

COMPANY NOTE

Company Update

USA | Healthcare | Pharmaceutical Svcs.

November 3, 2015

Jefferies

PRA Health Sciences (PRAH) Key Insights from 3Q15

Key Takeaway

PRAH is executing well on major strategies. Revenue growth, book-to-bill, and margin improved sequentially and YoY. Plus, the company added a new strategic relationship in 3Q, which highlights PRAH's competitive strength, and should contribute in 2016. The USD unquestionably has boosted 2015 margin (we estimate 2.2%), but EBIT margin still has expansion room operationally.

New Partnership, Competitive Win. Management signed a new strategic partnership during Q3. The magnitude of the relationship was not disclosed but the partnership firms our thesis that PRAH is well-positioned to benefit from mid-tier pharma's vendor strategies. We believe PRAH outcompeted >10 CROs for the award. The relationship is not expected to benefit Q4, but revenues should ramp in 2H16.

Margins Sustainable Into 2016. YTD operating margins expanded 430 bps, ~210 bps from operations and ~220 bps from FX (~\$0.19 by our calculation). FY15 Guidance midpt. (\$1.905) implies ~51.2% YoY EPS growth. Assuming ~\$0.05 Q4 FX benefit, CC EPS would still grow ~31.5% in FY15. If exchange rates remain stable in 2016, margins won't have FX tailwind. A weak dollar would cause a margin headwind (if that's what one thinks will happen). Management still expects operational margin improvement in 2016.

Interest Rate Swap Exit Over Debt Repayment. PRAH used \$32.9M to exit an interest rate swap, and expects to save ~\$15M over the original 5 year term. A lower than expected leverage ratio (~3.8x) due to higher EBITDA, and a credit rating upgrade (B+ from B on 10/1) helped management's decision to eliminate the swap now. Going forward, excess cash will be used to reduce debt.

Joint Ventures. PRAH contributed \$20M for an 11% stake in a new JV with KKR to "enhance the strategic objectives of PRAH" (most likely Predictivv-related). The KKR JV contributed to the \$2.3M JV losses in Q3, while the WX JV weakened as well. With a WX go-private deal in place, management is contemplating a possible adjustment to the JV to address structural changes.

Valuation/Risks

Our \$48 PT applies a 21.4 P/E (was 22.4x) to our increased 2016 EPSe. Peers currently trade at 20.7x 2015e comparable EPS (i.e. adjusted for non-cash add backs). We believe PRAH can trade in-line with the peer group in 12-months. Risks: large client loss and/or project cancellation; integration difficulties; and increasing client M&A.

USD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	832.9	--	1,266.6	1,368.7	1,368.0	1,518.1	1,510.3
EBITDA (MM)	--	97.6	--	187.7	237.4	249.8	265.6	277.4
Cons. EPS	--	--	--	--	1.73	1.83	2.03	2.13
EPS Non-GAAP								
Mar	--	0.10	--	0.12	--	0.49A	--	0.49
Jun	--	0.24	--	0.25	--	0.40A	--	0.54
Sep	--	(0.02)	--	0.49	0.44	0.52A	--	0.60
Dec	--	0.11	--	0.42	0.47	0.50	--	0.62
FY Dec	--	0.44	--	1.29	1.80	1.91	2.14	2.24

BUY

Price target \$48.00

Price \$37.75

Financial Summary

Book Value (MM):	\$693.1
Net Debt (MM):	\$881.0
Long-Term Debt (MM):	\$929.4
Cash & ST Invest. (MM):	\$48.4
Backlog:	2,274

Market Data

52 Week Range:	\$46.35 - \$18.47
Total Entprs. Value (MM):	\$3,278.1
Market Cap. (MM):	\$2,397.1
Shares Out. (MM):	63.5
Float (MM):	20.1
Avg. Daily Vol.:	215,488

David Windley, CFA, CPA *

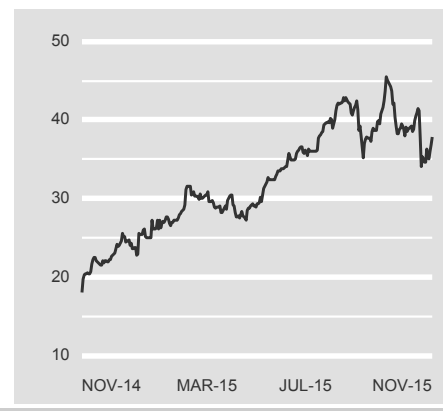
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Price Performance



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EQUITY RESEARCH AMERICAS

Chart 1: Summary of PRA's Results

PRA Health Sciences (PRAH)

3Q15 Earnings Summary

Sources: Company filings and Jefferies LLC

Reports 11/02/2015 AMC

FY ending December 31 in thousands except EPS	Reported		Estimate	Actual	Consensus	Percentage Change		Difference		
	3Q14	2Q15	3Q15	3Q15	3Q15	Seq	Y/Y	Seq	Y/Y	Est.
Net revenue	\$ 320,063	\$ 336,518	\$ 344,522	\$ 345,096	\$ 346,100	2.5%	7.8%	\$ 8,578	\$ 25,033	\$ 574
Direct costs	215,746	219,877	226,721	220,919		0.5%	2.4%	1,042	5,173	(5,802)
SG&A	58,739	57,489	59,783	60,479		5.2%	3.0%	2,990	1,740	696
FOREX	(10,658)	3,966	-	(3,697)		<u>(193.2%)</u>	<u>(65.3%)</u>	<u>(7,663)</u>	<u>6,961</u>	<u>(3,697)</u>
Adj EBITDA	56,236	55,186	58,019	67,395	59,700	22.1%	19.8%	12,209	11,159	9,376
Depreciation	5,989	5,085	5,254	5,432		<u>6.8%</u>	<u>(9.3%)</u>	<u>347</u>	<u>(557)</u>	<u>178</u>
Total expenses	269,816	286,417	291,758	283,133		(1.1%)	4.9%	(3,284)	13,317	(8,625)
Adj EBITA	50,247	50,101	52,764	61,963		23.7%	23.3%	11,862	11,716	9,199
Interest income (expense)	(19,541)	(13,779)	(13,369)	(13,719)		(0.4%)	(29.8%)	60	5,822	(350)
Other income (expense)	(532)	(96)	-	(947)		<u>886.5%</u>	<u>78.0%</u>	<u>(851)</u>	<u>(415)</u>	<u>(947)</u>
Pretax income	30,174	36,226	39,396	47,297		30.6%	56.7%	11,071	17,123	7,901
Taxes	10,259	10,868	11,819	14,189		<u>30.6%</u>	<u>38.3%</u>	<u>3,321</u>	<u>3,930</u>	<u>2,370</u>
Adj Net income	19,915	25,358	27,577	33,108		30.6%	66.2%	7,750	13,193	5,531
Adj EPS b/f charges	\$ 0.49	\$ 0.40	\$ 0.44	\$ 0.52	\$ 0.45	29.4%	5.5%	\$ 0.12	\$ 0.03	\$ 0.08
Diluted shares	40,286	62,951	62,988	63,504		0.9%	57.6%	553	23,218	516
COMMON SIZE										
Net revenue	100.0%	100.0%	100.0%	100.0%				-	-	-
Direct costs	<u>67.4%</u>	<u>65.3%</u>	<u>65.8%</u>	<u>64.0%</u>				<u>(130)</u>	<u>(340)</u>	<u>(180)</u>
Gross margin	32.6%	34.7%	34.2%	36.0%				130	340	180
SG&A	<u>18.4%</u>	<u>17.1%</u>	<u>17.4%</u>	<u>17.5%</u>				<u>40</u>	<u>(80)</u>	<u>20</u>
Adj EBITDA	17.6%	16.4%	16.8%	19.5%				310	200	270
Adj EBITDA ex-FOREX	14.2%	17.6%	16.8%	18.5%						
Depreciation	<u>1.9%</u>	<u>1.5%</u>	<u>1.5%</u>	<u>1.6%</u>				<u>10</u>	<u>(30)</u>	<u>-</u>
Total expenses	84.3%	85.1%	84.7%	82.0%				(310)	(230)	(260)
Adj EBITA	15.7%	14.9%	15.3%	18.0%				310	230	260
Interest income (expense)	(6.1%)	(4.1%)	(3.9%)	(4.0%)				10	210	(10)
Other income (expense)	<u>(0.2%)</u>	<u>(0.0%)</u>	<u>0.0%</u>	<u>(0.3%)</u>				<u>(20)</u>	<u>(10)</u>	<u>(30)</u>
Pretax income	9.4%	10.8%	11.4%	13.7%				290	430	230
Taxes	<u>34.0%</u>	<u>30.0%</u>	<u>30.0%</u>	<u>30.0%</u>				-	(400)	-
Adjusted net income	6.2%	7.5%	8.0%	9.6%				210	340	160
Gross new busines	442,000	407,800	513,828							
Cancellations	(59,900)	-	(82,212)							
% of backlog	2.8%	0.0%	3.5%							
Net new business	382,100	407,800	431,616	431,400				5.8%	12.9%	-0.1%
Book-to-bill	1.19x	1.21x	1.25x	1.25x						

Source: Company data and Jefferies LLC

PRA International
Earnings Model

Source: Jefferies & Co.

FY December

(\$ in 000s, except for EPS)

		2014					2015E					2016E				
	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4	2015	Q1	Q2	Q3	Q4	2016
Net revenue	\$ 832,901	\$ 311,352	\$ 311,423	\$ 320,063	\$ 323,759	\$ 1,266,596	\$ 331,968	\$ 336,518	\$ 345,096	\$ 354,403	\$ 1,367,985	\$ 363,382	\$ 371,857	\$ 381,941	\$ 393,161	\$ 1,510,342
						52.1%					8.0%					10.4%
Direct costs	526,878	215,151	213,378	215,746	214,943	859,218	218,961	219,877	220,919	227,881	887,638	237,865	241,108	243,360	250,837	973,169
SG&A	200,689	57,854	53,758	58,739	59,910	230,261	58,686	57,489	60,479	62,745	239,399	62,786	63,526	65,408	68,035	259,755
FOREX	7,758	3,712	5,387	(10,658)	(8,979)	(10,538)	(9,066)	3,966	(3,697)	-	(8,797)	-	-	-	-	-
Adj EBITDA	97,576	34,635	38,900	56,236	57,885	187,655	63,387	55,186	67,395	63,777	249,745	62,732	67,223	73,173	74,290	277,417
Depreciation	18,053	5,895	4,910	5,989	5,418	22,212	5,128	5,085	5,432	5,606	21,251	5,784	5,963	6,148	6,338	24,233
Total expenses	753,378	282,612	277,433	269,816	271,292	1,101,153	273,709	286,417	283,133	296,233	1,139,492	306,434	310,598	314,917	325,209	1,257,158
Adj EBITA	79,523	28,740	33,990	50,247	52,467	165,443	58,259	50,101	61,963	58,170	228,493	56,948	61,260	67,024	67,951	253,184
Interest income (expense)	(54,806)	(20,332)	(19,359)	(19,541)	(16,970)	(76,202)	(13,744)	(13,779)	(13,719)	(13,255)	(54,497)	(12,952)	(12,645)	(12,328)	(12,005)	(49,929)
Other income (expense)	650	(59)	(116)	(532)	(2,020)	(2,727)	(464)	(96)	(947)	-	(1,507)	-	-	-	-	-
Pretax income	25,367	8,349	14,514	30,174	33,477	86,514	44,051	36,226	47,297	44,915	172,489	43,997	48,615	54,697	55,947	203,255
Taxes	7,610	3,548	4,354	10,259	11,382	29,544	13,215	10,868	14,189	13,475	51,747	13,199	14,585	16,409	16,784	60,977
Adj Net income	17,757	4,801	10,160	19,915	22,095	56,970	30,836	25,358	33,108	31,441	120,743	30,798	34,031	38,288	39,163	142,279
Adj EPS b/f charges	\$ 0.44	\$ 0.12	\$ 0.25	\$ 0.49	\$ 0.42	\$ 1.29	\$ 0.49	\$ 0.40	\$ 0.52	\$ 0.50	\$ 1.91	\$ 0.49	\$ 0.54	\$ 0.60	\$ 0.62	\$ 2.24
Diluted shares	40,286	40,624	40,286	40,286	53,008	44,121	62,777	62,951	63,504	63,409	63,377	63,440	63,474	63,519	63,560	63,498
Common Size:																
Direct costs	63.3%	69.1%	68.5%	67.4%	66.4%	67.8%	66.0%	65.3%	64.0%	64.3%	64.9%	65.5%	64.8%	63.7%	63.8%	64.4%
Gross margin	36.7%	30.9%	31.5%	32.6%	33.6%	32.2%	34.0%	34.7%	36.0%	35.7%	35.1%	34.5%	35.2%	36.3%	36.2%	35.6%
SG&A	24.1%	18.6%	17.3%	18.4%	18.5%	18.2%	17.7%	17.1%	17.5%	17.7%	17.5%	17.3%	17.1%	17.1%	17.3%	17.2%
Adj EBITDA	11.7%	11.1%	12.5%	17.6%	17.9%	14.8%	19.1%	16.4%	19.5%	18.0%	18.3%	17.3%	18.1%	19.2%	18.9%	18.4%
Depreciation	2.2%	1.9%	1.6%	1.9%	1.7%	1.8%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Total expenses	90.5%	90.8%	89.1%	84.3%	83.8%	86.9%	82.5%	85.1%	82.0%	83.6%	83.3%	84.3%	83.5%	82.5%	82.7%	83.2%
Adj EBITA	9.5%	9.2%	10.9%	15.7%	16.2%	13.1%	17.5%	14.9%	18.0%	16.4%	16.7%	15.7%	16.5%	17.5%	17.3%	16.8%
Interest income (expense)	-6.6%	-6.5%	-6.2%	-6.1%	-5.2%	-6.0%	-4.1%	-4.1%	-4.0%	-3.7%	-4.0%	-3.6%	-3.4%	-3.2%	-3.1%	-3.3%
Other income (expense)	0.1%	0.0%	0.0%	-0.2%	-0.6%	-0.2%	-0.1%	0.0%	-0.3%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax income	3.0%	2.7%	4.7%	9.4%	10.3%	6.8%	13.3%	10.8%	13.7%	12.7%	12.6%	12.1%	13.1%	14.3%	14.2%	13.5%
Taxes	30.0%	42.5%	30.0%	34.0%	34.0%	34.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Adjusted net income	2.1%	1.5%	3.3%	6.2%	6.8%	4.5%	9.3%	7.5%	9.6%	8.9%	8.8%	8.5%	9.2%	10.0%	10.0%	9.4%
% Change																
Net Revenue	39.5%	87.0%	73.5%	70.1%	8.4%	52.1%	6.6%	8.1%	7.8%	9.5%	8.0%	9.5%	10.5%	10.7%	10.9%	10.4%
Direct Costs	46.9%	114.8%	101.2%	86.7%	4.8%	63.1%	1.8%	3.0%	2.4%	6.0%	3.3%	8.6%	9.7%	10.2%	10.1%	9.6%
SG&A	30.4%	11.6%	29.4%	19.9%	2.7%	14.7%	1.4%	6.9%	3.0%	4.7%	4.0%	7.0%	10.5%	8.2%	8.4%	8.5%
Adj EBITDA	27.2%	68.5%	29.6%	245.7%	88.3%	92.3%	83.0%	41.9%	19.8%	10.2%	33.1%	-1.0%	21.8%	8.6%	16.5%	11.1%
Depreciation	20.0%	42.3%	23.4%	34.7%	-1.3%	23.0%	-13.0%	3.6%	-9.3%	3.5%	-4.3%	12.8%	17.3%	13.2%	13.1%	14.0%
Total expenses	40.7%	88.3%	80.8%	53.0%	-0.8%	46.2%	-3.2%	3.2%	4.9%	9.2%	3.5%	12.0%	8.4%	11.2%	9.8%	10.3%
Adj EBITA	28.9%	75.1%	30.5%	325.1%	107.8%	108.0%	102.7%	47.4%	23.3%	10.9%	38.1%	-2.2%	22.3%	8.2%	16.8%	10.8%
Interest expense	67.0%	95.7%	65.8%	57.2%	-16.4%	39.0%	-32.4%	-28.8%	-29.8%	-21.9%	-28.5%	-5.8%	-8.2%	-10.1%	-9.4%	-8.4%
Pretax income	-12.7%	38.7%	3.2%	-3542.1%	443.5%	241.1%	427.6%	149.6%	56.7%	34.2%	99.4%	-0.1%	34.2%	15.6%	24.6%	17.8%
Taxes	-12.7%	96.4%	3.2%	-4001.1%	516.0%	288.2%	272.4%	149.6%	38.3%	18.4%	75.2%	-0.1%	34.2%	15.6%	24.6%	17.8%
Adj Net income	-12.7%	13.9%	3.2%	-3345.5%	412.5%	220.8%	542.3%	149.6%	66.2%	42.3%	111.9%	-0.1%	34.2%	15.6%	24.6%	17.8%
EPS b/f Charges	-12.7%	13.0%	3.2%	-3345.5%	289.5%	192.9%	315.7%	59.7%	5.5%	19.0%	47.5%	-1.2%	33.1%	15.6%	24.3%	17.6%

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.

Analyst Certification:

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Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

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Jefferies Franchise Picks

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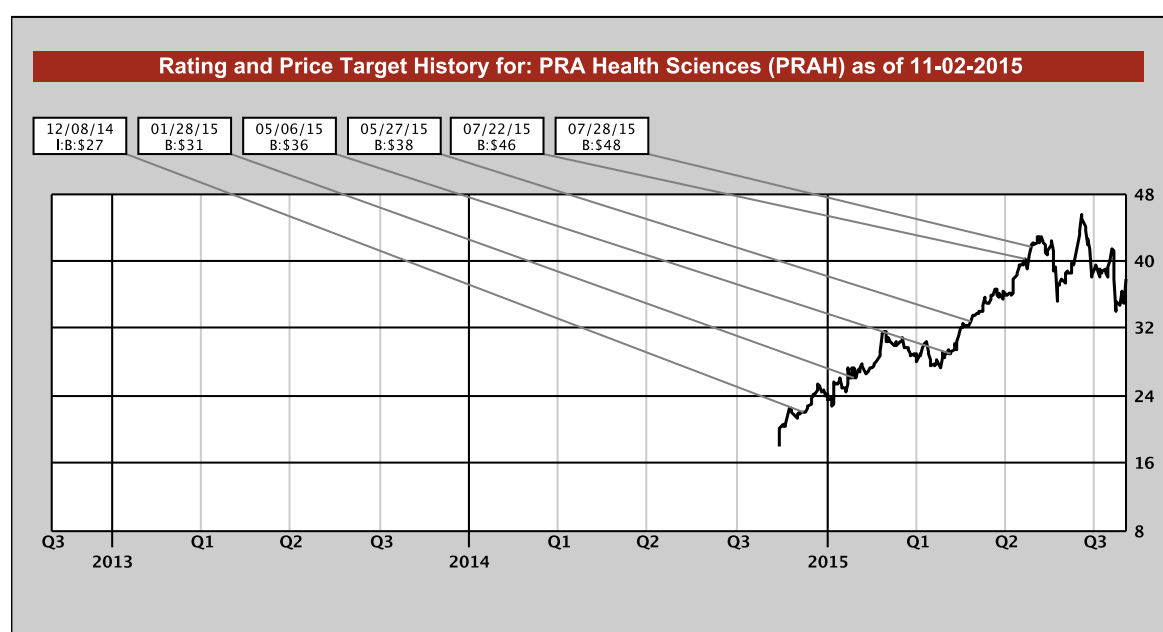
to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

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Other Companies Mentioned in This Report

- PRA Health Sciences (PRAH: \$37.75, BUY)
- WuXi PharmaTech Inc. (WX: \$44.81, HOLD)



Rating and Price Target History for: WuXi PharmaTech Inc. (WX) as of 11-02-2015



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1128	53.49%	315	27.93%
HOLD	832	39.45%	164	19.71%
UNDERPERFORM	149	7.06%	17	11.41%

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