

COMPANY NOTE

Company Update

USA | Healthcare | Pharmaceutical Svcs.

February 19, 2015

Jefferies

PRA Health Sciences (PRAH) Solid 4Q Results; Four Key Insights

Key Takeaway

PRAH's 4Q finish positions it well to execute in its first full year as a public company. Bookings, revenue, and operating margin (up 330 bps YoY) exceeded our estimates. Management has key 2015 levers well within its control. Assuming current FX rates, we estimate FX could contribute as much as \$0.17-0.20 to 2015 EPS. We don't believe management factored all of this potential benefit into guidance.

4Q Results Better Than Expected. PRAH reported non-GAAP EPS of \$0.35; consensus was \$0.30. However, we think consensus reflects a mix of bases. For comparison across its peer group, we include stock comp and non-cash rent in our estimate. On that basis, the company reported \$0.31, which was \$0.02 better our model.

Bookings Also Strong. Net new business was \$388M (1.2x BtB) and slightly better than our \$381M (1.18x BtB). Notably, PRAH's 2014 BtB was 1.18x, putting it squarely in line with its late-stage peers. We highlight again that PRAH's treatment of Strategic Solutions backlog makes its overall BtB more conservative. We also believe PRAH's bookings should outgrow peers by mining its faster growing, mid-sized biopharma clients and cross-selling its project-based and embedded solutions.

Margin Continues to Progress Higher. On an "as reported" basis, EBITDA margin improved 90 bps sequentially (or 350 bps YoY) to 15.6%, putting PRAH very near the bottom-end of the 16-19% range it was hoping to achieve within the next several years. We continue to expect margin improvement in 2015 and beyond as management has savings initiatives already in progress.

2015 Guidance Debut. Management is targeting \$1.35-1.40B of revenue a 30% effective tax rate, and \$1.35-1.45 in adjusted EPS. This guidance absorbs a 2% FX headwind to revenue, \$1M higher depreciation, and a higher share count (3c) due to the price performance. Yet, guidance compares favorably to last night's consensus - \$1.36B and \$1.39, respectively - though comparability is not perfect.

Valuation/Risks

Our \$31 PT assumes PRAH trades at a slight premium to the average of its late-stage CRO peers on the basis of 2016 EPS. A premium is warranted given PRAH's superior revenue growth outlook and margin expansion opportunity. Risks: large client loss and/or project cancellation; integration difficulties; and increasing large pharma M&A.

USD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	832.9	1,265.0	1,266.6	1,353.5	1,359.7	1,479.0	1,488.9
EBITDA (MM)	--	97.6	176.5	187.7	205.6	204.9	232.0	231.7
Cons. EPS	--	--	--	--	1.41	1.39	--	1.68
EPS Non-GAAP								
Mar	--	0.10	--	0.12	0.29	0.28	--	--
Jun	--	0.24	--	0.25	--	0.33	--	--
Sep	--	(0.02)	--	0.49	--	0.37	--	--
Dec	--	0.11	0.29	0.42	0.40	0.42	--	--
FY Dec	--	0.44	1.09	1.29	--	1.39	--	1.69

BUY

Price target \$31.00

Price \$27.84

Financial Summary

Book Value (MM):	\$676.8
Net Debt (MM):	\$857.0
Long-Term Debt (MM):	\$948.5
Cash & ST Invest. (MM):	\$91.5
Backlog:	2,107

Market Data

52 Week Range:	\$28.15 - \$18.47
Total Entprs. Value (MM):	\$2,558.0
Market Cap. (MM):	\$1,701.0
Shares Out. (MM):	61.1
Float (MM):	19.5
Avg. Daily Vol.:	271,797

David Windley, CFA, CPA *

Equity Analyst
(615) 963-8313 dwindley@jefferies.com

Sean Dodge, CFA *

Equity Analyst
(615) 963-8340 sdodge@jefferies.com

* Jefferies LLC

Price Performance

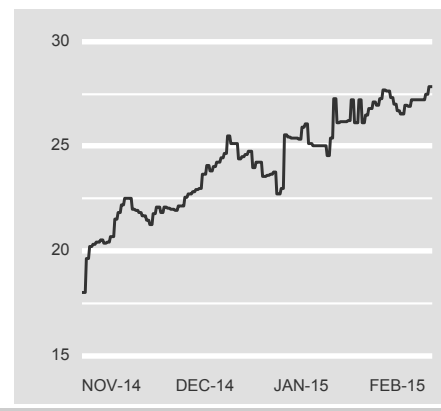


Chart 1: Summary of PRA's Results

PRA Health Sciences (PRAH)

4Q14 Earnings Summary

Sources: Company filings and Jefferies LLC

Reports 2/18/2015 AMC

FY ending December 31 in thousands except EPS	Reported		Estimate	Actual	Consensus	Percentage Change		Difference		
	4Q13	3Q14	4Q14	4Q14	4Q14	Seq	Y/Y	Seq	Y/Y	Est.
Net revenue	\$ 298,791	\$ 320,063	\$ 322,119	\$ 323,759	\$ 324,000	1.2%	8.4%	\$ 3,696	\$ 24,968	\$ 1,640
Direct costs	205,077	215,746	217,430	214,943		(0.4%)	4.8%	(803)	9,866	(2,487)
SG&A	58,311	58,739	57,981	59,910		2.0%	2.7%	1,171	1,599	1,929
FOREX	4,662	(10,658)	-	(8,979)		(15.8%)	(292.6%)	1,679	(13,641)	(8,979)
Adj EBITDA	30,741	56,236	46,707	57,885	47,000	2.9%	88.3%	1,649	27,144	11,178
Depreciation	5,487	5,989	6,220	5,418		(9.5%)	(1.3%)	(571)	(69)	(802)
Total expenses	273,537	269,816	281,631	271,292		0.5%	(0.8%)	1,476	(2,245)	(10,339)
Adj EBITA	25,254	50,247	40,487	52,467		4.4%	107.8%	2,220	27,213	11,980
Interest income (expense)	(20,303)	(19,541)	(17,359)	(16,970)		(13.2%)	(16.4%)	2,571	3,333	389
Other income (expense)	1,208	(532)	(274)	(2,020)		279.7%	(267.2%)	(1,488)	(3,228)	(1,746)
Pretax income	6,159	30,174	22,854	33,477		10.9%	443.5%	3,303	27,318	10,623
Taxes	1,848	10,259	7,770	11,382		10.9%	516.0%	1,123	9,534	3,612
Adj Net income	4,312	19,915	15,084	22,095		10.9%	412.5%	2,180	17,783	7,011
Adj EPS b/f charges	\$ 0.11	\$ 0.49	\$ 0.29	\$ 0.42	\$ 0.30	(15.7%)	289.5%	\$ (0.08)	\$ 0.31	\$ 0.13
Diluted shares	40,286	40,286	52,693	53,008		31.6%	31.6%	12,722	12,722	315
COMMON SIZE										
Net revenue	100.0%	100.0%	100.0%	100.0%				-	-	-
Direct costs	68.6%	67.4%	67.5%	66.4%				(100)	(220)	(110)
Gross margin	31.4%	32.6%	32.5%	33.6%				100	220	110
SG&A	19.5%	18.4%	18.0%	18.5%				20	(100)	50
Adj EBITDA	10.3%	17.6%	14.5%	17.9%				30	760	340
Depreciation	1.8%	1.9%	1.9%	1.7%				(20)	(20)	(30)
Total expenses	91.5%	84.3%	87.4%	83.8%				(50)	(780)	(360)
Adj EBITA	8.5%	15.7%	12.6%	16.2%				50	780	360
Interest income (expense)	(6.8%)	(6.1%)	(5.4%)	(5.2%)				90	160	10
Other income (expense)	0.4%	(0.2%)	(0.1%)	(0.6%)				(50)	(100)	(50)
Pretax income	2.1%	9.4%	7.1%	10.3%				90	830	320
Taxes	30.0%	34.0%	34.0%	34.0%				-	400	-
Adjusted net income	1.4%	6.2%	4.7%	6.8%				60	540	210
Gross new busines	269,700	442,000	453,050							
Cancellations	(67,700)	(59,900)	(72,488)							
% of backlog										
Net new business	202,000	382,100	380,562	388,400				1.6%	92.3%	2.1%
Book-to-bill	0.68x	1.19x	1.18x	1.20x						

Source: Company data and Jefferies LLC

PRA International
Earnings Model

Source: Jefferies & Co.

FY December

(\$ in 000s, except for EPS)

FY December	2013					2014					2015E						
(\$ in 000s, except for EPS)	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4	2015	2016	
Net revenue	\$ 166,508	\$ 179,463	\$ 188,139	\$ 298,791	\$ 832,901	\$ 311,352	\$ 311,423	\$ 320,063	\$ 323,759	\$ 1,266,596	\$ 325,841	\$ 334,901	\$ 345,230	\$ 353,735	\$ 1,359,706	\$ 1,488,862	
										52.1%					7.4%	9.5%	
Direct costs	100,181	106,072	115,548	205,077	526,878	215,151	213,378	215,746	214,943	859,218	221,905	226,116	230,639	232,721	911,381	995,036	
SG&A	51,852	41,556	48,970	58,311	200,689	57,854	53,758	58,739	59,910	230,261	58,265	58,816	62,322	64,042	243,445	262,093	
FOREX	(6,078)	1,819	7,355	4,662	7,758	3,712	5,387	(10,658)	(8,979)	(10,538)	-	-	-	-	-	-	
Adj EBITDA	20,553	30,016	16,266	30,741	97,576	34,635	38,900	56,236	57,885	187,655	45,670	49,970	52,269	56,971	204,880	231,733	
Depreciation	4,143	3,978	4,445	5,487	18,053	5,895	4,910	5,989	5,418	22,212	5,612	5,809	6,012	6,221	23,653	27,053	
Total expenses	150,098	153,425	176,318	273,537	753,378	282,612	277,433	269,816	271,292	1,101,153	285,782	290,740	298,972	302,984	1,178,479	1,284,182	
Adj EBITA	16,410	26,038	11,821	25,254	79,523	28,740	33,990	50,247	52,467	165,443	40,059	44,161	46,257	50,750	181,227	204,680	
Interest income (expense)	(10,390)	(11,679)	(12,435)	(20,303)	(54,806)	(20,332)	(19,359)	(19,541)	(16,970)	(76,202)	(14,616)	(14,279)	(13,973)	(13,660)	(56,528)	(51,494)	
Other income (expense)	1	(296)	(263)	1,208	650	(59)	(116)	(532)	(2,020)	(2,727)	-	-	-	-	-	-	
Pretax income	6,021	14,063	(877)	6,159	25,367	8,349	14,514	30,174	33,477	86,514	25,443	29,882	32,285	37,090	124,699	153,186	
Taxes	1,806	4,219	(263)	1,848	7,610	3,548	4,354	10,259	11,382	29,544	7,633	8,965	9,685	11,127	37,410	45,956	
Adj Net income	4,215	9,844	(614)	4,312	17,757	4,801	10,160	19,915	22,095	56,970	17,810	20,917	22,599	25,963	87,290	107,230	
Adj EPS b/f charges	\$ 0.10	\$ 0.24	\$ (0.02)	\$ 0.11	\$ 0.44	\$ 0.12	\$ 0.25	\$ 0.49	\$ 0.42	\$ 1.29	\$ 0.29	\$ 0.33	\$ 0.36	\$ 0.41	\$ 1.39	\$ 1.69	
Diluted shares	40,286	40,286	40,286	40,286	40,286	40,286	40,286	40,286	53,008	44,121	62,476	62,599	62,720	62,834	62,770	63,280	
Common Size:																	
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Direct costs	60.2%	59.1%	61.4%	68.6%	63.3%	69.1%	68.5%	67.4%	66.4%	67.8%	68.1%	67.5%	66.8%	65.8%	67.0%	66.8%	
Gross margin	39.8%	40.9%	38.6%	31.4%	36.7%	30.9%	31.5%	32.6%	33.6%	32.2%	31.9%	32.5%	33.2%	34.2%	33.0%	33.2%	
SG&A	31.1%	23.2%	26.0%	19.5%	24.1%	18.6%	17.3%	18.4%	18.5%	18.2%	17.9%	17.6%	18.1%	18.1%	17.9%	17.6%	
Adj EBITDA	12.3%	16.7%	8.6%	10.3%	11.7%	11.1%	12.5%	17.6%	17.9%	14.8%	14.0%	14.9%	15.1%	16.1%	15.1%	15.6%	
Depreciation	2.5%	2.2%	2.4%	1.8%	2.2%	1.9%	1.6%	1.9%	1.7%	1.8%	1.7%	1.7%	1.7%	1.8%	1.7%	1.8%	
Total expenses	90.1%	85.5%	93.7%	91.5%	90.5%	90.8%	89.1%	84.3%	83.8%	86.9%	87.7%	86.8%	86.6%	85.7%	86.7%	86.3%	
Adj EBITA	9.9%	14.5%	6.3%	8.5%	9.5%	9.2%	10.9%	15.7%	16.2%	13.1%	12.3%	13.2%	13.4%	14.3%	13.3%	13.7%	
Interest income (expense)	-6.2%	-6.5%	-6.6%	-6.8%	-6.6%	-6.5%	-6.2%	-6.1%	-5.2%	-6.0%	-4.5%	-4.3%	-4.0%	-3.9%	-4.2%	-3.5%	
Other income (expense)	0.0%	-0.2%	-0.1%	0.4%	0.1%	0.0%	0.0%	-0.2%	-0.6%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Pretax income	3.6%	7.8%	-0.5%	2.1%	3.0%	2.7%	4.7%	9.4%	10.3%	6.8%	7.8%	8.9%	9.4%	10.5%	9.2%	10.3%	
Taxes	30.0%	30.0%	30.0%	30.0%	30.0%	42.5%	30.0%	34.0%	34.0%	34.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	
Adjusted net income	2.5%	5.5%	-0.3%	1.4%	2.1%	1.5%	3.3%	6.2%	6.8%	4.5%	5.5%	6.2%	6.5%	7.3%	6.4%	7.2%	
% Change																	
Net Revenue	13.1%	22.2%	27.9%	91.7%	39.5%	87.0%	73.5%	70.1%	8.4%	52.1%	4.7%	7.5%	7.9%	9.3%	7.4%	9.5%	
Direct Costs	10.3%	20.2%	35.1%	118.2%	46.9%	114.8%	101.2%	86.7%	4.8%	63.1%	3.1%	6.0%	6.9%	8.3%	6.1%	9.2%	
SG&A	42.5%	17.4%	35.4%	26.8%	30.4%	11.6%	29.4%	19.9%	2.7%	14.7%	0.7%	9.4%	6.1%	6.9%	5.7%	7.7%	
Adj EBITDA	23.9%	14.3%	-23.1%	141.5%	27.2%	68.5%	29.6%	245.7%	88.3%	92.3%	31.9%	28.5%	-7.1%	-1.6%	9.2%	13.1%	
Depreciation	19.2%	7.3%	14.7%	37.8%	20.0%	42.3%	23.4%	34.7%	-1.3%	23.0%	-4.8%	18.3%	0.4%	14.8%	6.5%	14.4%	
Total expenses	11.9%	23.4%	35.8%	85.9%	40.7%	88.3%	80.8%	53.0%	-0.8%	46.2%	1.1%	4.8%	10.8%	11.7%	7.0%	9.0%	
Adj EBITA	25.2%	15.5%	-31.6%	188.7%	28.9%	75.1%	30.5%	325.1%	107.8%	108.0%	39.4%	29.9%	-7.9%	-3.3%	9.5%	12.9%	
Interest expense	29.3%	52.8%	68.2%	108.1%	67.0%	95.7%	65.8%	57.2%	-16.4%	39.0%	-28.1%	-26.2%	-28.5%	-19.5%	-25.8%	-8.9%	
Pretax income	13.6%	-4.6%	-108.8%	-742.3%	-12.7%	38.7%	3.2%	-3542.1%	443.5%	241.1%	204.7%	105.9%	7.0%	10.8%	44.1%	22.8%	
Taxes	13.6%	-4.6%	-108.8%	-742.3%	-12.7%	96.4%	3.2%	-4001.1%	516.0%	288.2%	115.1%	105.9%	-5.6%	-2.2%	26.6%	22.8%	
Adj Net income	13.6%	-4.6%	-108.8%	-742.3%	-12.7%	13.9%	3.2%	-3345.5%	412.5%	220.8%	271.0%	105.9%	13.5%	17.5%	53.2%	22.8%	
EPS b/f Charges	13.6%	-4.6%	-108.8%	-742.3%	-12.7%	13.9%	3.2%	-3345.5%	289.5%	192.9%	139.2%	32.5%	-27.1%	-0.9%	7.7%	21.9%	

Company Description

PRA Health Sciences is a leading global contract research organization. The company provides outsourced clinical development services to the biotechnology and pharmaceutical industries. PRA's global clinical development platform spans 80 countries and employs more than 10,000 individuals worldwide. Since 2000, the company has performed approximately 2,300 clinical trials worldwide and has worked on more than 100 marketed drugs across several therapeutic areas.

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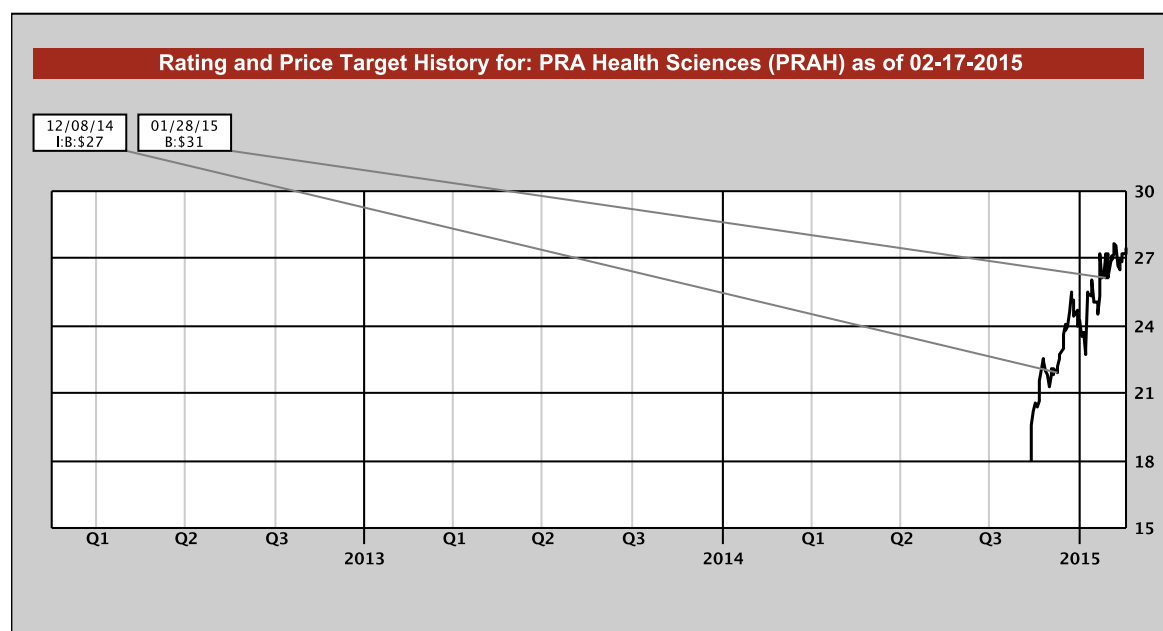
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Other Companies Mentioned in This Report

- PRA Health Sciences (PRAH: \$27.84, BUY)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1059	51.16%	290	27.38%
HOLD	838	40.48%	157	18.74%
UNDERPERFORM	173	8.36%	10	5.78%

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