

# PRA Health Sciences Inc

## Poised to Benefit From CRO Industry Momentum

### CROs have reported strong Dec Q results thus far; we expect same from PRAH

On Wed amc, PRAH is set to report 4Q14 earnings, which will be the first results since the company's recent IPO. Thus far, other CROs have exceeded EPS, but have indicated material FX headwinds to reported sales in 4Q14 and within CY15 guidance. However, PRAH seemingly has less exposure vs. other CROs, as we estimate that PRAH generates a majority of revenue in USD (~80%+), which is one of the highest in the industry. There could still be some modest volatility, but we remain slightly above Street views and leave our estimates unchanged. We expect PRAH to report 4Q revs growth of 9% to \$326 mil (Street \$324 mil), and EPS of \$0.32 (Street \$0.30). Note that our EPS estimate excludes stock comp expense, but it's unclear for Street numbers. Other CROs have also reported robust book-to-bill ratios, and we project 1.17x for PRAH in 4Q14.

### Expecting '15 guidance; Will FX be as significant?

Perhaps more importantly beyond the quarterly results will be the company's CY15 guidance. A majority of the CROs have guided reported sales growth lower, but constant currency (cc) sales growth remains largely on par with historical trends. We also note while sales growth has come down, EPS growth remains robust due to natural hedges in various cost lines (we estimate PRAH generates ~40% of expenses in non-USD). For now, we estimate CY15 reported sales growth of 8% to \$1,372 mil (Street \$1,363 mil), book-to-bill of 1.17x, and EPS growth of 19% to \$1.45 vs. Street's \$1.39), but again it is unclear how Street is treating stock comp expense (we exclude).

### Expect RPS acquisition integration update, and both pharma/biotech win rates

We leave our estimates unchanged heading into 4Q14 given continued CRO industry strength. We hope to hear an update on the RPs acquisition integration, which increased PRAH's exposure to large pharma. We also look to hear more on how the company's biotech win rate has progressed, and also anticipate overall CY15 constant currency sales growth guidance to supplement reported sales growth guidance.

### Valuation: Buy rated with \$29 PT; our full revenue model and P&L on pgs 3-6

\$29 PT based on a P/E of 17x our CY16 EPS estimate of \$1.73; equals 11x EBITDA.

### Equities

Americas  
Healthcare Providers

12-month rating **Buy**

12m price target **US\$29.00**

Price **US\$27.19**

RIC: PRAH.O BBG: PRAH US

### Trading data and key metrics

52-wk range	US\$27.70-0.00
Market cap.	US\$1.63bn
Shares o/s	59.8m (COM)
Free float	100%
Avg. daily volume ('000)	208
Avg. daily value (m)	US\$5.1
Common s/h equity (12/14E)	US\$0.71bn
P/BV (12/14E)	1.8x
Net debt / EBITDA (12/14E)	4.8x

### EPS (UBS, diluted) (US\$)

	12/14E	
	UBS	Cons.
Q1	0.20	-
Q2	0.36	-
Q3	0.34	-
Q4E	0.32	0.30
12/14E	1.22	1.15
12/15E	1.45	1.39
12/16E	1.73	1.68

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Highlights (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	548	597	833	1,269	1,372	1,475	1,578	1,681
EBIT (UBS)	82	81	113	160	181	201	222	247
Net earnings (UBS)	34	32	25	56	89	107	126	147
EPS (UBS, diluted) (US\$)	1.96	1.83	1.41	1.22	1.45	1.73	2.01	2.32
DPS (US\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	-	(345)	(1,184)	(866)	(782)	(671)	(547)	(413)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	14.9	13.6	13.5	12.6	13.2	13.6	14.1	14.7
ROIC (EBIT) %	-	-	-	10.1	12.3	14.5	17.0	20.0
EV/EBITDA (core) x	-	-	-	14.4	11.8	10.3	8.9	7.6
P/E (UBS, diluted) x	-	-	-	22.2	18.8	15.7	13.5	11.7
Equity FCF (UBS) yield %	-	-	-	3.5	5.9	7.3	8.1	8.6
Net dividend yield %	-	-	-	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$27.19 on 13 Feb 2015 19:38 EST

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# Investment Thesis

## PRA Health Sciences Inc

### Investment case

PRA Health Sciences is a CRO focused primarily on the late-stage clinical trial market segment, with a niche therapeutic approach in both CNS and oncology (among others). Of great importance, PRA seems to have greater customer mix in the faster growing biotech and small- to mid-size pharma customer base, which should allow the company to consistently report top-line growth that is at least in line with overall industry growth. PRA derives ~40% of sales from biotech companies (one of the highest in the industry). PRAH's recent acquisitions should bolster the company's future prospects and we rate PRAH a Buy with a price target of \$29 based on a P/E of 17x our '16E EPS of \$1.73.

### Upside scenario

In our upside scenario to our thesis, PRAH will sign a strategic partnership with a major top 10 pharmaceutical company. This contract along with growth in the market and better economics as the company streamlines acquisitions would warrant a higher PE multiple given the EPS growth from the contract. Applying a hypothetical 20x PE to an EPS of \$1.73 equates to a valuation of \$35/sh.

### Downside scenario

In the downside scenario to our thesis, the company could lose a strategic partner while seeing difficulties in the integration of the various acquisitions done over 2013. The integration issues could materialize in higher costs which could result in a hypothetical EPS of \$1.14. On a slightly lower multiple of ~15x, this leads to a valuation of \$21/sh.

### Upcoming catalysts

February 18, 2015 - 4Q14 Earnings Results  
February 19, 2015 - 4Q14 Earnings call

12-month rating

**Buy**

12m price target

**US\$29.00**

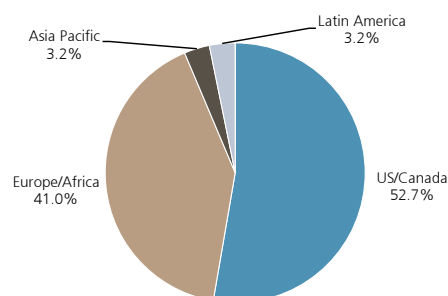
### Business description

PRA Health Sciences Inc. is a contract research organization. The company provides biopharmaceutical development services to pharmaceutical and biotechnology companies. The company has historically catered to smaller biotech and pharma companies. During 2013, PRAH acquired CRL Lifetree, ClinStar, and RPS. The acquisition of RPS greatly expanded the company's relationships with large pharma companies while providing a global presence to conduct clinical trials. The company IPOed in November 2014.

### Industry outlook

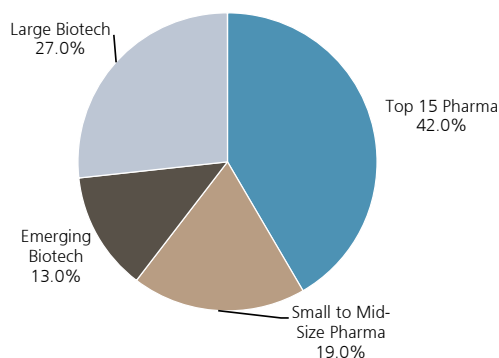
The CRO industry has been growing at a steady clip, primarily the result of significant growth in the phase II-IV market. However, we expect the early development market to have relatively flat growth through 2018. We expect the overall CRO industry to grow at a CAGR of ~6-7% through 2018, with CRO market penetration accelerating through the years. We expect the CRO market penetration to increase from ~42% in 2013 to ~52% in 2018. We expect the largest CROs to be the primary beneficiaries of increased outsourcing trends.

### Revenues by region (2013)



Source: Company Documents

### Revenues by Customer Segment (3Q14)



Source: Company Documents

Figure 1: PRA Health – Quarterly Revenue Model & Statistics (\$ mil)

PRAH - Quarterly Revenue Model (\$mm)								
	PRAH 03/31/14 Actual	PRAH 06/30/14 Actual	PRAH 09/30/14 Actual	12/31/14 Projected	03/31/15 Projected	06/30/15 Projected	09/30/15 Projected	12/31/15 Projected
<b>Revenues:</b>								
Gross Revenues	\$354.7	\$357.5	\$377.3	\$373.9	\$381.3	\$391.5	\$411.3	\$402.0
Reimbursable Revenue	(43.4)	(46.1)	(57.3)	(47.7)	(49.0)	(50.3)	(63.6)	(51.3)
<b>Net Revenues</b>	<b>\$311.4</b>	<b>\$311.4</b>	<b>\$320.1</b>	<b>\$326.2</b>	<b>\$332.3</b>	<b>\$341.2</b>	<b>\$347.7</b>	<b>\$350.7</b>
Yr/Yr Growth	87.0%	73.5%	70.1%	9.2%	6.7%	9.6%	8.6%	7.5%
<b>Backlog:</b>								
Backlog	\$1,987	\$2,045	\$2,091	\$2,153	\$2,196	\$2,249	\$2,301	\$2,358
Yr/Yr Growth	39.8%	41.6%	42.7%	11.0%	10.5%	10.0%	10.0%	9.5%
Gross New business	\$422.8	\$423.8	\$442.0	\$458.5	\$465.1	\$466.2	\$486.2	\$504.3
Net New business	\$351.3	\$371.9	\$382.0	\$380.5	\$386.0	\$391.6	\$403.5	\$418.6
Net new business growth y-o-y	91.7%	86.6%	101.3%	88.5%	9.9%	5.3%	5.6%	10.0%
Net book-to-bill ratio	1.13	1.19	1.19	1.17	1.16	1.15	1.16	1.19
Cancellations As a % of Beginning Backlog	(\$71.5) 3.7%	(\$51.9) 2.6%	(\$60.0) 2.9%	(\$77.9) 3.7%	(\$79.1) 3.7%	(\$74.6) 3.4%	(\$82.7) 3.7%	(\$85.7) 3.7%
Burn Rate	16.1%	15.7%	15.7%	15.6%	15.4%	15.5%	15.5%	15.2%
<b>Net revenue % by geographical area</b>								
US/Canada	57.5%	58.7%	56.0%	--	--	--	--	--
Europe/Africa	34.1%	33.1%	33.0%	--	--	--	--	--
Asia Pacific	3.9%	4.2%	5.0%	--	--	--	--	--
Latin America	4.5%	4.0%	6.0%	--	--	--	--	--
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Net revenue by geographical area</b>								
US/Canada	\$179.1	\$182.9	\$179.2	--	--	--	--	--
Europe/Africa	106.1	103.0	105.6	--	--	--	--	--
Asia Pacific	12.3	13.0	16.0	--	--	--	--	--
Latin America	13.9	12.5	19.2	--	--	--	--	--
<b>Total</b>	<b>\$311.4</b>	<b>\$311.4</b>	<b>\$320.1</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>

Source: Company Documents; UBS Estimates

Figure 2: PRA Health Sciences – Quarterly Income Statement (\$ mil)

PRAH - Quarterly Income Statement (Millions)								
Revenues	PRAH 03/31/14 Actual	PRAH 06/30/14 Actual	PRAH 09/30/14 Actual	12/31/14 Projected	03/31/15 Projected	06/30/15 Projected	09/30/15 Projected	12/31/15 Projected
<b>Total Revenue</b>	<b>\$311.4</b>	<b>\$311.4</b>	<b>\$320.1</b>	<b>\$326.2</b>	<b>\$332.3</b>	<b>\$341.2</b>	<b>\$347.7</b>	<b>\$350.7</b>
% change	87.0%	73.5%	70.1%	9.2%	6.7%	9.6%	8.6%	7.5%
<b>Expenses</b>								
COGS	215.2	213.4	215.7	222.8	227.3	233.4	237.5	237.8
% of revenue	69.1%	68.5%	67.4%	68.3%	68.4%	68.4%	68.3%	67.8%
Gross Profit	96.2	98.0	104.3	103.4	105.0	107.8	110.2	112.9
% of revenue	30.9%	31.5%	32.6%	31.7%	31.6%	31.6%	31.7%	32.2%
SG&A	60.8	56.0	63.4	55.8	57.5	58.4	60.9	59.6
% of revenue	19.5%	18.0%	19.8%	17.1%	17.3%	17.1%	17.5%	17.0%
Stock Comp	(0.9)	(0.9)	(1.0)	(0.7)	(0.9)	(1.0)	(0.9)	(0.8)
Other Op Exp. (Addback to EBITDA)	(3.5)	(2.6)	(5.2)	0.0	0.0	0.0	0.0	0.0
<i>Adjusted EBITDA check line</i>	<i>39.7</i>	<i>45.5</i>	<i>47.0</i>					
<b>Adjusted EBITDA</b>	<b>39.7</b>	<b>45.5</b>	<b>47.0</b>	<b>48.4</b>	<b>48.4</b>	<b>50.5</b>	<b>50.3</b>	<b>54.1</b>
% of revenue	12.8%	14.6%	14.7%	14.8%	14.6%	14.8%	14.5%	15.4%
Depreciation (ex Deal Amortization)	5.9	4.9	4.5	5.4	5.5	5.6	5.7	5.8
% of revenue	1.9%	1.6%	1.4%	1.7%	1.7%	1.6%	1.6%	1.7%
Other expense exclude from net income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income	33.8	40.6	42.5	43.0	42.9	44.9	44.6	48.3
% of revenue	10.9%	13.0%	13.3%	13.2%	12.9%	13.2%	12.8%	13.8%
Interest Expense (Income), net	20.3	19.4	21.0	14.5	12.2	12.2	12.0	11.7
Other Expense (income), net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	13.5	21.2	21.5	28.4	30.7	32.7	32.6	36.7
% of revenue	4.3%	6.8%	6.7%	8.7%	9.2%	9.6%	9.4%	10.5%
Income Taxes	5.4	6.7	7.3	8.8	9.8	10.5	10.8	12.1
Tax Rate (%)	40.0%	31.6%	34.0%	31.0%	32.0%	32.0%	33.0%	33.0%
Minority Interest (Income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	8.1	14.5	14.2	19.6	20.9	22.2	21.9	24.6
% of revenue	2.6%	4.7%	4.4%	6.0%	6.3%	6.5%	6.3%	7.0%
<b>EPS - Fully Diluted</b>	<b>\$0.20</b>	<b>\$0.36</b>	<b>\$0.34</b>	<b>\$0.32</b>	<b>\$0.34</b>	<b>\$0.36</b>	<b>\$0.35</b>	<b>\$0.40</b>
% change	-59.9%	-49.3%	-191.9%	-44.3%	68.9%	1.4%	4.9%	23.6%
Fully Diluted Shares (mil.)	40.3	40.8	42.1	61.2	61.4	61.6	61.8	62.0
<b>P&amp;L Line Growth Comparison:</b>								
Revenues	87.0%	73.5%	70.1%	9.2%	6.7%	9.6%	8.6%	7.5%
COGS	114.8%	101.2%	86.7%	8.6%	5.6%	9.4%	10.1%	6.7%
Gross Profit	45.0%	33.6%	43.7%	10.3%	9.2%	10.0%	5.7%	9.2%
SG&A	15.4%	25.0%	25.0%	-13.3%	-5.5%	4.2%	-4.1%	6.9%
EBITDA	35.6%	37.6%	42.5%	37.1%	21.9%	11.0%	6.9%	11.9%
Depreciation and Amortization	42.3%	23.4%	1.3%	-1.6%	-6.7%	14.1%	26.6%	7.4%
Operating Income	34.5%	39.6%	48.9%	44.3%	26.9%	10.6%	4.9%	12.4%
Interest Expense	108.3%	75.8%	78.0%	-28.4%	-39.9%	-36.9%	-43.1%	-19.9%
Pretax Income	-12.3%	17.5%	28.4%	200.2%	127.4%	54.1%	51.8%	28.9%
Net Income	-10.4%	14.7%	-314.3%	89.2%	157.7%	53.2%	54.1%	25.2%
EPS	-59.9%	-49.3%	-191.9%	-44.3%	68.9%	1.4%	4.9%	23.6%
Shares Outstanding	123.3%	126.2%	133.3%	239.5%	52.5%	51.0%	47.0%	1.3%
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Source: Company Documents; UBS Estimates

Figure 3: PRA Health Sciences – Annual Revenue Model & Statistics (\$ mil)

PRAH - Annual Revenue Model								
	PRAH FY12 Actual	PRAH FY13 Actual	FY14 Projected	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
<b>Revenues:</b>								
Gross Revenues	\$699.7	\$991.3	\$1,463.5	\$1,586.1	\$1,705.1	\$1,824.4	\$1,943.0	\$2,069.3
Reimbursable Revenue	(102.7)	(158.4)	(194.5)	(214.2)	(230.2)	(246.3)	(262.4)	(279.4)
<b>Net Revenues</b>	<b>\$699.7</b>	<b>\$832.9</b>	<b>\$1,269.0</b>	<b>\$1,371.9</b>	<b>\$1,474.8</b>	<b>\$1,578.1</b>	<b>\$1,680.7</b>	<b>\$1,789.9</b>
Yr/Yr Growth	27.8%	19.0%	52.4%	8.1%	7.5%	7.0%	6.5%	6.5%
<b>Backlog:</b>								
Backlog	\$1,383	\$1,940	\$2,153	\$2,358	\$2,582	\$2,824	\$3,087	\$3,365
Yr/Yr Growth	5.2%	40.3%	11.0%	9.5%	9.5%	9.4%	9.3%	9.0%
Gross New business	\$947.8	\$997.7	\$1,747.1	\$1,921.8	\$2,067.9	\$2,222.9	\$2,378.6	\$2,533.2
Net New business	\$653.5	\$774.3	\$1,485.7	\$1,599.8	\$1,719.7	\$1,840.1	\$1,959.7	\$2,077.3
Net new business growth y-o-y	-11.3%	18.5%	91.9%	7.7%	7.5%	7.0%	6.5%	6.0%
Net book-to-bill ratio	0.93	0.93	1.17	1.17	1.17	1.17	1.17	1.16
Cancellations	\$294.3	\$223.4	\$261.3	\$322.0	\$348.1	\$382.8	\$418.8	\$455.8
As a % of Beginning Backlog	22.4%	16.2%	13.5%	15.0%	14.8%	14.8%	14.8%	14.8%
Burn Rate	11.4%	14.5%	15.7%	15.4%	15.6%	15.3%	14.9%	14.5%
<b>Net revenue % by geographical area</b>								
US/Canada	53.9%	52.7%	--	--	--	--	--	--
Europe/Africa	40.8%	41.0%	--	--	--	--	--	--
Asia Pacific	3.2%	3.2%	--	--	--	--	--	--
Latin America	2.1%	3.2%	--	--	--	--	--	--
<b>Total</b>	<b>100%</b>	<b>100%</b>	--	--	--	--	--	--
<b>Net revenue by geographical area</b>								
US/Canada	\$321.7	\$438.9	--	--	--	--	--	--
Europe/Africa	243.8	341.1	--	--	--	--	--	--
Asia Pacific	19.3	26.4	--	--	--	--	--	--
Latin America	12.3	26.5	--	--	--	--	--	--
<b>Total</b>	<b>\$597.1</b>	<b>\$832.9</b>	--	--	--	--	--	--

Source: Company Documents; UBS Estimates

Figure 4: PRA Health Sciences – Annual Income Statement (\$ mil)

PRAH - Annual Income Statement (Millions)								
Revenues	PRAH FY12 Actual	PRAH FY13 Actual	FY14 Projected	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
<b>Total Revenue</b>	<b>\$597.1</b>	<b>\$832.9</b>	<b>\$1,269.0</b>	<b>\$1,371.9</b>	<b>\$1,474.8</b>	<b>\$1,578.1</b>	<b>\$1,680.7</b>	<b>\$1,789.9</b>
% change	9.0%	39.5%	52.4%	8.1%	7.5%	7.0%	6.5%	6.5%
<b>Expenses</b>								
COGS	358.6	526.9	867.1	936.0	1,004.4	1,071.5	1,137.8	1,208.2
% of revenue	60.1%	63.3%	68.3%	68.2%	68.1%	67.9%	67.7%	67.5%
Gross Profit	238.5	306.0	402.0	436.0	470.5	506.6	542.9	581.7
% of revenue	39.9%	36.7%	31.7%	31.8%	31.9%	32.1%	32.3%	32.5%
SG&A	160.6	212.6	236.1	236.3	250.7	265.1	277.3	291.8
% of revenue	26.9%	25.5%	18.6%	17.2%	17.0%	16.8%	16.5%	16.3%
Stock Comp	(11.6)	(24.7)	(3.5)	(3.6)	(4.0)	(4.5)	(5.0)	(5.5)
Other Op Exp. (Addback to EBITDA)	(6.7)	(12.4)	(11.2)	0.0	0.0	0.0	0.0	0.0
<i>Adjusted EBITDA check line</i>	<i>96.2</i>	<i>130.6</i>						
<b>Adjusted EBITDA</b>	<b>96.2</b>	<b>130.6</b>	<b>180.6</b>	<b>203.3</b>	<b>223.8</b>	<b>245.9</b>	<b>270.5</b>	<b>295.5</b>
% of revenue	16.1%	15.7%	14.2%	14.8%	15.2%	15.6%	16.1%	16.5%
Depreciation (ex Deal Amortization)	15.0	18.1	20.7	22.6	23.0	23.5	24.0	24.4
% of revenue	2.5%	2.2%	1.6%	1.6%	1.6%	1.5%	1.4%	1.4%
Other expense exclude from net inco	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income	81.1	112.5	159.9	180.7	200.8	222.4	246.5	271.1
% of revenue	13.6%	13.5%	12.6%	13.2%	13.6%	14.1%	14.7%	15.1%
Interest Expense (Income), net	28.5	52.9	75.3	48.0	45.0	42.0	40.0	38.0
Other Expense (income), net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	52.6	59.6	84.6	132.6	155.8	180.4	206.5	233.1
% of revenue	8.8%	7.2%	6.7%	9.7%	10.6%	11.4%	12.3%	13.0%
Income Taxes	20.7	34.2	28.2	43.1	48.3	54.1	59.9	66.4
Tax Rate (%)	39.4%	57.3%	33.3%	32.5%	31.0%	30.0%	29.0%	28.5%
Minority Interest (Income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	31.9	25.4	56.4	89.5	107.5	126.3	146.6	166.6
% of revenue	5.3%	3.1%	4.4%	6.5%	7.3%	8.0%	8.7%	9.3%
<i>Reported EPS from Cont. Ops.</i>	<i>\$1.83</i>	<i>\$1.41</i>						
<b>EPS - Fully Diluted</b>	<b>\$1.83</b>	<b>\$1.41</b>	<b>\$1.22</b>	<b>\$1.45</b>	<b>\$1.73</b>	<b>\$2.01</b>	<b>\$2.32</b>	<b>\$2.62</b>
% change	-6.7%	-23.0%	-13.2%	18.5%	19.1%	16.6%	15.2%	13.1%
Fully Diluted Shares (mil.)	17.4	18.0	46.1	61.7	62.2	62.7	63.2	63.5
<b>P&amp;L Line Growth Comparison:</b>								
Revenues	9.0%	39.5%	52.4%	8.1%	7.5%	7.0%	6.5%	6.5%
COGS	11.6%	46.9%	64.6%	7.9%	7.3%	6.7%	6.2%	6.2%
Gross Profit	5.3%	28.3%	31.4%	8.5%	7.9%	7.7%	7.2%	7.2%
SG&A	16.1%	32.3%	11.0%	0.1%	6.1%	5.7%	4.6%	5.2%
EBITDA	1.2%	35.8%	38.3%	12.6%	10.1%	9.9%	10.0%	9.2%
Depreciation and Amortization	13.6%	20.0%	14.7%	9.1%	1.8%	2.2%	2.1%	1.7%
Operating Income	-0.9%	38.7%	42.1%	13.0%	11.1%	10.8%	10.8%	9.9%
Interest Expense	-9.1%	85.6%	42.3%	-36.2%	-6.3%	-6.7%	-4.8%	-5.0%
Pretax Income	4.3%	13.3%	41.9%	56.8%	17.4%	15.9%	14.5%	12.8%
Net Income	-6.0%	-20.2%	121.7%	58.7%	20.1%	17.5%	16.1%	13.6%
EPS	-6.7%	-23.0%	-13.2%	18.5%	19.1%	16.6%	15.2%	13.1%
Shares Outstanding	0.7%	3.5%	155.4%	33.9%	0.8%	0.8%	0.8%	0.4%
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Source: Company Documents; UBS Estimates



## PRA Health Sciences Inc (PRAH.O)

Income statement (US\$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
<b>Revenues</b>	<b>548</b>	<b>597</b>	<b>833</b>	<b>1,269</b>	<b>52.4</b>	<b>1,372</b>	<b>8.1</b>	<b>1,475</b>	<b>1,578</b>	<b>1,681</b>
Gross profit	226	239	306	402	31.4	436	8.5	470	507	543
<b>EBITDA (UBS)</b>	<b>95</b>	<b>96</b>	<b>131</b>	<b>181</b>	<b>38.3</b>	<b>203</b>	<b>12.6</b>	<b>224</b>	<b>246</b>	<b>271</b>
Depreciation & amortisation	(13)	(15)	(18)	(21)	14.7	(23)	9.1	(23)	(23)	(24)
<b>EBIT (UBS)</b>	<b>82</b>	<b>81</b>	<b>113</b>	<b>160</b>	<b>42.1</b>	<b>181</b>	<b>13.0</b>	<b>201</b>	<b>222</b>	<b>247</b>
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(31)	(28)	(53)	(75)	-42.3	(48)	36.2	(45)	(42)	(40)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
<b>Profit before tax</b>	<b>50</b>	<b>53</b>	<b>60</b>	<b>85</b>	<b>41.9</b>	<b>133</b>	<b>56.8</b>	<b>156</b>	<b>180</b>	<b>207</b>
Tax	(17)	(21)	(34)	(28)	17.5	(43)	-52.9	(48)	(54)	(60)
<b>Profit after tax</b>	<b>34</b>	<b>32</b>	<b>25</b>	<b>56</b>	<b>121.7</b>	<b>89</b>	<b>58.7</b>	<b>107</b>	<b>126</b>	<b>147</b>
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
<b>Net earnings (local GAAP)</b>	<b>34</b>	<b>32</b>	<b>25</b>	<b>56</b>	<b>121.7</b>	<b>89</b>	<b>58.7</b>	<b>107</b>	<b>126</b>	<b>147</b>
<b>Net earnings (UBS)</b>	<b>34</b>	<b>32</b>	<b>25</b>	<b>56</b>	<b>121.7</b>	<b>89</b>	<b>58.7</b>	<b>107</b>	<b>126</b>	<b>147</b>
Tax rate (%)	32.8	39.4	57.3	33.3	-41.9	32.5	-2.5	31.0	30.0	29.0
<b>Per share (US\$)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
EPS (UBS, diluted)	1.96	1.83	1.41	1.22	-13.2	1.45	18.5	1.73	2.01	2.32
EPS (local GAAP, diluted)	1.96	1.83	1.41	1.22	-13.2	1.45	18.5	1.73	2.01	2.32
EPS (UBS, basic)	1.96	1.83	1.41	1.22	-13.2	1.45	18.5	1.73	2.01	2.32
Net DPS (US\$)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted)*	2.72	2.69	2.41	1.67	-30.6	1.82	8.6	2.10	2.39	2.70
Book value per share	-	10.09	25.89	15.32	-40.8	11.29	-26.3	11.68	12.33	13.21
Average shares (diluted)	17.31	17.44	18.05	46.09	155.4	61.73	33.9	62.23	62.73	63.23
<b>Balance sheet (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Cash and equivalents	-	-	81	125	54.5	109	-12.7	120	144	178
Other current assets	-	215	377	429	13.8	466	8.6	512	569	635
<b>Total current assets</b>	<b>-</b>	<b>-</b>	<b>458</b>	<b>554</b>	<b>20.9</b>	<b>575</b>	<b>3.8</b>	<b>632</b>	<b>713</b>	<b>813</b>
Net tangible fixed assets	-	650	1,875	1,742	-7.1	1,662	-4.6	1,576	1,489	1,402
Net intangible fixed assets	-	0	0	0	-	0	-	0	0	0
Investments / other assets	0	8	62	56	-10.4	56	0.0	56	56	56
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>2,395</b>	<b>2,351</b>	<b>-1.8</b>	<b>2,293</b>	<b>-2.5</b>	<b>2,264</b>	<b>2,257</b>	<b>2,270</b>
Trade payables & other ST liabilities	-	303	450	481	6.9	532	10.6	574	620	672
Short term debt	-	3	19	9	-52.91	9	0.00	9	9	9
<b>Total current liabilities</b>	<b>-</b>	<b>306</b>	<b>469</b>	<b>490</b>	<b>4.5</b>	<b>541</b>	<b>10.4</b>	<b>583</b>	<b>629</b>	<b>680</b>
Long term debt	-	451	1,246	982	-21.2	882	-10.2	782	682	582
Other long term liabilities	-	50	212	173	-18.7	173	0.0	173	173	173
Preferred shares	-	0	0	0	-	0	-	0	0	0
<b>Total liabilities (incl pref shares)</b>	<b>-</b>	<b>807</b>	<b>1,927</b>	<b>1,645</b>	<b>-14.7</b>	<b>1,596</b>	<b>-3.0</b>	<b>1,537</b>	<b>1,484</b>	<b>1,435</b>
Common s/h equity	-	176	467	706	51.1	697	-1.4	727	774	835
Minority interests	-	0	0	0	-	0	-	0	0	0
<b>Total liabilities &amp; equity</b>	<b>-</b>	<b>983</b>	<b>2,395</b>	<b>2,351</b>	<b>-1.8</b>	<b>2,293</b>	<b>-2.5</b>	<b>2,264</b>	<b>2,257</b>	<b>2,270</b>
<b>Cash flow (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Net income (before pref divs)	34	32	25	56	121.7	89	58.7	107	126	147
Depreciation & amortisation	13	15	18	21	14.7	23	9.1	23	24	24
Net change in working capital	-	47	58	(32)	-	6	-	15	12	5
Other operating	-	16	(31)	37	-	11	-70.4	10	10	10
<b>Operating cash flow</b>	<b>-</b>	<b>110</b>	<b>70</b>	<b>82</b>	<b>17.8</b>	<b>129</b>	<b>57.1</b>	<b>155</b>	<b>172</b>	<b>186</b>
Tangible capital expenditure	-	(18)	(20)	(26)	-30.6	(33)	-28.2	(37)	(40)	(45)
Intangible capital expenditure	-	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	-	0	(1,115)	0	-	0	-	0	0	0
Other investing	-	0	(5)	15	-	0	-	0	0	0
<b>Investing cash flow</b>	<b>-</b>	<b>(18)</b>	<b>(1,140)</b>	<b>(11)</b>	<b>99.1</b>	<b>(33)</b>	<b>-209.0</b>	<b>(37)</b>	<b>(40)</b>	<b>(45)</b>
Equity dividends paid	-	(102)	(132)	0	-	0	-	0	0	0
Share issues / (buybacks)	-	0	470	290	-38.3	7	-97.6	10	10	10
Other financing	-	(2)	(59)	(2)	97.29	0	-	0	0	0
Change in debt & pref shares	-	61	798	(275)	-	(100)	63.67	(100)	(100)	(100)
<b>Financing cash flow</b>	<b>-</b>	<b>(42)</b>	<b>1,078</b>	<b>14</b>	<b>-98.7</b>	<b>(93)</b>	<b>-</b>	<b>(90)</b>	<b>(90)</b>	<b>(90)</b>
<b>Cash flow inc/(dec) in cash</b>	<b>-</b>	<b>50</b>	<b>8</b>	<b>85</b>	<b>NM</b>	<b>3</b>	<b>-96.4</b>	<b>28</b>	<b>42</b>	<b>51</b>
FX / non cash items	-	-	(36)	(41)	-13.3	(19)	53.7	(18)	(17)	(17)
<b>Balance sheet inc/(dec) in cash</b>	<b>-</b>	<b>-</b>	<b>(28)</b>	<b>44</b>	<b>-</b>	<b>(16)</b>	<b>-</b>	<b>10</b>	<b>24</b>	<b>34</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.\*Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.



## PRA Health Sciences Inc (PRAH.O)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	-	-	-	22.2	18.8	15.7	13.5	11.7
P/E (UBS, diluted)	-	-	-	22.2	18.8	15.7	13.5	11.7
P/CEPS	-	-	-	16.3	15.0	13.0	11.4	10.1
Equity FCF (UBS) yield %	-	-	-	3.5	5.9	7.3	8.1	8.6
Net dividend yield (%)	-	-	-	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	-	1.8	2.4	2.3	2.2	2.1
EV/revenues (core)	-	-	-	2.0	1.7	1.6	1.4	1.2
EV/EBITDA (core)	-	-	-	14.4	11.8	10.3	8.9	7.6
EV/EBIT (core)	-	-	-	16.2	13.3	11.5	9.8	8.3
EV/OpFCF (core)	-	-	-	18.6	15.9	14.0	12.0	10.3
EV/op. invested capital	-	-	-	1.6	1.6	1.7	1.7	1.7
<b>Enterprise value (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Market cap.	-	-	-	1,626	1,626	1,626	1,626	1,626
Net debt (cash)	-	345	765	1,025	824	726	609	480
Buy out of minorities	-	0	0	0	0	0	0	0
Pension provisions/other	-	0	0	0	0	0	0	0
<b>Total enterprise value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,651</b>	<b>2,450</b>	<b>2,353</b>	<b>2,235</b>	<b>2,106</b>
Non core assets	-	(8)	(17)	(53)	(53)	(53)	(53)	(53)
<b>Core enterprise value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,598</b>	<b>2,396</b>	<b>2,299</b>	<b>2,182</b>	<b>2,053</b>
<b>Growth (%)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Revenue	21.4	9.0	39.5	52.4	8.1	7.5	7.0	6.5
EBITDA (UBS)	4.3	1.2	35.8	38.3	12.6	10.1	9.9	10.0
EBIT (UBS)	3.4	-0.9	38.7	42.1	13.0	11.1	10.8	10.8
EPS (UBS, diluted)	38.6	-6.7	-23.0	-13.2	18.5	19.1	16.6	15.2
Net DPS	-	-	-	-	-	-	-	-
<b>Margins &amp; Profitability (%)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Gross profit margin	41.3	39.9	36.7	31.7	31.8	31.9	32.1	32.3
EBITDA margin	17.4	16.1	15.7	14.2	14.8	15.2	15.6	16.1
EBIT margin	14.9	13.6	13.5	12.6	13.2	13.6	14.1	14.7
Net earnings (UBS) margin	6.2	5.3	3.1	4.4	6.5	7.3	8.0	8.7
ROIC (EBIT)	-	-	-	10.1	12.3	14.5	17.0	20.0
ROIC post tax	-	-	2.9	6.8	8.3	10.0	11.9	14.2
ROE (UBS)	-	18.1	7.9	9.6	12.8	15.1	16.8	18.2
<b>Capital structure &amp; Coverage (x)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Net debt / EBITDA	-	3.6	9.1	4.8	3.8	3.0	2.2	1.5
Net debt / total equity %	-	196.2	253.3	122.5	112.2	92.4	70.7	49.5
Net debt / (net debt + total equity) %	-	66.2	71.7	55.1	52.9	48.0	41.4	33.1
Net debt/EV	-	-	-	33.3	32.6	29.2	25.1	20.1
Capex / depreciation %	-	120.1	109.2	124.3	146.0	160.9	170.2	187.5
Capex / revenue %	-	3.0	2.4	2.0	2.4	2.5	2.5	2.7
EBIT / net interest	2.6	2.8	2.1	2.1	3.8	4.5	5.3	6.2
Dividend cover (UBS)	-	-	-	-	-	-	-	-
Div. payout ratio (UBS) %	-	-	-	-	-	-	-	-
<b>Revenues by division (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Others	548	597	833	1,269	1,372	1,475	1,578	1,681
<b>Total</b>	<b>548</b>	<b>597</b>	<b>833</b>	<b>1,269</b>	<b>1,372</b>	<b>1,475</b>	<b>1,578</b>	<b>1,681</b>
<b>EBIT (UBS) by division (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Others	82	81	113	160	181	201	222	247
<b>Total</b>	<b>82</b>	<b>81</b>	<b>113</b>	<b>160</b>	<b>181</b>	<b>201</b>	<b>222</b>	<b>247</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

### Forecast returns

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Forecast price appreciation	+6.7%
Forecast dividend yield	0.0%
Forecast stock return	+6.7%
Market return assumption	5.6%
Forecast excess return	+1.1%

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### Statement of Risk

The primary risk factors for PRA Health include: 1) Risk of expansion / contraction of pharmaceutical and biotech drug company research and development budgets, particularly late-stage; 2) Risk of increase/decrease in the trend of pharmaceutical and biotechnology company outsourcing of drug research and development specifically with respect to late-stage development; 3) Risk of changes to government regulations required in the process of drug research and development; 4) Risk of a loss of any strategic partner relationships or the cancellation of a project. The company also bares financial risk in regards to contracts that may be mis-priced or otherwise overrun initial cost estimates.

## Required Disclosures

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### UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	47%	37%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	42%	32%
<b>Sell</b>	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS Securities LLC:** Steven Valiquette; Jonathan Yong.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>PRA Health Sciences Inc</b> <sup>2, 4, 6, 16</sup>	PRAH.O	Buy	N/A	US\$27.19	13 Feb 2015

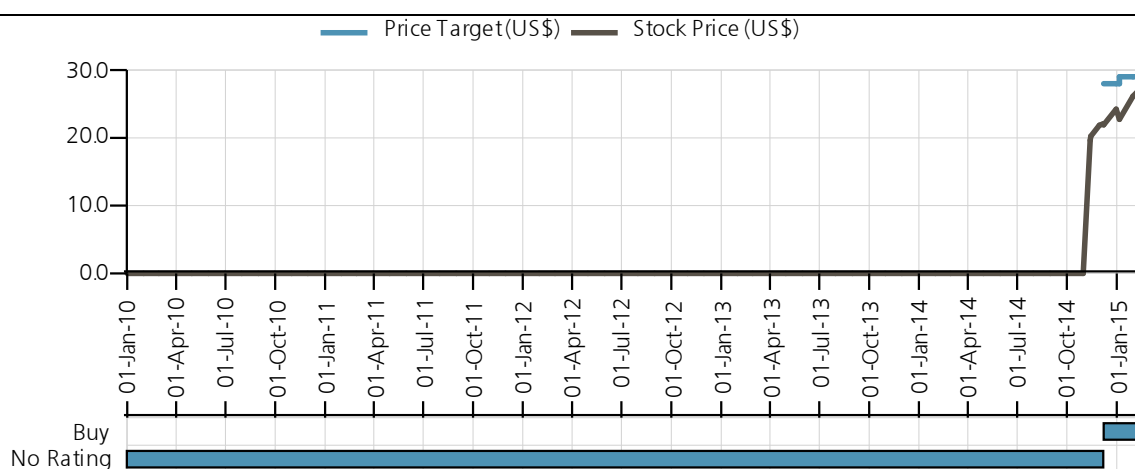
Source: UBS. All prices as of local market close.

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### PRA Health Sciences Inc (US\$)



Source: UBS; as of 13 Feb 2015

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