

PRA Health Sciences Inc

More Margin Opportunities Still Ahead

Margins may be set to stick with more room to run

As we noted yesterday in our note, PRAH saw significant margin expansion during the quarter. Mgmt today noted that while FX benefitted the quarter to the tune of ~\$17 mil within the direct costs, the company is still putting the final touches on the integration process of the various acquisitions made over the past year. For SG&A, mgmt noted the benefit from FX was nominal. Also, mgmt still has work to do on achieving additional synergies (particularly in relation to CRI Lifetree.) In our view, this could possibly lead to further margin expansion moving forward. Additionally, PRAH has yet to fully initiate cross selling of services among the acquisitions which may lead to further upside on revenue/bookings. Mgmt noted that bookings were slightly skewed towards large pharma (due to acquisitions) which may open doors for PRAH.

Early development expansion responding to client demand

At the end of 1Q15, PRAH announced an expansion of services in the early development space. Mgmt reiterated that client demand was the driver for the expansion and noted that the company was not looking to move into earlier study components such as toxicology/preclinical work. Mgmt noted that clients are increasingly moving away from health volunteer studies towards more focused patient phase 1 studies. As for adding additional assets to support the ED business, mgmt does not believe additional assets are needed and would focus on organic growth.

Other notes on FX and backlog conversion

For FX, mgmt indicated that the company's updated guidance includes ~\$0.07 EPS benefit for each qtr moving forward, which is part of the reason for EPS upside and why we leave our multiple the same despite EPS upside. As for backlog conversion that has hit other CRO peers, mgmt noted that PRAH is not seeing similar issues within the current set of projects which should bode well for PRAH's rev conversion. In relation to WuXi's MBO announcement, mgmt does not expect this to impact the JV.

Valuation: Buy rating with \$35 PT

\$35 PT on 18x P/E on CY16 EPS of \$1.95; equals 12x EBITDA.

Equities

Americas
Healthcare Providers

12-month rating **Buy**

12m price target **US\$35.00**

Price **US\$29.00**

RIC: PRAH.O **BBG:** PRAH US

Trading data and key metrics

52-wk range US\$31.52-0.00

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	
	UBS	Cons.
Q1	0.41	0.31
Q2E	0.43	0.34
Q3E	0.42	0.37
Q4E	0.43	0.40
12/15E	1.69	1.41
12/16E	1.95	1.71
12/17E	2.20	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 19:41 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

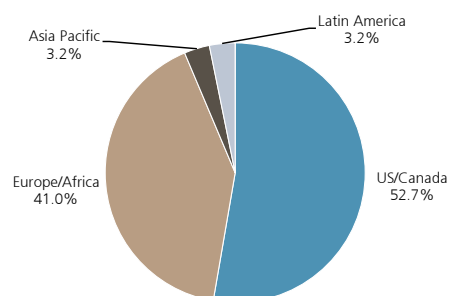
Business description

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

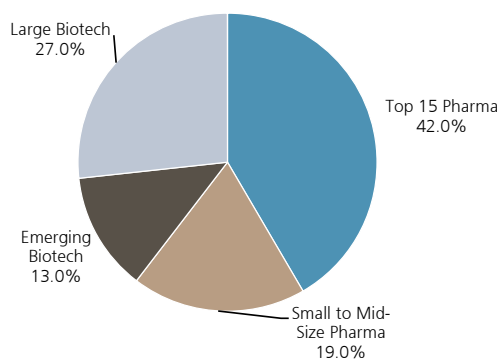
The CRO industry has been growing at a steady clip, primarily the result of significant growth in the phase II-IV market. However, we expect the early development market to have relatively flat growth through 2018. We expect the overall CRO industry to grow at a CAGR of ~6-7% through 2018, with CRO market 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>			
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%
	<i>\$0.20</i>	<i>\$0.36</i>	<i>\$0.34</i>	<i>\$0.35</i>	<i>\$0.41</i>			
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.

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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

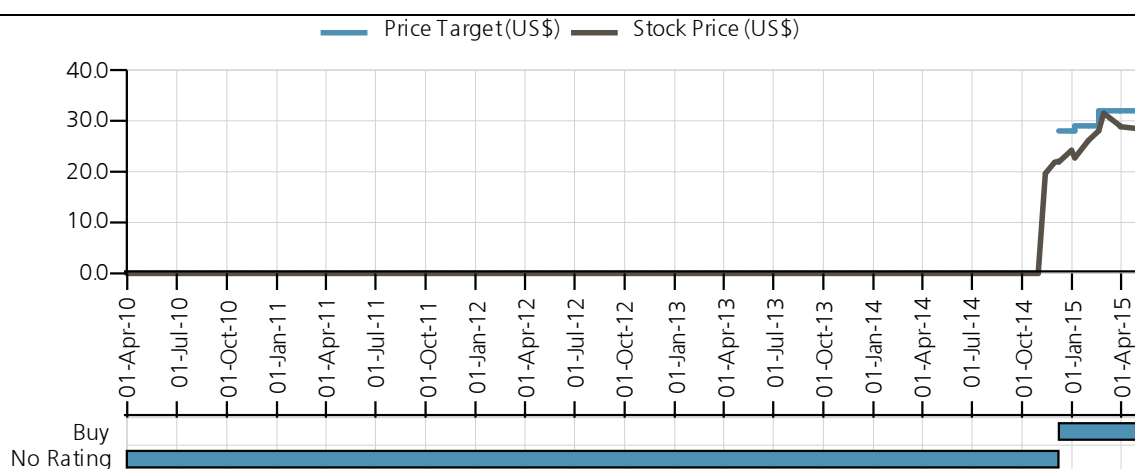
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PRA Health Sciences Inc (US\$)



Source: UBS; as of 06 May 2015

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