%
COGS	11.6%	46.9%	63.1%	5.4%	7.9%	7.2%	7.0%	6.6%
Gross Profit (incl stock comp exp)	5.3%	28.3%	33.1%	13.8%	8.1%	6.7%	6.5%	6.6%
SG&A (incl stock comp exp)	16.1%	32.3%	13.9%	3.4%	5.1%	5.2%	4.4%	4.7%
EBITDA	1.2%	35.8%	40.0%	21.7%	11.0%	8.0%	8.9%	8.4%
Depreciation and Amortization	13.6%	20.0%	14.8%	7.2%	3.5%	2.2%	2.1%	1.7%
Operating Income	-0.9%	38.7%	44.1%	23.5%	11.8%	8.6%	9.5%	9.0%
Interest Expense	-9.1%	85.6%	46.9%	-36.2%	-7.2%	-6.5%	-4.7%	-2.4%
Pretax Income	4.3%	13.3%	41.6%	78.5%	18.1%	12.5%	12.6%	11.1%
Net Income	-6.0%	-20.2%	117.9%	90.0%	19.1%	13.2%	13.1%	11.6%
EPS	-4.6%	-24.0%	107.4%	34.2%	20.0%	12.3%	12.2%	10.7%
Shares Outstanding	-1.5%	5.0%	5.1%	41.5%	-0.7%	0.8%	0.8%	0.8%
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Source: Company documents; UBS estimates

## PRA Health Sciences Inc (PRAH.O)

Income statement (US\$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
<b>Revenues</b>	<b>597</b>	<b>833</b>	<b>1,267</b>	<b>1,369</b>	<b>8.1</b>	<b>1,478</b>	<b>7.9</b>	<b>1,581</b>	<b>1,690</b>	<b>1,801</b>
Gross profit	239	306	407	464	13.8	501	8.1	534	569	607
<b>EBITDA (UBS)</b>	<b>96</b>	<b>131</b>	<b>183</b>	<b>223</b>	<b>21.7</b>	<b>247</b>	<b>11.0</b>	<b>267</b>	<b>290</b>	<b>315</b>
Depreciation & amortisation	(15)	(18)	(21)	(22)	7.2	(23)	3.5	(23)	(24)	(24)
<b>EBIT (UBS)</b>	<b>81</b>	<b>113</b>	<b>162</b>	<b>200</b>	<b>23.5</b>	<b>224</b>	<b>11.8</b>	<b>243</b>	<b>266</b>	<b>291</b>
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(28)	(53)	(78)	(50)	36.2	(46)	7.2	(43)	(41)	(40)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
<b>Profit before tax</b>	<b>53</b>	<b>60</b>	<b>84</b>	<b>151</b>	<b>78.5</b>	<b>178</b>	<b>18.1</b>	<b>200</b>	<b>225</b>	<b>251</b>
Tax	(21)	(34)	(29)	(45)	-56.5	(52)	-15.6	(58)	(65)	(71)
<b>Profit after tax</b>	<b>32</b>	<b>25</b>	<b>55</b>	<b>105</b>	<b>90.0</b>	<b>125</b>	<b>19.1</b>	<b>142</b>	<b>161</b>	<b>179</b>
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
<b>Net earnings (local GAAP)</b>	<b>32</b>	<b>25</b>	<b>55</b>	<b>105</b>	<b>90.0</b>	<b>125</b>	<b>19.1</b>	<b>142</b>	<b>161</b>	<b>179</b>
<b>Net earnings (UBS)</b>	<b>32</b>	<b>25</b>	<b>55</b>	<b>105</b>	<b>90.0</b>	<b>125</b>	<b>19.1</b>	<b>142</b>	<b>161</b>	<b>179</b>
Tax rate (%)	39.4	57.3	34.4	30.1	-12.3	29.5	-2.1	29.1	28.8	28.5
<b>Per share (US\$)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>% ch</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
EPS (UBS, diluted)	0.80	0.61	1.26	1.69	34.2	2.02	20.0	2.27	2.55	2.82
EPS (local GAAP, diluted)	0.80	0.61	1.26	1.69	34.2	2.02	20.0	2.27	2.55	2.82
EPS (UBS, basic)	0.80	0.61	1.26	1.69	34.2	2.02	20.0	2.27	2.55	2.82
Net DPS (US\$)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted)*	1.17	1.04	1.73	2.04	18.3	2.39	17.2	2.65	2.93	3.21
Book value per share	4.40	11.13	11.32	10.46	-7.6	11.30	8.0	12.20	13.27	14.63
Average shares (diluted)	40.00	42.00	44.12	62.44	41.5	62.00	-0.7	62.50	63.00	63.50
<b>Balance sheet (US\$m)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>% ch</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Cash and equivalents	-	81	92	90	-1.9	118	31.7	158	206	262
Other current assets	215	377	400	446	11.6	491	10.2	546	612	687
<b>Total current assets</b>	<b>-</b>	<b>458</b>	<b>491</b>	<b>536</b>	<b>9.0</b>	<b>609</b>	<b>13.8</b>	<b>705</b>	<b>818</b>	<b>949</b>
Net tangible fixed assets	650	1,875	1,707	1,603	-6.1	1,517	-5.3	1,430	1,343	1,255
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	8	62	42	38	-10.6	38	0.0	38	38	38
<b>Total assets</b>	<b>-</b>	<b>2,395</b>	<b>2,241</b>	<b>2,176</b>	<b>-2.9</b>	<b>2,164</b>	<b>-0.5</b>	<b>2,172</b>	<b>2,198</b>	<b>2,242</b>
Trade payables & other ST liabilities	303	450	466	514	10.5	555	8.0	601	653	705
Short term debt	3	19	0	0	-	0	-	0	0	0
<b>Total current liabilities</b>	<b>306</b>	<b>469</b>	<b>466</b>	<b>514</b>	<b>10.5</b>	<b>555</b>	<b>8.0</b>	<b>601</b>	<b>653</b>	<b>705</b>
Long term debt	451	1,246	949	859	-9.5	759	-11.6	659	559	459
Other long term liabilities	50	212	150	150	0.1	150	0.0	150	150	150
Preferred shares	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities (incl pref shares)</b>	<b>807</b>	<b>1,927</b>	<b>1,564</b>	<b>1,523</b>	<b>-2.6</b>	<b>1,464</b>	<b>-3.9</b>	<b>1,410</b>	<b>1,362</b>	<b>1,313</b>
Common s/h equity	176	467	677	653	-3.5	700	7.2	762	836	929
Minority interests	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities &amp; equity</b>	<b>983</b>	<b>2,395</b>	<b>2,241</b>	<b>2,176</b>	<b>-2.9</b>	<b>2,164</b>	<b>-0.5</b>	<b>2,172</b>	<b>2,198</b>	<b>2,242</b>
<b>Cash flow (US\$m)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>% ch</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Net income (before pref divs)	32	25	55	105	90.0	125	19.1	142	161	179
Depreciation & amortisation	15	18	21	22	7.2	23	3.5	24	24	24
Net change in working capital	47	58	(16)	(3)	82.1	15	-	12	5	(5)
Other operating	16	(31)	17	11	-35.8	10	-8.5	10	10	10
<b>Operating cash flow</b>	<b>110</b>	<b>70</b>	<b>77</b>	<b>136</b>	<b>75.6</b>	<b>173</b>	<b>27.9</b>	<b>187</b>	<b>200</b>	<b>209</b>
Tangible capital expenditure	(18)	(20)	(27)	(32)	-18.4	(37)	-14.3	(40)	(45)	(45)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	(1,115)	0	0	-	0	-	0	0	0
Other investing	0	(5)	15	0	-	0	-	0	0	0
<b>Investing cash flow</b>	<b>(18)</b>	<b>(1,140)</b>	<b>(12)</b>	<b>(32)</b>	<b>-164.0</b>	<b>(37)</b>	<b>-14.3</b>	<b>(40)</b>	<b>(45)</b>	<b>(45)</b>
Equity dividends paid	(102)	(132)	0	0	-	0	-	0	0	0
Share issues / (buybacks)	0	470	334	7	-97.9	10	42.6	10	10	10
Other financing	(2)	(59)	(7)	(1)	92.41	0	-	0	0	0
Change in debt & pref shares	61	798	(319)	(90)	71.77	(100)	-11.11	(100)	(100)	(100)
<b>Financing cash flow</b>	<b>(42)</b>	<b>1,078</b>	<b>8</b>	<b>(84)</b>	<b>-</b>	<b>(90)</b>	<b>-7.8</b>	<b>(90)</b>	<b>(90)</b>	<b>(90)</b>
<b>Cash flow inc/(dec) in cash</b>	<b>50</b>	<b>8</b>	<b>73</b>	<b>20</b>	<b>-73.1</b>	<b>46</b>	<b>135.3</b>	<b>57</b>	<b>65</b>	<b>74</b>
FX / non cash items	-	(36)	(63)	(21)	65.7	(18)	16.2	(17)	(17)	(17)
<b>Balance sheet inc/(dec) in cash</b>	<b>-</b>	<b>(28)</b>	<b>11</b>	<b>(2)</b>	<b>-</b>	<b>28</b>	<b>-</b>	<b>40</b>	<b>48</b>	<b>56</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.\*Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

## PRA Health Sciences Inc (PRAH.O)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	-	-	-	21.4	17.8	15.9	14.1	12.8
P/E (UBS, diluted)	-	-	-	21.4	17.8	15.9	14.1	12.8
P/CEPS	-	-	-	17.6	15.0	13.6	12.3	11.2
Equity FCF (UBS) yield %	-	-	-	4.6	6.0	6.5	6.8	7.2
Net dividend yield (%)	-	-	-	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	-	3.4	3.2	3.0	2.7	2.5
EV/revenues (core)	-	-	-	2.2	2.0	1.8	1.6	1.4
EV/EBITDA (core)	-	-	-	13.6	11.8	10.5	9.1	7.9
EV/EBIT (core)	-	-	-	15.1	13.1	11.5	9.9	8.6
EV/OpFCF (core)	-	-	-	17.8	15.6	13.8	12.1	10.3
EV/op. invested capital	-	-	-	2.1	2.2	2.2	2.2	2.2
<b>Enterprise value (US\$m)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Market cap.	-	-	-	2,258	2,258	2,258	2,258	2,258
Net debt (cash)	345	765	1,020	813	705	571	427	275
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
<b>Total enterprise value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,071</b>	<b>2,963</b>	<b>2,829</b>	<b>2,685</b>	<b>2,533</b>
Non core assets	(8)	(17)	(41)	(38)	(38)	(38)	(38)	(38)
<b>Core enterprise value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,034</b>	<b>2,926</b>	<b>2,792</b>	<b>2,648</b>	<b>2,496</b>
<b>Growth (%)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Revenue	9.0	39.5	52.1	8.1	7.9	7.0	6.8	6.6
EBITDA (UBS)	1.2	35.8	40.0	21.7	11.0	8.0	8.9	8.4
EBIT (UBS)	-0.9	38.7	44.1	23.5	11.8	8.6	9.5	9.0
EPS (UBS, diluted)	-4.6	-24.0	107.4	34.2	20.0	12.3	12.2	10.7
Net DPS	-	-	-	-	-	-	-	-
<b>Margins &amp; Profitability (%)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Gross profit margin	39.9	36.7	32.2	33.9	33.9	33.8	33.7	33.7
EBITDA margin	16.1	15.7	14.4	16.3	16.7	16.9	17.2	17.5
EBIT margin	13.6	13.5	12.8	14.6	15.2	15.4	15.8	16.1
Net earnings (UBS) margin	5.3	3.1	4.4	7.7	8.5	9.0	9.5	9.9
ROIC (EBIT)	-	-	10.4	13.9	16.7	19.2	22.4	25.9
ROIC post tax	-	2.9	6.8	9.7	11.7	13.6	16.0	18.5
ROE (UBS)	18.1	7.9	9.7	15.8	18.5	19.4	20.1	20.3
<b>Capital structure &amp; Coverage (x)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Net debt / EBITDA	3.6	9.1	4.7	3.5	2.6	1.9	1.2	0.6
Net debt / total equity %	196.2	253.3	126.6	117.7	91.5	65.7	42.2	21.2
Net debt / (net debt + total equity) %	66.2	71.7	55.9	54.1	47.8	39.6	29.7	17.5
Net debt/EV %	-	-	-	25.3	21.9	17.9	13.3	7.9
Capex / depreciation %	120.1	109.2	131.8	145.6	160.9	170.2	187.5	184.4
Capex / revenue %	3.0	2.4	2.2	2.4	2.5	2.5	2.7	2.5
EBIT / net interest	2.8	2.1	2.1	4.0	4.9	5.7	6.5	7.3
Dividend cover (UBS)	-	-	-	-	-	-	-	-
Div. payout ratio (UBS) %	-	-	-	-	-	-	-	-
<b>Revenues by division (US\$m)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Others	597	833	1,267	1,369	1,478	1,581	1,690	1,801
<b>Total</b>	<b>597</b>	<b>833</b>	<b>1,267</b>	<b>1,369</b>	<b>1,478</b>	<b>1,581</b>	<b>1,690</b>	<b>1,801</b>
<b>EBIT (UBS) by division (US\$m)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Others	81	113	162	200	224	243	266	291
<b>Total</b>	<b>81</b>	<b>113</b>	<b>162</b>	<b>200</b>	<b>224</b>	<b>243</b>	<b>266</b>	<b>291</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.



### Forecast returns

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Forecast price appreciation	+13.8%
Forecast dividend yield	0.0%
Forecast stock return	+13.8%
Market return assumption	5.6%
Forecast excess return	+8.2%

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### Statement of Risk

The primary risk factors for PRA Health include: 1) Risk of expansion / contraction of pharmaceutical and biotech drug company research and development budgets, particularly late-stage; 2) Risk of increase/decrease in the trend of pharmaceutical and biotechnology company outsourcing of drug research and development specifically with respect to late-stage development; 3) Risk of changes to government regulations required in the process of drug research and development; 4) Risk of a loss of any strategic partner relationships or the cancellation of a project. The company also bares financial risk in regards to contracts that may be mis-priced or otherwise overrun initial cost estimates.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS Securities LLC:** Steven Valiquette; Jonathan Yong.

## Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>PRA Health Sciences Inc</b> <sup>2, 4, 6, 16</sup>	PRAH.O	Buy (UR)	N/A	US\$35.95	02 Jul 2015

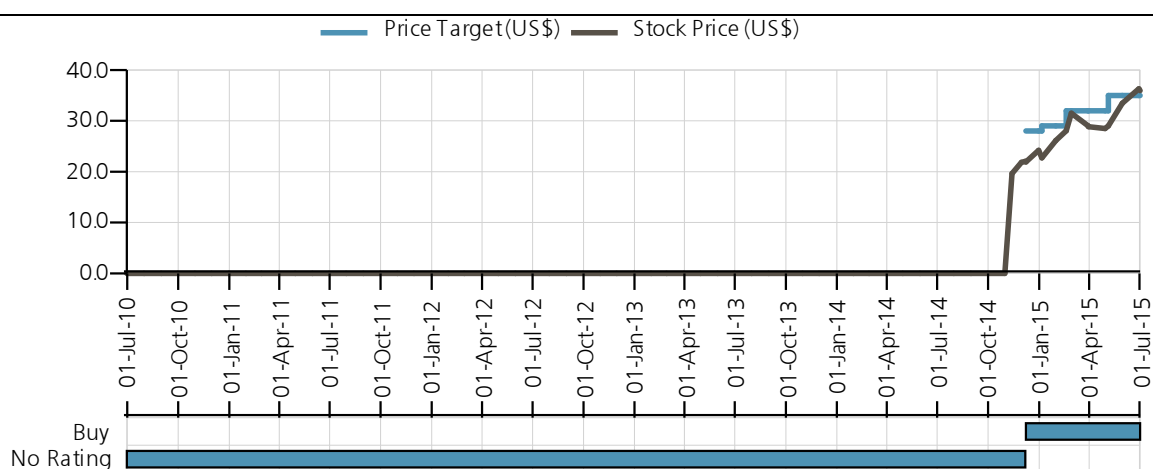
Source: UBS. All prices as of local market close.

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

### PRA Health Sciences Inc (US\$)



Source: UBS; as of 02 Jul 2015

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