

PRA Health Sciences Inc

Big Beat in 1Q15 on Margin Expansion; New 2015 EPS Growth Now Tripled Vs. Prior Guidance

1Q15 EPS of \$0.41 handily beats \$0.31 Street view mainly on margin expansion

PRAH bucked the trend of choppy results within the CRO industry in 1Q by posting 1Q15 EPS of \$0.41 that was materially above the Street's/UBS view of \$0.31 primarily on greater-than-expected margin expansion. While FX has caused some top-line misses for some CRO peers, PRAH was also able to avoid this pitfall with 1Q revs of \$332 mil that were modestly ahead of Street's \$330 mil, and equaled 10% constant currency (cc) growth. Net bookings of \$398 mil (+13% y-o-y) also exceeded our \$386 mil forecast, and translated to a 1.20 book to bill ratio and a burn rate of ~15.5% (consistent with prior trends). We also note that the cancellation rate of 2.2% (as % of beginning backlog) was one of the lowest rates posted in years. At the midpoint, 2015 EPS growth guidance was tripled from 11% to now 33% (this doesn't happen often).

Key topic on Thurs am cc will be sustainability of margins, and new ED strategy

At the end of C1Q15, PRA Health announced an expansion of the company's Early Development (ED) Services. As part of the expansion of services, the company would be opening an 11k square foot outpatient facility with a focus on psychiatry, neurology, pain, and other key therapeutic areas. The expansion would also include an expansion of patient pharmacology services into Russia and an expansion of capability at the company's Lenexa, Kansas site. Mgmt cited market demand for the expansion of services, which may bode well for future growth. We expect more color on this Thurs.

2015 sales guidance tweaked slightly for FX; but EPS growth guidance tripled

While the company has much less relative FX exposure (80% revs USD) vs. other CROs, the company did slightly tweak down 2015 revenue guidance by \$10 mil to \$1,340-1,390 mil. However, this was more than made up for with a large increase in EPS guidance from \$1.35-1.45 (+7-15% growth) to now \$1.62-1.72 (+29-37%). With gross margin and SG&A trends both much better than expected (see Figures 2-5), we raise our 2015 EPS view from \$1.45 to \$1.69, and raise 2016 EPS from \$1.73 to \$1.95.

Valuation: Raise PT from \$32 to \$35 on much higher EPS (same P/E multiple)

New \$35 PT on same 18x P/E on CY16 EPS of \$1.95 (was \$1.73); still = 12x EBITDA.

Equities

Americas
Healthcare Providers

12-month rating **Buy**

12m price target **US\$35.00**
Prior: **US\$32.00**

Price **US\$29.00**

RIC: PRAH.O BBG: PRAH US

Trading data and key metrics

52-wk range	US\$1.52-0.00
Market cap.	US\$1.82bn
Shares o/s	62.7m (COM)
Free float	100%
Avg. daily volume ('000)	190
Avg. daily value (m)	US\$5.6
Common s/h equity (12/15E)	US\$0.68bn
P/BV (12/15E)	2.7x
Net debt / EBITDA (12/15E)	3.4x

EPS (UBS, diluted) (US\$)

	12/15E			
	From	To	% ch	Cons.
Q1	0.31	0.41	31.18	0.31
Q2E	0.37	0.43	16.40	0.34
Q3E	0.37	0.42	12.90	0.37
Q4E	0.40	0.43	9.09	0.40
12/15E	1.45	1.69	16.67	1.41
12/16E	1.73	1.95	12.83	1.71
12/17E	2.00	2.20	10.08	2.00

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Highlights (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	597	833	1,267	1,369	1,472	1,575	1,683	1,794
EBIT (UBS)	81	113	162	200	220	241	264	289
Net earnings (UBS)	32	25	55	105	123	140	158	178
EPS (UBS, diluted) (US\$)	0.80	0.61	1.26	1.69	1.95	2.20	2.48	2.78
DPS (US\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(345)	(1,184)	(857)	(757)	(632)	(494)	(349)	(194)
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	13.6	13.5	12.8	14.6	15.0	15.3	15.7	16.1
ROIC (EBIT) %	-	-	10.4	13.8	16.2	18.8	21.9	25.5
EV/EBITDA (core) x	-	-	-	11.6	10.2	8.9	7.6	6.5
P/E (UBS, diluted) x	-	-	-	17.2	14.9	13.2	11.7	10.4
Equity FCF (UBS) yield %	-	-	-	6.1	7.4	8.0	8.4	8.9
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\$29.00 on 06 May 2015 18:42 EDT

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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 \$35 based on a P/E of 18x our 2016 EPS estimate of \$1.95.

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 \$1.95 equates to a price of \$39/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 completed over the past few years. The integration issues could materialize in higher costs which could result in a hypothetical lower 2016 EPS of \$1.60. On a slightly lower multiple of ~15x, this leads to a valuation of \$24/sh.

Upcoming catalysts

May 2015 – various investor conferences

12-month rating

Buy

12m price target

US\$35.00

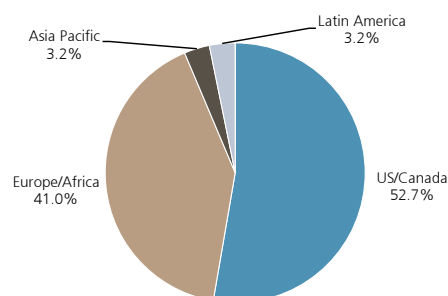
Business description

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

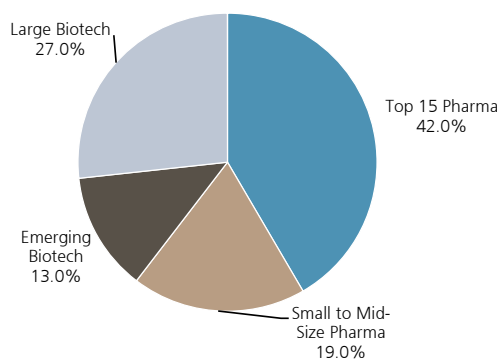
The CRO industry has been growing at a steady clip, primarily the result of significant growth in the phase II-IV market. However, we expect the early development market to have relatively flat growth through 2018. We expect the overall CRO industry to grow at a CAGR of ~6-7% through 2018, with CRO market 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 (2014)



Source: Company Documents

Revenues by Customer Segment (2014)



Source: Company Documents

Figure 1: PRA Health – 2015 Guidance Table

PRA Health: Company Guidance Table		
Guidance For Period: Date Announced:	FY15 2/18/2015	FY15 5/6/2015
Consolidated Services Revenues	\$1.35 - 1.40 bil	\$1.34 - 1.39 bil
Effective Tax Rate	30.0%	30.0%
Non-GAAP Diluted EPS	\$1.35 - 1.45	\$1.62 - 1.72
Non-GAAP EPS Y-O-Y Growth	+7 - 15%	+29 - 37%
GAAP Diluted EPS	\$0.60 - 0.65	\$0.70 - 0.80
FX	Assumes 1/1/15 rates	Assumes 4/1/15 rates
Note:		

Source: company reports.

Figure 2: PRA Health – Quarterly Revenue Model & Statistics (\$ mil)

PRAH - Quarterly Revenue Model (\$ mil)								
	PRAH 03/31/14 Actual	PRAH 06/30/14 Actual	PRAH 09/30/14 Actual	PRAH 12/31/14 Actual	PRAH 03/31/15 Actual	06/30/15 Projected	09/30/15 Projected	12/31/15 Projected
Revenues:								
Gross Revenues	\$354.7	\$357.5	\$377.3	\$370.0	\$388.6	\$389.7	\$411.3	\$399.6
Reimbursable Revenue	(43.4)	(46.1)	(57.3)	(46.2)	(56.6)	(50.3)	(63.6)	(49.7)
Net Revenues	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	\$339.4	\$347.7	\$349.9
Yr/Yr Growth	87.0%	73.5%	70.1%	8.4%	6.6%	9.0%	8.6%	8.1%
Backlog:								
Backlog	\$1,987	\$2,045	\$2,091	\$2,141	\$2,200	\$2,249	\$2,301	\$2,345
Yr/Yr Growth	39.8%	41.6%	42.7%	10.4%	10.7%	10.0%	10.0%	9.5%
Gross New business	\$422.8	\$423.8	\$442.0	\$456.8	\$444.3	\$466.2	\$486.2	\$502.5
Net New business	\$351.3	\$371.9	\$382.0	\$388.4	\$398.0	\$391.6	\$403.5	\$417.1
Net new business growth y-o-y	91.7%	86.6%	101.3%	92.4%	13.3%	5.3%	5.6%	7.4%
Net book-to-bill ratio	1.13	1.19	1.19	1.20	1.20	1.15	1.16	1.19
Cancellations	(\$71.5)	(\$51.9)	(\$60.0)	(\$68.4)	(\$46.3)	(\$74.6)	(\$82.7)	(\$85.4)
As a % of Beginning Backlog	3.7%	2.6%	2.9%	3.3%	2.2%	3.4%	3.7%	3.7%
Burn Rate	16.1%	15.7%	15.7%	15.5%	15.5%	15.4%	15.5%	15.2%
Net revenue % by geographical area								
US/Canada	57.5%	58.7%	56.0%	59.7%	60.8%	--	--	--
Europe/Africa	34.1%	33.1%	33.0%	31.8%	30.4%	--	--	--
Asia Pacific	3.9%	4.2%	5.0%	4.1%	4.1%	--	--	--
Latin America	4.5%	4.0%	6.0%	4.4%	4.7%	--	--	--
Total	100.0%	100.0%	100.0%	100.0%	100.0%	--	--	--
Net revenue by geographical area								
US/Canada	\$179.1	\$182.9	\$179.2	\$193.4	\$202.0	--	--	--
Europe/Africa	106.1	103.0	105.6	102.9	101.0	--	--	--
Asia Pacific	12.3	13.0	16.0	13.4	13.4	--	--	--
Latin America	13.9	12.5	19.2	14.1	15.5	--	--	--
Total	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	--	--	--

Source: Company Documents; UBS Estimates

Figure 3: PRA Health Sciences – Quarterly Income Statement (\$ mil)

PRAH - Quarterly Income Statement (\$ mil)								
Revenues	PRAH 03/31/14 Actual	PRAH 06/30/14 Actual	PRAH 09/30/14 Actual	PRAH 12/31/14 Actual	PRAH 03/31/15 Actual	06/30/15 Projected	09/30/15 Projected	12/31/15 Projected
Total Revenue	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	\$339.4	\$347.7	\$349.9
% change	87.0%	73.5%	70.1%	8.4%	6.6%	9.0%	8.6%	8.1%
Expenses								
COGS	215.2	213.4	215.7	214.9	219.0	225.4	230.2	230.9
% of revenue	69.1%	68.5%	67.4%	66.4%	66.0%	66.4%	66.2%	66.0%
Gross Profit (incl stock comp exp)	96.2	98.0	104.3	108.8	113.0	114.1	117.5	119.0
% of revenue	30.9%	31.5%	32.6%	33.6%	34.0%	33.6%	33.8%	34.0%
SG&A (incl stock comp exp)	60.8	56.0	63.4	61.8	60.8	60.1	64.7	64.7
% of revenue	19.5%	18.0%	19.8%	19.1%	18.3%	17.7%	18.6%	18.5%
Stock Comp (Addback to EBITDA)	(0.9)	(0.9)	(1.0)	(0.7)	(0.8)	(1.0)	(0.9)	(0.8)
Other Op Exp. (Addback to EBITDA)	(3.5)	(2.6)	(5.2)	(2.9)	(2.8)	(1.0)	(1.0)	(1.0)
<i>Adjusted EBITDA check line</i>	<i>39.7</i>	<i>45.5</i>	<i>47.0</i>	<i>50.6</i>	<i>55.7</i>	<i>56.0</i>	<i>54.8</i>	<i>56.0</i>
Adjusted EBITDA	39.7	45.5	47.0	50.6	55.7	56.0	54.8	56.0
% of revenue	12.8%	14.6%	14.7%	15.6%	16.8%	16.5%	15.7%	16.0%
Depreciation (ex Deal Amortization)	5.9	4.9	4.5	5.4	5.1	5.6	5.7	5.8
% of revenue	1.9%	1.6%	1.4%	1.7%	1.5%	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	45.2	50.6	50.4	49.1	50.2
% of revenue	10.9%	13.0%	13.3%	14.0%	15.2%	14.8%	14.1%	14.4%
Interest Expense (Income), net	20.3	19.4	21.0	17.0	13.7	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	28.2	36.9	38.2	37.1	38.6
% of revenue	4.3%	6.8%	6.7%	8.7%	11.1%	11.2%	10.7%	11.0%
Income Taxes	5.4	6.7	7.3	9.6	11.1	11.4	11.1	11.8
Tax Rate (%)	40.0%	31.6%	34.0%	34.0%	30.0%	30.0%	30.0%	30.5%
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	18.6	25.8	26.7	26.0	26.8
% of revenue	2.6%	4.7%	4.4%	5.8%	7.8%	7.9%	7.5%	7.7%
	\$0.20	\$0.36	\$0.34	\$0.35	\$0.41	\$0.43	\$0.42	\$0.43
EPS - Fully Diluted	\$0.20	\$0.36	\$0.34	\$0.35	\$0.41	\$0.43	\$0.42	\$0.43
% change	-6.5%	18.1%	-313.9%	37.7%	104.4%	20.2%	23.3%	23.0%
Fully Diluted Shares (mil.)	40.3	40.8	42.1	53.0	62.8	62.5	62.5	62.0
P&L Line Growth Comparison:								
Revenues	87.0%	73.5%	70.1%	8.4%	6.6%	9.0%	8.6%	8.1%
COGS	114.8%	101.2%	86.7%	4.8%	1.8%	5.6%	6.7%	7.4%
Gross Profit (incl stock comp exp)	45.0%	33.6%	43.7%	16.1%	17.5%	16.3%	12.7%	9.3%
SG&A (incl stock comp exp)	15.4%	25.0%	25.0%	-4.0%	0.0%	7.3%	2.0%	4.8%
EBITDA	35.6%	37.6%	42.5%	43.6%	40.3%	23.1%	16.5%	10.7%
Depreciation and Amortization	42.3%	23.4%	1.3%	-1.3%	-13.0%	14.1%	26.6%	7.1%
Operating Income	34.5%	39.6%	48.9%	51.8%	49.6%	24.2%	15.4%	11.1%
Interest Expense	108.3%	75.8%	78.0%	-16.5%	-32.4%	-36.9%	-43.1%	-31.3%
Pretax Income	-12.3%	17.5%	28.4%	198.4%	173.2%	80.0%	72.6%	36.6%
Net Income	-10.4%	14.7%	-314.3%	79.8%	218.6%	84.2%	83.1%	43.8%
EPS	-6.5%	18.1%	-313.9%	37.7%	104.4%	20.2%	23.3%	23.0%
Shares Outstanding	-4.1%	-2.9%	0.2%	30.6%	55.9%	53.2%	48.6%	17.0%
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 4: PRA Health Sciences – Annual Revenue Model & Statistics (\$ mil)

PRAH - Annual Revenue Model								
	PRAH FY12 Actual	PRAH FY13 Actual	PRAH FY14 Actual	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Revenues:								
Gross Revenues	\$699.7	\$991.3	\$1,459.6	\$1,589.2	\$1,708.3	\$1,827.9	\$1,952.2	\$2,081.1
Reimbursable Revenue	(102.7)	(158.4)	(193.0)	(220.1)	(236.6)	(253.2)	(269.7)	(287.2)
Net Revenues	\$699.7	\$832.9	\$1,266.6	\$1,369.0	\$1,471.7	\$1,574.7	\$1,682.6	\$1,793.9
Yr/Yr Growth	27.8%	19.0%	52.1%	8.1%	7.5%	7.0%	6.8%	6.6%
Backlog:								
Backlog	\$1,383	\$1,940	\$2,141	\$2,345	\$2,567	\$2,809	\$3,070	\$3,346
Yr/Yr Growth	5.2%	40.3%	10.4%	9.5%	9.5%	9.4%	9.3%	9.0%
Gross New business	\$947.8	\$997.7	\$1,745.4	\$1,899.2	\$2,043.5	\$2,196.8	\$2,350.5	\$2,503.3
Net New business	\$653.5	\$774.3	\$1,493.6	\$1,610.2	\$1,731.0	\$1,852.1	\$1,972.5	\$2,090.9
Net new business growth y-o-y	-11.3%	18.5%	92.9%	7.8%	7.5%	7.0%	6.5%	6.0%
Net book-to-bill ratio	0.93	0.93	1.18	1.18	1.18	1.18	1.17	1.17
Cancellations	\$294.3	\$223.4	\$251.8	\$289.0	\$312.5	\$344.6	\$378.0	\$412.4
As a % of Beginning Backlog	22.4%	16.2%	13.0%	13.5%	13.3%	13.4%	13.5%	13.4%
Burn Rate	11.4%	14.5%	15.7%	15.4%	15.7%	15.3%	15.0%	14.6%
Net revenue % by geographical area								
US/Canada	53.9%	52.7%	58.0%	--	--	--	--	--
Europe/Africa	40.8%	41.0%	33.0%	--	--	--	--	--
Asia Pacific	3.2%	3.2%	4.3%	--	--	--	--	--
Latin America	2.1%	3.2%	4.7%	--	--	--	--	--
Total	100%	100%	100%	--	--	--	--	--
Net revenue by geographical area								
US/Canada	\$321.7	\$438.9	\$734.6	--	--	--	--	--
Europe/Africa	243.8	341.1	417.7	--	--	--	--	--
Asia Pacific	19.3	26.4	54.7	--	--	--	--	--
Latin America	12.3	26.5	59.7	--	--	--	--	--
Total	\$597.1	\$832.9	\$1,266.6	--	--	--	--	--

Source: Company Documents; UBS Estimates

Figure 5: PRA Health Sciences – Annual Income Statement (\$ mil)

PRAH - Annual Income Statement (Millions)								
Revenues	PRAH FY12 Actual	PRAH FY13 Actual	PRAH FY14 Actual	FY15 Projected	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected
Total Revenue	\$597.1	\$832.9	\$1,266.6	\$1,369.0	\$1,471.7	\$1,574.7	\$1,682.6	\$1,793.9
% change	9.0%	39.5%	52.1%	8.1%	7.5%	7.0%	6.8%	6.6%
Expenses								
COGS	358.6	526.9	859.2	905.5	974.3	1,044.0	1,117.2	1,189.3
% of revenue	60.1%	63.3%	67.8%	66.1%	66.2%	66.3%	66.4%	66.3%
Gross Profit (incl stock comp exp)	238.5	306.0	407.4	463.6	497.4	530.7	565.3	604.5
% of revenue	39.9%	36.7%	32.2%	33.9%	33.8%	33.7%	33.6%	33.7%
SG&A (incl stock comp exp)	160.6	212.6	242.1	250.3	262.0	275.6	287.7	301.4
% of revenue	26.9%	25.5%	19.1%	18.3%	17.8%	17.5%	17.1%	16.8%
Stock Comp (Addback to EBITDA)	(11.6)	(24.7)	(3.5)	(3.5)	(4.0)	(4.5)	(5.0)	(5.5)
Other Op Exp. (Addback to EBITDA)	(6.7)	(12.4)	(14.1)	(5.8)	(4.0)	(4.5)	(5.0)	(5.0)
<i>Adjusted EBITDA check line</i>	<i>96.2</i>	<i>130.6</i>	<i>182.8</i>					
Adjusted EBITDA	96.2	130.6	182.8	222.5	243.5	264.1	287.6	313.7
% of revenue	16.1%	15.7%	14.4%	16.3%	16.5%	16.8%	17.1%	17.5%
Depreciation (ex Deal Amortization)	15.0	18.1	20.7	22.2	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 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	81.1	112.5	162.1	200.3	220.5	240.6	263.6	289.3
% of revenue	13.6%	13.5%	12.8%	14.6%	15.0%	15.3%	15.7%	16.1%
Interest Expense (Income), net	28.5	52.9	77.7	49.6	46.0	43.0	41.0	40.0
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	84.4	150.7	174.5	197.6	222.6	249.3
% of revenue	8.8%	7.2%	6.7%	11.0%	11.9%	12.5%	13.2%	13.9%
Income Taxes	20.7	34.2	29.0	45.4	51.8	58.1	64.6	71.0
Tax Rate (%)	39.4%	57.3%	34.4%	30.1%	29.7%	29.4%	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	55.4	105.3	122.7	139.5	158.1	178.2
% of revenue	5.3%	3.1%	4.4%	7.7%	8.3%	8.9%	9.4%	9.9%
<i>Reported EPS from Cont. Ops.</i>	<i>\$0.80</i>	<i>\$0.61</i>	<i>\$1.26</i>					
EPS - Fully Diluted	\$0.80	\$0.61	\$1.26	\$1.69	\$1.95	\$2.20	\$2.48	\$2.78
% change	-4.6%	-24.0%	107.4%	34.2%	15.5%	13.2%	12.6%	12.2%
Fully Diluted Shares (mil.)	40.0	42.0	44.1	62.4	63.0	63.3	63.7	64.0
P&L Line Growth Comparison:								
Revenues	9.0%	39.5%	52.1%	8.1%	7.5%	7.0%	6.8%	6.6%
COGS	11.6%	46.9%	63.1%	5.4%	7.6%	7.2%	7.0%	6.5%
Gross Profit (incl stock comp exp)	5.3%	28.3%	33.1%	13.8%	7.3%	6.7%	6.5%	6.9%
SG&A (incl stock comp exp)	16.1%	32.3%	13.9%	3.4%	4.7%	5.2%	4.4%	4.7%
EBITDA	1.2%	35.8%	40.0%	21.7%	9.4%	8.5%	8.9%	9.1%
Depreciation and Amortization	13.6%	20.0%	14.8%	7.2%	3.5%	2.2%	2.1%	1.7%
Operating Income	-0.9%	38.7%	44.1%	23.5%	10.1%	9.1%	9.6%	9.7%
Interest Expense	-9.1%	85.6%	46.9%	-36.2%	-7.2%	-6.5%	-4.7%	-2.4%
Pretax Income	4.3%	13.3%	41.6%	78.5%	15.8%	13.3%	12.7%	12.0%
Net Income	-6.0%	-20.2%	117.9%	90.0%	16.5%	13.7%	13.3%	12.8%
EPS	-4.6%	-24.0%	107.4%	34.2%	15.5%	13.2%	12.6%	12.2%
Shares Outstanding	-1.5%	5.0%	5.1%	41.5%	0.9%	0.5%	0.6%	0.5%
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)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Revenues	597	833	1,267	1,369	8.1	1,472	7.5	1,575	1,683	1,794
Gross profit	239	306	407	464	13.8	497	7.3	531	565	605
EBITDA (UBS)	96	131	183	223	21.7	243	9.4	264	288	314
Depreciation & amortisation	(15)	(18)	(21)	(22)	7.2	(23)	3.5	(23)	(24)	(24)
EBIT (UBS)	81	113	162	200	23.5	220	10.1	241	264	289
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	(28)	(53)	(78)	(50)	36.2	(46)	7.2	(43)	(41)	(40)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	53	60	84	151	78.5	174	15.8	198	223	249
Tax	(21)	(34)	(29)	(45)	-56.5	(52)	-14.1	(58)	(65)	(71)
Profit after tax	32	25	55	105	90.0	123	16.5	140	158	178
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
Net earnings (local GAAP)	32	25	55	105	90.0	123	16.5	140	158	178
Net earnings (UBS)	32	25	55	105	90.0	123	16.5	140	158	178
Tax rate (%)	39.4	57.3	34.4	30.1	-12.3	29.7	-1.4	29.4	29.0	28.5
Per share (US\$)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
EPS (UBS, diluted)	0.80	0.61	1.26	1.69	34.2	1.95	15.5	2.20	2.48	2.78
EPS (local GAAP, diluted)	0.80	0.61	1.26	1.69	34.2	1.95	15.5	2.20	2.48	2.78
EPS (UBS, basic)	0.80	0.61	1.26	1.69	34.2	1.95	15.5	2.20	2.48	2.78
Net DPS (US\$)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted)*	1.17	1.04	1.73	2.04	18.3	2.31	13.2	2.58	2.86	3.17
Book value per share	4.40	11.13	11.32	10.94	-3.4	11.55	5.6	12.44	13.49	14.87
Average shares (diluted)	40.00	42.00	44.12	62.44	41.5	63.00	0.9	63.30	63.70	64.00
Balance sheet (US\$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Cash and equivalents	-	81	92	91	-0.2	117	28.1	154	200	255
Other current assets	215	377	400	437	9.3	481	10.2	536	601	676
Total current assets	-	458	491	528	7.5	598	13.3	691	801	931
Net tangible fixed assets	650	1,875	1,707	1,628	-4.7	1,542	-5.3	1,455	1,367	1,280
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	8	62	42	42	0.0	42	0.0	42	42	42
Total assets	-	2,395	2,241	2,198	-1.9	2,182	-0.7	2,187	2,210	2,253
Trade payables & other ST liabilities	303	450	466	517	11.0	557	7.7	602	653	704
Short term debt	3	19	0	0	-	0	-	0	0	0
Total current liabilities	306	469	466	517	11.0	557	7.7	602	653	704
Long term debt	451	1,246	949	849	-10.5	749	-11.8	649	549	449
Other long term liabilities	50	212	150	150	0.0	150	0.0	150	150	150
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	807	1,927	1,564	1,515	-3.1	1,455	-4.0	1,400	1,351	1,302
Common s/h equity	176	467	677	683	0.9	728	6.6	787	859	951
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	983	2,395	2,241	2,198	-1.9	2,182	-0.7	2,187	2,210	2,253
Cash flow (US\$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Net income (before pref divs)	32	25	55	105	90.0	123	16.5	140	158	178
Depreciation & amortisation	15	18	21	22	7.2	23	3.5	24	24	24
Net change in working capital	47	58	(16)	6	-	15	150.0	12	5	(5)
Other operating	16	(31)	17	11	-35.4	10	-9.1	10	10	10
Operating cash flow	110	70	77	145	87.1	171	18.1	185	197	208
Tangible capital expenditure	(18)	(20)	(27)	(33)	-20.8	(37)	-12.1	(40)	(45)	(45)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	(1,115)	0	0	-	0	-	0	0	0
Other investing	0	(5)	15	0	-	0	-	0	0	0
Investing cash flow	(18)	(1,140)	(12)	(33)	-169.2	(37)	-12.1	(40)	(45)	(45)
Equity dividends paid	(102)	(132)	0	0	-	0	-	0	0	0
Share issues / (buybacks)	0	470	334	7	-97.9	10	42.9	10	10	10
Other financing	(2)	(59)	(7)	0	-	0	-	0	0	0
Change in debt & pref shares	61	798	(319)	(100)	68.63	(100)	0.00	(100)	(100)	(100)
Financing cash flow	(42)	1,078	8	(93)	-	(90)	3.2	(90)	(90)	(90)
Cash flow inc/(dec) in cash	50	8	73	19	-74.7	44	135.6	55	62	73
FX / non cash items	-	(36)	(63)	(19)	70.1	(18)	4.0	(17)	(17)	(17)
Balance sheet inc/(dec) in cash	-	(28)	11	0	-	26	-	38	45	55

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)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	-	-	-	17.2	14.9	13.2	11.7	10.4
P/E (UBS, diluted)	-	-	-	17.2	14.9	13.2	11.7	10.4
P/CEPS	-	-	-	14.2	12.5	11.3	10.1	9.2
Equity FCF (UBS) yield %	-	-	-	6.1	7.4	8.0	8.4	8.9
Net dividend yield (%)	-	-	-	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	-	2.7	2.5	2.3	2.2	2.0
EV/revenues (core)	-	-	-	1.9	1.7	1.5	1.3	1.1
EV/EBITDA (core)	-	-	-	11.6	10.2	8.9	7.6	6.5
EV/EBIT (core)	-	-	-	12.9	11.2	9.7	8.3	7.1
EV/OpFCF (core)	-	-	-	15.2	13.4	11.7	10.2	8.5
EV/op. invested capital	-	-	-	1.8	1.8	1.8	1.8	1.8
Enterprise value (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	-	-	-	1,818	1,818	1,818	1,818	1,818
Net debt (cash)	345	765	1,020	807	694	563	422	271
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	-	-	-	2,625	2,513	2,381	2,240	2,090
Non core assets	(8)	(17)	(41)	(41)	(41)	(41)	(41)	(41)
Core enterprise value	-	-	-	2,585	2,472	2,340	2,199	2,049
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	9.0	39.5	52.1	8.1	7.5	7.0	6.8	6.6
EBITDA (UBS)	1.2	35.8	40.0	21.7	9.4	8.5	8.9	9.1
EBIT (UBS)	-0.9	38.7	44.1	23.5	10.1	9.1	9.6	9.7
EPS (UBS, diluted)	-4.6	-24.0	107.4	34.2	15.5	13.2	12.6	12.2
Net DPS	-	-	-	-	-	-	-	-
Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	39.9	36.7	32.2	33.9	33.8	33.7	33.6	33.7
EBITDA margin	16.1	15.7	14.4	16.3	16.5	16.8	17.1	17.5
EBIT margin	13.6	13.5	12.8	14.6	15.0	15.3	15.7	16.1
Net earnings (UBS) margin	5.3	3.1	4.4	7.7	8.3	8.9	9.4	9.9
ROIC (EBIT)	-	-	10.4	13.8	16.2	18.8	21.9	25.5
ROIC post tax	-	2.9	6.8	9.7	11.4	13.3	15.5	18.2
ROE (UBS)	18.1	7.9	9.7	15.5	17.4	18.4	19.2	19.7
Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	3.6	9.1	4.7	3.4	2.6	1.9	1.2	0.6
Net debt / total equity %	196.2	253.3	126.6	110.9	86.8	62.7	40.6	20.4
Net debt / (net debt + total equity) %	66.2	71.7	55.9	52.6	46.5	38.6	28.9	16.9
Net debt/EV %	-	-	-	29.3	25.5	21.1	15.9	9.5
Capex / depreciation %	120.1	109.2	131.8	148.5	160.9	170.2	187.5	184.4
Capex / revenue %	3.0	2.4	2.2	2.4	2.5	2.5	2.7	2.5
EBIT / net interest	2.8	2.1	2.1	4.0	4.8	5.6	6.4	7.2
Dividend cover (UBS)	-	-	-	-	-	-	-	-
Div. payout ratio (UBS) %	-	-	-	-	-	-	-	-
Revenues by division (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	597	833	1,267	1,369	1,472	1,575	1,683	1,794
Total	597	833	1,267	1,369	1,472	1,575	1,683	1,794
EBIT (UBS) by division (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	81	113	162	200	220	241	264	289
Total	81	113	162	200	220	241	264	289

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

Forecast returns

Forecast price appreciation	+20.7%
Forecast dividend yield	0.0%
Forecast stock return	+20.7%
Market return assumption	5.6%
Forecast excess return	+15.1%

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.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	45%	37%
Neutral	FSR is between -6% and 6% of the MRA.	43%	33%
Sell	FSR is > 6% below the MRA.	12%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	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%
Sell	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 March 2015.

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.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
PRA Health Sciences Inc ^{2, 4, 6, 16}	PRAH.O	Buy	N/A	US\$29.00	06 May 2015

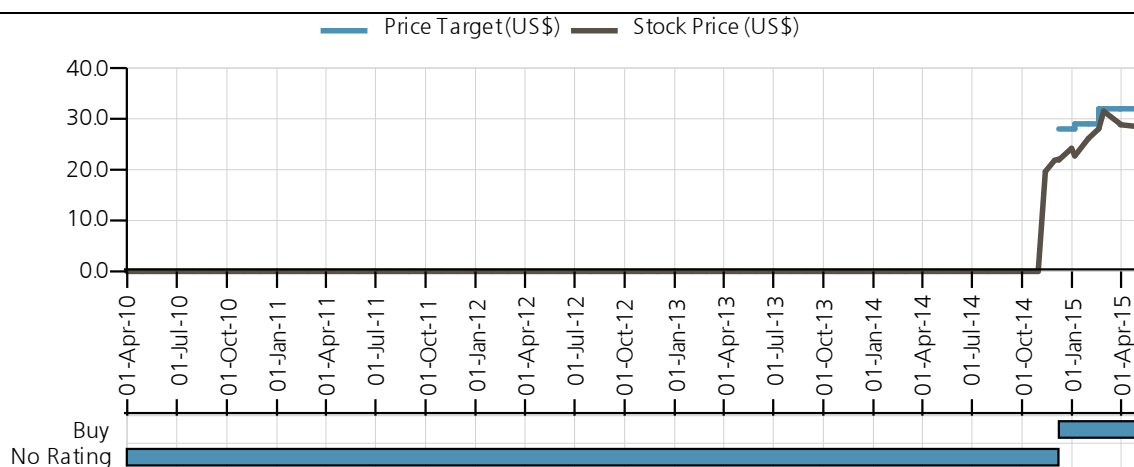
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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PRA Health Sciences Inc (US\$)



Source: UBS; as of 06 May 2015

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