

# PRA Health Sciences, Inc. (PRAH)

Rating	OUTPERFORM* [V]
Price (27 Jul 15, US\$)	40.61
Target price (US\$)	37.00 <sup>1</sup>
52-week price range	40.61 - 19.62
Market cap. (US\$ m)	2,429.60
Enterprise value (US\$ m)	3,150.45

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

<sup>1</sup>Target price is for 12 months.

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

## Research Analysts

**Jeffrey Bailin, CFA**

212 325 6167

jeffrey.bailin@credit-suisse.com

**Glen Santangelo**

212 538 5678

glen.santangelo@credit-suisse.com

**Tyler Harris**

212 325 2056

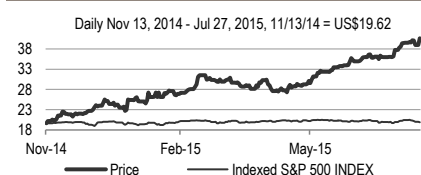
tyler.harris@credit-suisse.com

## EARNINGS

## Solid Beat & Raise Reflects Underlying Momentum & FX Tailwind

■ **Bottom Line – Second Straight Positive Guidance Revision Balanced by High Expectations:** PRAH reported adjusted 2Q15 EPS of \$0.47 vs. FactSet consensus of \$0.40, driven by essentially in-line revenues augmented by better-than-expected margins. The company posted a book-to-bill ratio of 1.21 in the quarter and we'd note that PRAH's mix of business modestly weighs on its book-to-bill relative to peers. For the second straight quarter, PRAH raised EPS guidance by a greater magnitude than the quarterly beat, reflecting both "strength in the underlying business" and FX tailwinds. While the company's earnings are seeing a boost from FX (as are most clinical peers), the press release noted some of the margin expansion has been driven by natural SG&A leverage. With 12% cc revenue growth in 2Q marking an accelerating from 10% cc growth in 1Q, PRAH is posting faster organic growth than most clinical peers which is encouraging. PRAH continues to utilize its cash flows to delever, and over time we anticipate capital deployment can represent an additional growth driver. Balancing these strong & straightforward results are admittedly high expectations. Shares of PRAH have been the best performing CRO YTD, up ~68% with much of the strength coming over the last 3 months. Consequently while 2Q15 results signal that PRAH's solid operating momentum continues, coupled with a building beat & raise track record, we would not be surprised if results do not provoke a meaningful reaction in shares (particularly with shares +4.2% today into the print).

## Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2014A	0.20	0.36	0.35	0.35
2015E	0.41	0.41	0.41	0.43
2016E	0.47	0.49	0.48	0.52

## Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	1.26	1.66	1.96	2.24
Prev. EPS (US\$)	—	—	—	—
P/E (x)	32.3	24.4	20.7	18.1
P/E rel. (%)	176.2	134.5	127.4	125.6
Revenue (US\$ m)	1,266.6	1,365.9	1,497.5	1,620.3
EBITDA (US\$ m)	182.8	224.9	251.2	276.1
OCFPS (US\$)	0.58	2.85	2.81	3.11
P/OCF (x)	41.5	14.3	14.4	13.1
EV/EBITDA (current)	18.0	14.0	12.0	10.3
Net debt (US\$ m)	863	721	582	424
ROIC (%)	6.85	9.65	11.15	12.66
Number of shares (m)	59.83	IC (current, US\$ m)		1,540.16
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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## Other Considerations:

- **Again Increases F15 EPS Guidance:** With its 2Q15 earnings release, PRAH provided updated F15 guidance. Management is maintaining its F15 revenue guidance range of \$1.34B-\$1.39B (vs. FactSet consensus \$1.37B) and is increasing its adjusted EPS range from \$1.62-\$1.72 to \$1.75-\$1.85 (vs. FactSet consensus of \$1.67). This is the second straight quarter wherein PRAH has raised EPS guidance by greater than the magnitude of the quarterly beat. The revised EPS range was driven (per the PR) by strength in the underlying business (i.e. profitability) and FX rates. We would highlight that the guidance range assumes foreign exchange rates as of July 2015. Management continues to expect an effective income tax rate of roughly 30% in F15. We will look to tomorrow's earnings call for further commentary on any additional assumptions embedded within guidance, particularly around the cadence of earnings, margin improvements, sizing the FX benefit in the quarter and throughout the rest of the year, and capital deployment.
- **Details on the Quarter:** PRAH reported 2Q15 adjusted EPS of \$0.47, above FactSet consensus of \$0.40 and characterized by in-line revenues that were augmented by better than expected margin expansion. PRAH reported net service revenue growth of 8% y/y (+12% y/y cc) to \$336.5M (vs. FactSet 336.7M). Reported gross margins increased a solid 320 bps y/y to 34.7%, primarily due to the favorable impact from FX movements. While there were a number of one-time & non-cash items that were excluded from the results, adjusted EBITDA increased 35% y/y to \$61.3M, and adjusted EBITDA margins of 18.2% expanded an impressive 360 bps y/y. Similar to the aforementioned gross margin expansion drivers, we believe FX likely aided some of this EBITDA margin expansion, as well as continued leverage of selling and administrative functions also played a role. We would also note that PRAH continues to make progress de-levering its balance sheet and completed ~\$15M of debt pay-down in the quarter. As of the end of the company's 2Q15, PRAH's Net Debt/TTM EBITDA stood at ~3.8x compared to ~4.1x at the end of 1Q15. PRAH reported net new business wins of \$407.8M in the quarter which represents a book to bill ratio of 1.21x, characterized by solid y/y & q/q growth in gross wins and cancellations consistent with historical levels.

**Companies Mentioned** (Price as of 27-Jul-2015)

PRA Health Sciences, Inc. (PRAH.OQ, \$40.61, OUTPERFORM[V], TP \$37.0)

## Disclosure Appendix

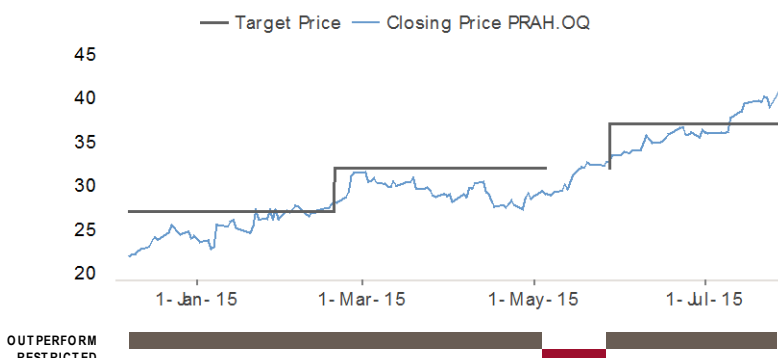
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**3-Year Price and Rating History for PRA Health Sciences, Inc. (PRAH.OQ)**

PRAH.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
08-Dec-14	21.92	27.00	O *
19-Feb-15	28.04	32.00	
05-May-15	29.07		R
28-May-15	32.73	37.00	O

\* Asterisk signifies initiation or assumption of coverage.



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Restricted	3%	

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#### Price Target: (12 months) for PRA Health Sciences, Inc. (PRAH.OQ)

**Method:** Our target price of \$37 for PRA Health Sciences implies shares can trade ~19x our F16 EPS estimate. The target PE multiple is roughly in-line with target multiples applied at Outperform-rated peers given PRAH's EPS growth forecast at the high end of industry peer group rates, balanced by a more limited public history & higher leverage. In valuing the contract research organization (CRO) stocks and INC Research, we primarily utilize P/E 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 PRA Health Sciences' achievement of our \$37 target price include: 1) disruption from the RPS integration; 2) favorable biotech funding environment could moderate; 3) controlled company status & PE ownership overhang; 4) pricing & margins always bear monitoring; and 5) high expectations for clinical CROs. 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, particularly given PRAH's exposure to this customer base.

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