

## PRA Health Sciences, Inc.

### First Look at Fourth-Quarter Results; Solid First Effort, Guidance In Line with our Expectations

- Quarterly Result Overview.** PRA reported strong fourth-quarter results on Wednesday evening. EPS exceeded our target by 2 cents on modestly better revenues and an EBIT margin 66 basis points above our target. The adjusted EPS total of \$0.35 reported by the company excludes stock compensation expenses. We included stock-based compensation in our estimate of \$0.32 estimate, which lowers our EPS calculation by 1 cent versus management's presentation. Relative to our model, better revenue (less than 1 cent) and margin (2.7 cents) drove the outperformance, but were partially offset by items below the operating line (1.2 cents). Full-year margin gains were impressive, with EBIT margin increasing nearly 400 basis points from a year ago.
- Bookings were \$20 million better.** Net new business was \$388 million, producing a book-to-bill ratio of 1.20 times. We modeled \$368 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 so far this quarter. This level of bookings, and a trailing-12-month ratio of roughly 1.18, should support management's expectation for high-single-digit revenue growth in 2015. We look for additional detail on the mix of the new wins on Thursday's 8:00 a.m. conference call.
- Guidance for 2015 Appears In Line.** Guidance for fiscal 2015 was introduced, reflecting foreign-exchange rates as of the beginning of January. Revenue guidance of \$1.35 billion to \$1.45 billion implies a respectable 7% to 10% increase despite several points of currency-related headwind. This target is slightly above the \$1.34 billion we estimated, and brackets the consensus of \$1.36 billion. We suspect that updated for today's rates, revenue guidance would be slightly weaker given the continued strengthening of the dollar.

Adjusted EPS guidance calls for a range of \$1.35 to \$1.45 (up 7% to 15%). We believe this range excludes stock-compensation expense. We model 2015 stock compensation expense of approximately 4 cents per share in our \$1.36 estimate, placing us at the middle of management's range on an apples-to-apples basis. We believe a stronger dollar may be a benefit to EPS for PRA. Given that guidance is based on rates prevailing on January 1, we believe there is likely some conservatism built into estimates, as the dollar has strengthened by about 6% over the euro since then. Exhibit 2 below summarizes guidance versus our model and consensus.

*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.*

**John Kreger**  
+1 312 364 8597  
jkreger@williamblair.com

**Roberto Fatta**  
+1 312 364 8797  
rfatta@williamblair.com

**Matt Bacso, CFA**  
+1 312 364 8996  
mbacso@williamblair.com

Please consult pages 4-5 of this report for all disclosures. Analyst certification is on page 4. William Blair & Company, L.L.C. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making an investment decision.

February 18, 2015

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

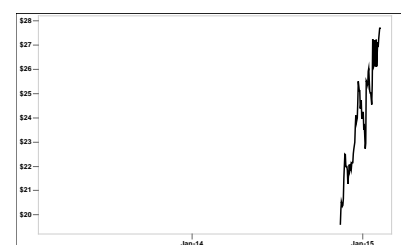
Symbol: PRAH (NASDAQ)  
Price: \$27.84 (52-Wk.: \$18-\$28)  
Market Value (mil.): \$1,573  
Fiscal Year End: December  
Long-Term EPS Growth Rate: 17%  
Dividend/Yield: None

		2013A	2014E	2015E
<b>Estimates</b>				
EPS	Q1	\$0.22	A\$0.18	NA
	Q2	\$0.32	A\$0.34	NA
	Q3	\$-0.17	A\$0.33	NA
	Q4	\$0.25	\$0.32	NA
	FY	\$0.62	\$1.17	\$1.36
	CY		\$1.17	\$1.36
<b>Valuation</b>				
FY P/E		44.9x	23.8x	20.5x
CY P/E			23.8x	20.5x

<b>Trading Data (FactSet)</b>	
Shares Outstanding (mil.)	57
Float (mil.)	18
Average Daily Volume	371,154

<b>Financial Data (FactSet)</b>	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	7.3
Return on Equity (TTM)	-27.5

#### Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

- Valuation and stock thoughts.** As of Wednesday's close PRA trades at 20.5 times our current 2015 EPS estimate of \$1.36 (up 14%). Currently the clinical CRO peer group trades at 21.0 times (ICON [ICLR \$60.59; Outperform] 19.2 times, Quintiles [Q \$64.61; Outperform] 21.0 times, INC Research [INCR \$24.83; Outperform] 22.0 times, and Parexel [PRXL \$63.91; Outperform] 21.8 times). We believe these results are generally in line with expectations and are a solid first report after going public in November. We are constructive on the CRO group and maintain our Outperform rating on PRA, given good underlying growth and a slight valuation discount relative to its peers. We will update our model following Thursday's earnings call but do not expect our overall EPS estimates to change. Exhibits 1 and 3 below break down the quarter versus our expectations.

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

Revenues	\$ 0.006
Gross Profit	\$ 0.070
SG&A	\$ (0.028)
Depreciation	\$ (0.015)
Interest	\$ (0.006)
Taxes	\$ -
Share Count	\$ (0.006)
<b>Total</b>	<b>\$ 0.021</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>WB - est.</u>	<u>Consensus - est.</u>
Revenue	\$1,350 to \$1,400	\$ 1,338	\$ 1,364
% growth	6.6% to 10.5%	6.0%	7.7%
Adjusted EPS (excl. SBC)	\$1.35 to \$1.45	\$1.40	\$1.39
% growth	7.1% to 15.1%	12.0%	11.2%
<b>Adjusted EPS (incl. SBC)</b>	<b>\$1.31 to \$1.41</b>	<b>\$ 1.36</b>	<b>NA</b>
<b>% growth</b>	<b>9.2% to 17.5%</b>	<b>16.2%</b>	

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

### Exhibit 3. Fourth Quarter 2014 EPS Variance Analysis

February 18, 2015	<b>4Q 2014 (Actual)</b>	<b>4Q 2013 (Actual)</b>	<b>Year/Year % Change</b>	<b>4Q 2014 (Estimate)</b>	<b>Year/Year % Change</b>	<b>Act.-Est. Difference</b>
Total Net Revenue	\$323,759	\$298,791	8.4%	\$320,066	7.1%	\$3,693
Direct Costs	214,628	204,791	4.8%	217,645	6.3%	(3,017)
Selling, general and administrative	59,232	59,365	-0.2%	56,401	-5.0%	2,831
Depreciation	5,418	5,487	-1.3%	4,161	-24.2%	1,257
Total operating expenses	279,278	269,643	3.6%	278,207	3.2%	1,071
Operating income	44,481	29,148	52.6%	41,859	43.6%	2,622
Interest and other income (net)	(16,970)	(20,312)	-16.5%	(16,500)	NM	(470)
Earnings before tax	27,511	8,836	211.4%	25,359	187.0%	2,152
Income taxes	9,354	(1,151)	-912.7%	8,615	-848.5%	739
<b>Net income (excl. extraod, incl. options)</b>	<b>18,157</b>	<b>9,987</b>	<b>81.8%</b>	<b>16,744</b>	<b>67.7%</b>	<b>1,413</b>
Extraordinary item, net of tax	(40,977)	(19,367)		(11,235)		
Net income (incl. extraord. and options)	(\$22,820)	(\$9,380)	143.3%	\$5,509	-158.7%	(28,329)
Shares outstanding	53,008	39,337	34.8%	52,073	32.4%	935
<b>EPS (excl. extraord., incl options)</b>	<b>\$0.34</b>	<b>\$0.25</b>	<b>34.9%</b>	<b>\$0.32</b>	<b>26.7%</b>	<b>\$0.0210</b>
EPS (incl. extraord. and options)	(\$0.43)	(\$0.24)	80.5%	\$0.11	-144.4%	(\$0.54)
% of Net Revenue:			<u>Change</u>		<u>Change</u>	
Direct costs	66.29	68.54	(2.25)	68.00	(0.5)	(1.71)
Gross profit	33.71	31.46	2.25	32.00	0.5	1.71
SG&A	18.30	19.87	(1.57)	17.62	(2.2)	0.67
Depreciation and amortization	1.67	1.84	(0.16)	1.30	(0.5)	0.37
<b>Operating income (incl. options)</b>	<b>13.74</b>	<b>9.76</b>	<b>3.98</b>	<b>13.08</b>	<b>3.3</b>	<b>0.66</b>
Net income	5.61	3.34	2.27	5.23	1.9	0.38
Effective tax rate	34.00	(13.03)	47.03	33.97	47.0	0.03

#### New Business Awards

Adjusted Net New Business Awards	\$388,400	\$201,900	92.4%	\$368,076	82.3%	\$20,324
Adjusted Net Book-to-Bill Ratio	1.20	0.68		1.15		

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

William Blair & Company, L.L.C.

### **IMPORTANT DISCLOSURES**

William Blair was a manager or co-manager of a public offering of equity securities for PRA Health Sciences, Inc. within the prior 12 months.

William Blair is a market maker in the security of PRA Health Sciences, Inc.

William Blair intends to seek investment banking compensation in the next three months from PRA Health Sciences, Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with PRA Health Sciences, Inc.

Additional information is available upon request.

This report is available in electronic form to registered users via R\*Docs™ at [www.rdocs.com](http://www.rdocs.com) or [www.williamblair.com](http://www.williamblair.com).

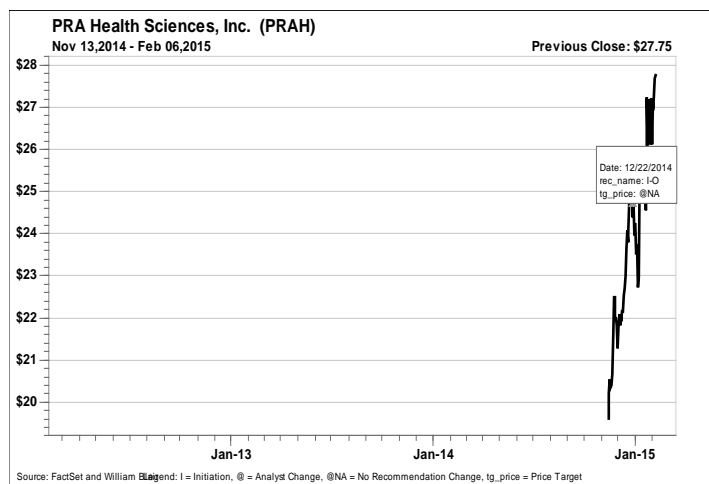
Please contact us at +1 800 621 0687 or consult [williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx](http://williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx) for all disclosures.

John Kreger attests that 1) all of the views expressed in this research report accurately reflect his/her personal views about any and all of the securities and companies covered by this report, and 2) no part of his/her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed by him/her in this report. We seek to update our research as appropriate, but various regulations may prohibit us from doing so. Other than certain periodical industry reports, the majority of reports are published at irregular intervals as deemed appropriate by the analyst.

DOW JONES: 18,047.58

S&P 500: 2,100.34

NASDAQ: 4,899.27



### **Current Rating Distribution (as of 01/31/15)**

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	64	Outperform (Buy)	16
Market Perform (Hold)	32	Market Perform (Hold)	2
Underperform (Sell)	2	Underperform (Sell)	0

\*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm's departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

#### **OTHER IMPORTANT DISCLOSURES**

Stock ratings, price targets, and valuation methodologies: William Blair & Company, L.L.C. uses a three-point system to rate stocks. Individual ratings and price targets (where used) reflect the expected performance of the stock relative to the broader market (generally the S&P 500, unless otherwise indicated) over the next 12 months. The assessment of expected performance is a function of near-, intermediate-, and long-term company fundamentals, industry outlook, confidence in earnings estimates, valuation (and our valuation methodology), and other factors. Outperform (O) – stock expected to outperform the broader market over the next 12 months; Market Perform (M) – stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) – stock expected to underperform the broader market over the next 12 months; not rated (NR) – the stock is not currently rated. The valuation methodologies used to determine price targets (where used) include (but are not limited to) price-to-earnings multiple (P/E), relative P/E (compared with the relevant market), P/E-to-growth-rate (PEG) ratio, market capitalization/revenue multiple, enterprise value/EBITDA ratio, discounted cash flow, and others.

Company Profile: The William Blair research philosophy is focused on quality growth companies. Growth companies by their nature tend to be more volatile than the overall stock market. Company profile is a fundamental assessment, over a longer-term horizon, of the business risk of the company relative to the broader William Blair universe. Factors assessed include: 1) durability and strength of franchise (management strength and track record, market leadership, distinctive capabilities); 2) financial profile (earnings growth rate/consistency, cash flow generation, return on investment, balance sheet, accounting); 3) other factors such as sector or industry conditions, economic environment, confidence in long-term growth prospects, etc. Established Growth (E) – Fundamental risk is lower relative to the broader William Blair universe; Core Growth (C) – Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

The ratings, price targets (where used), valuation methodologies, and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies—to our clients and our trading desks—that are contrary to opinions expressed in this research. Certain outstanding reports may contain discussions or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent report on a company or issuer before making an investment decision. Our asset management and trading desks may make investment decisions that are inconsistent with recommendations or views expressed in this report. We will from time to time have long or short positions in, act as principal in, and buy or sell the securities referred to in this report. Our research is disseminated primarily electronically, and in some instances in printed form. Electronic research is simultaneously available to all clients. This research is for our clients only. No part of this material may be copied or duplicated in any form by any means or redistributed without the prior written consent of William Blair & Company, L.L.C.

This is not in any sense a solicitation or offer of the purchase or sale of securities. The factual statements herein have been taken from sources we believe to be reliable, but such statements are made without any representation as to accuracy or completeness or otherwise. Opinions expressed are our own unless otherwise stated. Prices shown are approximate.

This material is distributed in the United Kingdom and the European Economic Area (EEA) by William Blair International, Ltd., authorized and regulated by the Financial Conduct Authority (FCA), and is only directed at and is only made available to persons falling within articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). This document is intended for persons regarded as professional investors (or equivalent) and is not to be distributed to or passed onto any “retail clients.” No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.

“William Blair” and “R\*Docs” are registered trademarks of William Blair & Company, L.L.C. Copyright 2015, William Blair & Company, L.L.C. All rights reserved.