

PRA Health Sciences, Inc.

PRAH: Another Solid Quarter

We reiterate our Sector Weight rating on PRA Health Sciences (PRAH) after the Company reported less than expected balance sheet de-leveraging due to a couple of one-time cash outlays. Nonetheless, the operations remain very impressive. PRAH ended September with \$2.3B of backlog with a stable mix of programmatic and functional outsourcing projects. This should comfortably support close to 10% revenue growth in 2016, by our models, and allow for accelerated debt reduction going forward. We are also increasing our forward EPS outlook due to efficiency improvements, the timing of R&D tax credits, and the impact of a stronger U.S. dollar.

Key Investment Points

RFP and pipeline activity remains healthy and unchanged. PRAH generated very strong 3Q15 net bookings of \$431M, calculating to a net book-to-bill ratio of 1.25x. This is impressive, in our view, given the Company's large functional outsourcing business (~38% of revenue) as well as a relatively high rate of project cancellations in the quarter (3Q15: 3.4%; LTM avg: 2.9%). Gross book-to-bill was 1.47x, which is, by far, the highest since the ReSearch Pharmaceutical Services (RPS) acquisition in September 2013.

Revenues appear to have been modestly impacted by project cancellations, and the strong U.S. dollar remains a headwind. Specifically, PRAH generated 3Q15 net revenues of \$345M (KBCM: \$355M; consensus: \$346M), and mgmt. narrowed its FY15 revenue guidance range, implying 4Q15 revenues of \$351M-\$356M (KBCM and consensus: \$353M). On a constant currency basis, revenue growth was 11.5%.

Profitability benefited from ongoing efficiency improvements, the recognition of prior period R&D tax credits (\$8.4M), and the strong U.S. dollar (\$3.7M). PRAH's margins benefit from a strong U.S. dollar since a high proportion of its direct costs are generated in Europe. Specifically, PRAH reported adj. EBITDA of \$67M (KBCM: \$62M; consensus: \$60M) and adj. EPS of \$0.52 (\$0.47; \$0.45). Also, mgmt. raised its FY15 adj. EPS guidance, implying 4Q15 EPS of \$0.48-\$0.51 (KBCM: \$0.49; consensus: \$0.47).

In our view, **the major investment risk for PRAH is its indebtedness.** PRAH reported a strong quarter for free cash flow (\$33M), and modestly reduced its debt ratio (net debt/ LTM EBITDA) from 4.0x in 2Q15 to 3.8x in 3Q15. However, debt reduction was slower than expected due to cash outlays related to the termination of an interest rate swap (\$33M) and an investment in a new joint venture (\$23M). We expect the pace of balance sheet de-leveraging to pick-up again next quarter.

Estimates

FY ends 12/31	F2014A	1Q15A	2Q15A	3Q15A	4Q15E	F2015E	F2016E
EPS (Net)	\$1.26	\$0.41	\$0.47	\$0.52	\$0.51	\$1.91	\$2.24
Cons. EPS	--	--	--	--	\$0.48	\$1.83	\$2.13
Previous	--	--	--	\$0.47	\$0.49	\$1.84	\$2.19
Revenue (M)	\$1,266.0	\$332.0	\$336.5	\$345.1	\$353.2	\$1,366.8	\$1,493.0
Previous	--	--	\$227.0	\$355.0	\$359.0	\$1,383.0	\$1,511.0
Valuation							
P/E	30.0x	--	--	--	--	19.8x	16.9x

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

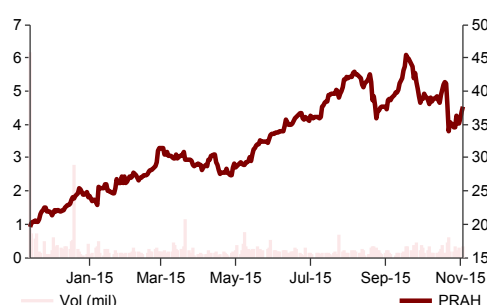
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Donald Hooker, CFA / (917) 368-2378
donald.hooker@key.com

Jack Wallace / (917) 368-2345
jack.wallace@key.com

NASDAQ: PRAH

Rating: **Sector Weight**
Price Target: **NA**
Price: **\$37.75**



Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Company Data

52-week range	\$18 - \$46
Market Cap. (M)	\$2,369.9
Shares Out. (M)	62.78
Enterprise Value (M)	\$3,239.7
Avg. Daily Volume (30D)	260,152.0
SI as % of Float	14.0%

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.

Valuation

PRAH's current trading price implies a 13x multiple on our 2016 adjusted EBITDA estimate of \$279M (consensus: \$268M), which is a modest premium to the CRO group average (11.5x). We believe that PRAH is nicely set up for close to 10% growth in the near/mid-term. However, elevated indebtedness may limit the Company's strategic flexibility with regard to acquisitions and reinvestments.

Investment Risks

PRAH operates in a competitive industry against other providers that have similar services. Also, the Company's ability to generate revenue and earnings growth is contingent on trends in global biopharmaceutical R&D spending and the propensity of biopharmaceutical firms to outsource R&D and sales activities to third parties. Finally, PRAH has an elevated level of indebtedness, so it is important for the Company to reduce debt.

PRAH is, by far, the most financially leveraged CRO with a debt ratio (net debt-to-EBITDA) of 4.5x. This is almost six times the average of its publicly traded, late-stage CRO peers at 0.8x. We anticipate no liquidity issues given the Company's strong cash flow and the structure of its loan agreements, including no principal payments until 2020 and loose covenants (in our view). Nonetheless, from a relative strategic standpoint, mgmt. will have limited financial flexibility for opportunistic acquisitions and/or reinvestment projects in the business.

FINANCIAL MODELS

Figure 1: Projected Income Statements

PRAH -- GAAP Income Statement (in millions)	2013A	2014A	Fiscal Year End, December 2015				2015E	Fiscal Year End, December 2016				2016E
			1QA	2QA	3QA	4QE		1QE	2QE	3QE	4QE	
Net Service Revenues	832.9	1,266.6	332.0	336.5	345.1	353.2	1,366.8	365.2	370.2	374.4	383.2	1,493.0
Reimbursement Revenues	158.4	193.0	56.6	56.3	58.4	57.5	228.8	61.1	61.7	62.3	63.6	248.7
Total Revenues	\$991.3	\$1,459.6	\$388.6	\$392.8	\$403.5	\$410.7	\$1,595.6	\$426.3	\$431.9	\$436.8	\$446.8	\$1,741.7
Y-O-Y Growth %	39.5%	52.1%	6.6%	8.1%	7.8%	9.1%	7.9%	10.0%	10.0%	8.5%	8.5%	9.2%
less: Direct Costs	(526.9)	(859.2)	(219.0)	(219.9)	(212.8)	(225.4)	(877.0)	(232.2)	(235.4)	(238.1)	(243.7)	(949.6)
less: Reimbursement Revenues	(158.4)	(193.0)	(56.6)	(56.3)	(58.4)	(57.5)	(228.8)	(61.1)	(61.7)	(62.3)	(63.6)	(248.7)
Gross Income	\$306.0	\$407.4	\$113.0	\$116.6	\$132.3	\$127.9	\$489.8	\$132.9	\$134.7	\$136.3	\$139.5	\$543.5
Gross Margin, % of service revenue	36.7%	32.2%	34.0%	34.7%	38.3%	36.2%	35.8%	36.4%	36.4%	36.4%	36.4%	36.4%
less: Selling, General, and Admin.	(212.6)	(254.0)	(60.8)	(58.9)	(63.1)	(65.3)	(248.2)	(66.5)	(67.4)	(68.1)	(69.8)	(271.7)
less: Depreciation and Amortization	(50.5)	(96.6)	(19.2)	(19.2)	(19.8)	(20.2)	(78.4)	(20.9)	(21.0)	(21.1)	(21.3)	(84.3)
less: Other	(76.9)	(0.0)	-	(0.2)	(0.3)	-	(0.5)	-	-	-	-	-
Operating Income	(\$34.0)	\$56.8	\$32.9	\$38.3	\$49.2	\$42.3	\$162.7	\$45.5	\$46.3	\$47.0	\$48.5	\$187.4
plus: Interest Income (Expense)	(56.4)	(81.9)	(15.4)	(15.4)	(15.3)	(15.4)	(61.5)	(15.0)	(14.5)	(14.3)	(14.1)	(57.8)
plus: FX Gains (Losses)	(7.8)	10.5	9.1	(4.0)	3.7	-	8.8	-	-	-	-	-
plus: Other, Net	(28.2)	(27.3)	(0.5)	(0.1)	(0.9)	-	(1.5)	-	-	-	-	-
Pretax Income	(126.4)	(41.9)	26.1	18.8	36.7	26.9	108.5	30.5	31.8	32.8	34.4	129.6
less: Provision For Taxes	39.3	8.2	(8.0)	(5.6)	(10.7)	(8.1)	(32.4)	(8.9)	(9.2)	(9.5)	(10.0)	(37.6)
Net Income Before Unconsolidated Equ	(87.1)	(33.7)	18.1	13.2	26.0	18.8	76.1	21.7	22.6	23.3	24.4	92.0
plus: Gains From Unconsolidated JV	(1.2)	(2.0)	(0.9)	(0.8)	(2.3)	(2.3)	(6.4)	-	-	-	-	-
Net Income	(88.3)	(35.7)	17.2	12.4	23.7	16.5	69.8	21.7	22.6	23.3	24.4	92.0
Diluted EPS (GAAP)	(\$2.23)	(\$0.83)	\$0.27	\$0.20	\$0.37	\$0.26	\$1.10	\$0.34	\$0.36	\$0.37	\$0.38	\$1.45
Diluted Share Count	39.6	42.9	62.8	63.0	63.5	63.5	63.2	63.5	63.5	63.5	63.5	63.5
Non-GAAP Metrics												
Net Revenues	\$832.9	\$1,266.6	\$332.0	\$336.5	\$345.1	\$353.2	\$1,366.8	\$365.2	\$370.2	\$374.4	\$383.2	\$1,493.0
Year-Over-Year Growth (%)	39.5%	52.1%	6.6%	8.1%	7.8%	9.1%	7.9%	10.0%	10.0%	8.5%	8.5%	9.2%
Adjusted EBITDA	\$130.6	\$182.8	\$55.7	\$61.3	\$66.6	\$66.5	\$250.2	\$68.2	\$69.1	\$69.9	\$71.5	\$278.7
Adjusted EBITDA Margin	15.7%	14.4%	16.8%	18.2%	19.3%	18.8%	18.3%	18.7%	18.7%	18.7%	18.7%	18.7%
Adjusted Earnings Per Share	\$0.61	\$1.26	\$0.41	\$0.47	\$0.52	\$0.51	\$1.91	\$0.54	\$0.55	\$0.57	\$0.58	\$2.24
Year-Over-Year Growth (%)	-21.3%	105.6%	85.9%	n/a	n/a	43.8%	51.6%	31.3%	17.5%	8.1%	15.5%	17.3%

Source: Company reports and KeyBanc Capital Markets Inc.

Disclosure Appendix

PRA Health Sciences, Inc. - PRAH

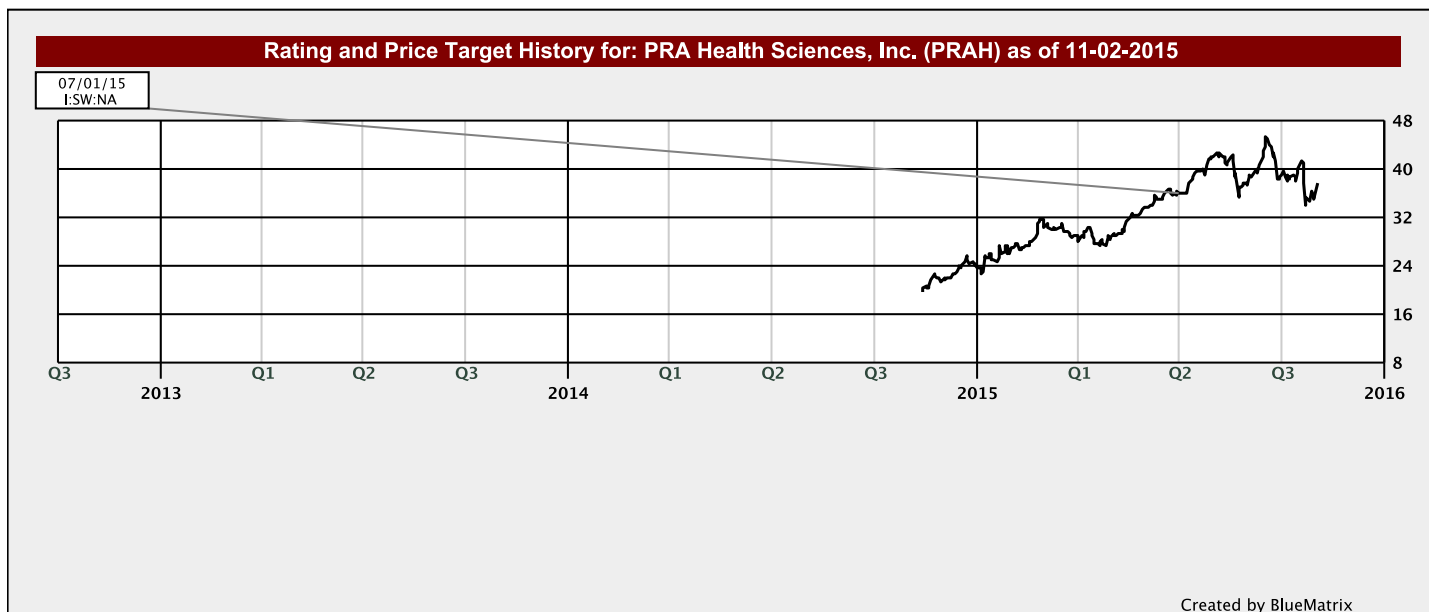
We expect to receive or intend to seek compensation for investment banking services from PRA Health Sciences, Inc. within the next three months.

As of the date of this report, we make a market in PRA Health Sciences, Inc..

Reg A/C Certification

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Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					HEALTHCARE				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
Overweight [OW]	349	45.68	75	21.49	Overweight [OW]	20	45.45	4	20.00
Sector Weight [SW]	404	52.88	66	16.34	Sector Weight [SW]	22	50.00	3	13.64
Underweight [UW]	11	1.44	0	0.00	Underweight [UW]	2	4.55	0	0.00

Disclosure Appendix (cont'd)

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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