

May 06, 2015

## PRA Health Sciences, Inc.

### First Look at First-Quarter Results; Impressive Results Top to Bottom and Large Guidance Increase

- Quarterly Results Overview.** PRA reported strong first-quarter results on May 6. EPS exceeded our target by 11 cents on modestly better revenues (1 cent benefit), an EBIT margin 250 basis points above our target (9 cent benefit), and a lower share count (1 cent benefit). We note that the adjusted EPS total of \$0.41 reported by the company excludes stock compensation expenses. We included stock-based compensation in our estimate of \$0.29, which lowers our EPS calculation by 1 cent versus management's presentation. Full-year margin gains were impressive with EBIT margin increasing nearly 460 basis points from a year ago. We suspect most of the benefit is due to foreign exchange.
- Bookings were \$25 million better.** Net new business was \$398 million, producing a book-to-bill ratio of 1.20 times. We had modeled \$373 million in bookings and a book-to-bill ratio of 1.15 times. The better awards total extends the trend of strong bookings delivered by clinical CROs this quarter. This level of bookings, leading to a trailing-12-month ratio of 1.20 times as well, should support management's expectation for high-single-digit revenue growth in 2015 despite the currency headwind. We look for additional detail on the mix of the new wins on Thursday's 8:00 a.m. Central time conference call.
- Strong Gross Margin Drives Outperformance.** Revenue of \$332 million compares with our estimate of \$324 million. We note that currency represented a headwind of 340 basis points compared with our estimate of 210 basis points. Constant-currency growth was roughly 10% compared with our 6.3% estimate. Operating margin of 15.0% was 250 basis points above our 12.5% estimate as a result of gross margin which was 260 basis points ahead of our estimate. See exhibits 1 and 3 for additional detail.
- 2015 Guidance Up Substantially.** Guidance for fiscal 2015 was updated, reflecting foreign-exchange rates as of April. Revenue guidance of \$1.35 billion to \$1.40 billion was reduced by \$10 million to a new range of \$1.34 billion to \$1.39 billion due to a slightly stronger currency headwind. This updated range implies a respectable 5.8% to 9.7% increase on an as-reported basis. Adjusted EPS guidance increase by an impressive 27 cents. It now calls for a range of \$1.62 to \$1.72 (up 29% to 37%) from a previous range of \$1.35 to \$1.45 (up 7% to 15%). We note that this range excludes stock compensation expense, which we believe should cost the company about 7 cents in 2015. Thus, if we included stock option expenses, we believe that the revised implied range would be \$1.55 to \$1.65, which compares with our estimate of \$1.36. We expect to increase our EPS estimate by about 25 cents following Thursday's call.

PRA Health Sciences is one of the largest clinical CROs in the world, serving both the pharmaceutical and biotechnology industries. The company has a revenue base of \$1.2 billion and more than 10,000 employees serving clients across 80 countries.

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Stock Rating: **Outperform**  
Company Profile: **Aggressive Growth**

Symbol: PRAH (NASDAQ)  
Price: \$29.00 (52-Wk.: \$18-\$32)  
Market Value (mil.): \$1,739  
Fiscal Year End: December  
Long-Term EPS Growth Rate: 17%  
Dividend/Yield: None

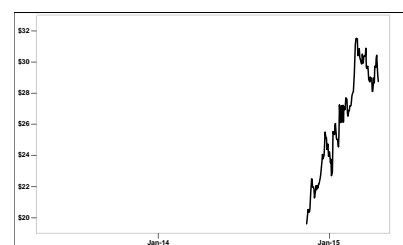
|                  | 2014A  | 2015E  | 2016E  |
|------------------|--------|--------|--------|
| <b>Estimates</b> |        |        |        |
| EPS Q1           | \$0.18 | \$0.29 | NA     |
| Q2               | \$0.34 | \$0.33 | NA     |
| Q3               | \$0.33 | \$0.36 | NA     |
| Q4               | \$0.34 | \$0.38 | NA     |
| FY               | \$1.20 | \$1.36 | \$1.64 |
| CY               |        | \$1.36 | \$1.64 |

|                  |       |       |       |
|------------------|-------|-------|-------|
| <b>Valuation</b> |       |       |       |
| FY P/E           | 24.2x | 21.3x | 17.7x |
| CY P/E           |       | 21.3x | 17.7x |

|                               |  |  |         |
|-------------------------------|--|--|---------|
| <b>Trading Data (FactSet)</b> |  |  |         |
| Shares Outstanding (mil.)     |  |  | 51      |
| Float (mil.)                  |  |  | 21      |
| Average Daily Volume          |  |  | 188,722 |

|                                    |  |  |      |
|------------------------------------|--|--|------|
| <b>Financial Data (FactSet)</b>    |  |  |      |
| Long-Term Debt/Total Capital (MRQ) |  |  | 0.0  |
| Book Value Per Share (MRQ)         |  |  | 11.3 |
| Return on Equity (TTM)             |  |  | -6.2 |

#### Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

- Valuation and stock thoughts.** As of the close on May 6, PRA trades at 17.7 times our current 2016 EPS estimate of \$1.64. Currently the clinical CRO peer group trades at a similar 17.9 times (ICON [ICLR \$65.39; Outperform] at 16.0 times, Quintiles [Q \$64.90; Outperform] at 18.9 times, INC [INCR \$32.54; Outperform] at 19.0 times, and Parexel [PRXL \$64.47; Outperform] at 17.8 times). Given the significant upside to guidance, we expect shares to trade up as much as 15% on May 7 assuming the multiple holds at 18 times. We are encouraged by the very strong start to the year for PRA—another sign of the robust fundamentals in the CRO group at present. Given the group’s recent compression of multiples from the low-20 range to about 18 at present and the strong underlying fundamentals, we believe that the outlook is strong for PRA and its peers to outperform in the coming year. We will update our model following Thursday’s earnings call.

#### Exhibit 1. First-Quarter EPS Performance Relative to William Blair Estimates

|              |                 |
|--------------|-----------------|
| Revenues     | \$ 0.010        |
| Gross Profit | \$ 0.093        |
| SG&A         | \$ (0.001)      |
| Depreciation | \$ (0.002)      |
| Interest     | \$ (0.003)      |
| Taxes        | \$ -            |
| Share Count  | \$ 0.013        |
| <b>Total</b> | <b>\$ 0.110</b> |

Source: Company reports and William Blair & Company, L.L.C. estimates

#### Exhibit 2. Current 2015 Guidance Relative to William Blair Estimates and Consensus

|                                 | <u>2015 - Guidance</u>  |                         | <u>2015</u>      |                         |
|---------------------------------|-------------------------|-------------------------|------------------|-------------------------|
|                                 | <u>Current</u>          | <u>Previous</u>         | <u>WB - est.</u> | <u>Consensus - est.</u> |
| Revenue                         | \$1,340 to \$1,390      | \$1,350 to \$1,400      | \$ 1,338         | \$ 1,359                |
| % growth                        | 5.8% to 9.7%            | 6.6% to 10.5%           | 5.7%             | 7.3%                    |
| Adjusted EPS (excl. SBC)        | \$1.62 to \$1.72        | \$1.35 to \$1.45        | \$ 1.43          | \$1.41                  |
| % growth                        | 29% to 37%              | 7.1% to 15.1%           | 13.5%            | 11.9%                   |
| <b>Adjusted EPS (incl. SBC)</b> | <b>\$1.55 to \$1.65</b> | <b>\$1.28 to \$1.38</b> | <b>\$ 1.36</b>   | <b>NA</b>               |
| <b>% growth</b>                 | <b>29% to 38%</b>       | <b>6.7% to 15.0%</b>    | <b>13.3%</b>     |                         |

Source: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

### Exhibit 3. First Quarter 2015 EPS Variance Analysis

|                                                  |                             |                             |                               |                               |                               |                                 |
|--------------------------------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|
| May 6, 2015                                      | <b>1Q 2015<br/>(Actual)</b> | <b>1Q 2014<br/>(Actual)</b> | <b>Year/Year<br/>% Change</b> | <b>1Q 2015<br/>(Estimate)</b> | <b>Year/Year<br/>% Change</b> | <b>Act.-Est.<br/>Difference</b> |
| Total Net Revenue                                | \$331,968                   | \$311,352                   | 6.6%                          | \$324,396                     | 4.2%                          | \$7,572                         |
| Direct Costs                                     | 218,786                     | 215,052                     | 1.7%                          | 222,211                       | 3.3%                          | (3,425)                         |
| Selling, general and administrative              | 58,215                      | 57,953                      | 0.5%                          | 56,802                        | -2.0%                         | 1,413                           |
| Depreciation                                     | 5,128                       | 5,895                       | -13.0%                        | 4,866                         | -17.5%                        | 262                             |
| Total operating expenses                         | 282,129                     | 278,900                     | 1.2%                          | 283,879                       | 1.8%                          | (1,750)                         |
| Operating income                                 | 49,839                      | 32,452                      | 53.6%                         | 40,517                        | 24.9%                         | 9,322                           |
| Interest and other income (net)                  | (13,744)                    | (20,332)                    | -32.4%                        | (13,468)                      | NM                            | (276)                           |
| Earnings before tax                              | 36,095                      | 12,120                      | 197.8%                        | 27,049                        | 123.2%                        | 9,046                           |
| Income taxes                                     | 10,829                      | 4,852                       | 123.2%                        | 8,115                         | 67.3%                         | 2,714                           |
| <b>Net income (excl. extraod, incl. options)</b> | <b>25,267</b>               | <b>7,268</b>                | <b>247.6%</b>                 | <b>18,934</b>                 | <b>160.5%</b>                 | <b>6,332</b>                    |
| Extraordinary item, net of tax                   | (8,080)                     | (17,309)                    |                               | (10,697)                      |                               |                                 |
| Net income (incl. extraord. and options)         | \$17,187                    | (\$10,041)                  | -271.2%                       | \$8,237                       | -182.0%                       | 8,950                           |
| Shares outstanding                               | 62,777                      | 40,268                      | 55.9%                         | 64,797                        | 60.9%                         | (2,020)                         |
| <b>EPS (excl. extraord., incl options)</b>       | <b>\$0.40</b>               | <b>\$0.18</b>               | <b>123.0%</b>                 | <b>\$0.29</b>                 | <b>61.9%</b>                  | <b>\$0.1103</b>                 |
| EPS (incl. extraord. and options)                | \$0.27                      | (\$0.25)                    | -209.8%                       | \$0.13                        | -151.0%                       | \$0.15                          |
| % of Net Revenue:                                |                             |                             | <u>Change</u>                 |                               | <u>Change</u>                 |                                 |
| Direct costs                                     | 65.91                       | 69.07                       | (3.16)                        | 68.50                         | (0.6)                         | (2.59)                          |
| Gross profit                                     | 34.09                       | 30.93                       | 3.16                          | 31.50                         | 0.6                           | 2.59                            |
| SG&A                                             | 17.54                       | 18.61                       | (1.08)                        | 17.51                         | (1.1)                         | 0.03                            |
| Depreciation and amortization                    | 1.54                        | 1.89                        | (0.35)                        | 1.50                          | (0.4)                         | 0.04                            |
| <b>Operating income (incl. options)</b>          | <b>15.01</b>                | <b>10.42</b>                | <b>4.59</b>                   | <b>12.49</b>                  | <b>2.1</b>                    | <b>2.52</b>                     |
| Net income                                       | 7.61                        | 2.33                        | 5.28                          | 5.84                          | 3.5                           | 1.77                            |
| Effective tax rate                               | 30.00                       | 40.03                       | (10.03)                       | 30.00                         | (10.0)                        | (0.00)                          |
| <b>New Business Awards</b>                       |                             |                             |                               |                               |                               |                                 |
| Adjusted Net New Business Awards                 | \$398,000                   | \$351,300                   | 13.3%                         | \$373,055                     | 6.2%                          | \$24,945                        |
| Adjusted Net Book-to-Bill Ratio                  | 1.20                        | 1.13                        |                               | 1.15                          |                               |                                 |

Sources: Company reports, FactSet, and William Blair & Company, L.L.C. estimates

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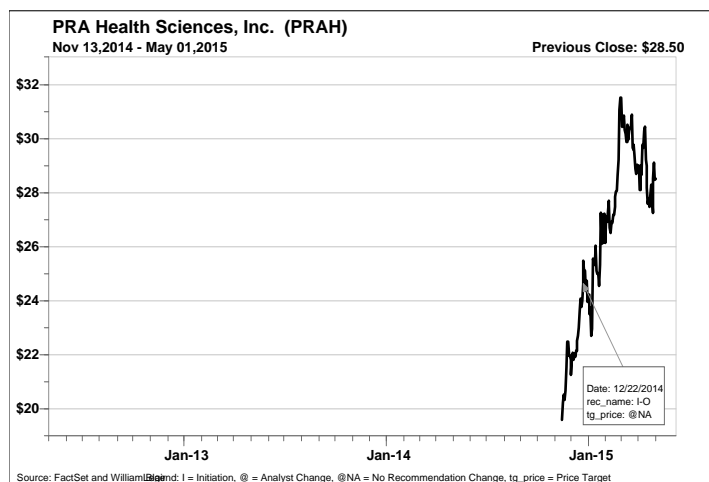
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DOW JONES: 17,928.20

S&P 500: 2,089.46

NASDAQ: 4,939.33



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| Coverage Universe     | Percent | Inv. Banking Relationships* | Percent |
|-----------------------|---------|-----------------------------|---------|
| Outperform (Buy)      | 65      | Outperform (Buy)            | 14      |
| Market Perform (Hold) | 32      | Market Perform (Hold)       | 2       |
| Underperform (Sell)   | 2       | Underperform (Sell)         | 0       |

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