

PRA Health Sciences, Inc. (PRAH)

Rating	OUTPERFORM* [V]
Price (18 Feb 15, US\$)	27.84
Target price (US\$)	27.00 ¹
52-week price range	27.84 - 19.62
Market cap. (US\$ m)	1,665.08
Enterprise value (US\$ m)	2,479.45

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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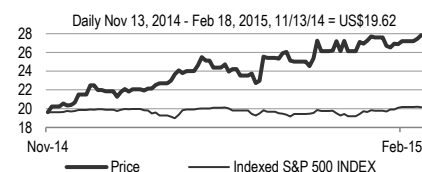
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EARNINGS

Reports First Quarter Out of Gate With Modest EPS Beat and Reasonable F15 Guidance

■ **Bottom Line:** PRAH reported adjusted 4Q14 EPS of \$0.35 vs. FactSet consensus of \$0.30, driven by essentially in-line revenues augmented by modestly better-than-expected margins. The company posted a book-to-bill ratio of 1.2 in the qtr. and we'd note that PRAH's mix of business modestly weighs on its book-to-bill relative to peers. While this was an admirable bookings result in isolation, we would highlight that it was somewhat below the average of the clinical peers which have already reported C4Q results, which may raise some questions amongst investors. More importantly, PRAH provided its initial guidance for F15 which has seemingly wrapped consensus expectations for both revenues and EPS. Service revenue guidance of \$1.35-\$1.4B wrapped the consensus estimate (\$1.36B) on the low-end which should be well-received, particularly as it likely absorbs a modest FX headwind. EPS guidance of \$1.35-\$1.45 almost perfectly wrapped consensus of \$1.39. While on the surface this appears to be solid guidance, it is possible that consensus may contain somewhat inconsistent accounting for some of the non-cash charges (i.e. stock-based comp, non-cash rent, equity in losses of unconsolidated JVs) which PRAH excludes from its adjusted EPS calculation. In aggregate, we believe PRAH posted a solid quarter, but acknowledge the company currently commands the highest EV/EBITDA valuation amongst its clinical peer group which suggests expectations were reasonably high for the inaugural print. Consequently, we do not anticipate any meaningful reaction off these results, although mgt's comments on tomorrow's 9AM conference call related to embedded assumptions in the F15 guidance will be critical to tomorrow's trading.

Share price performance



On 02/18/15 the S&P 500 INDEX closed at 2095.64

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.02	0.68	-0.72	0.23
2014E	0.18	0.33	0.32	0.26
2015E	0.29	0.32	0.34	0.34

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	0.39	1.08	1.29	1.54
Prev. EPS (US\$)	—	—	—	—
P/E (x)	71.3	25.7	21.6	18.1
P/E rel. (%)	383.8	147.9	131.5	124.6
Revenue (US\$ m)	832.9	1,267.3	1,365.2	1,471.0
EBITDA (US\$ m)	105.3	174.1	195.5	216.5
OCFPS (US\$)	1.10	1.76	2.10	2.34
P/OCF (x)	—	15.9	13.2	11.9
EV/EBITDA (current)	27.1	14.2	12.2	10.4
Net debt (US\$ m)	1,193	814	712	596
ROIC (%)	1.55	6.01	7.86	9.00
Number of shares (m)	59.81	IC (current, US\$ m)		1,659.89
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

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Other Considerations:

- **Provides Initial F15 Guidance:** With its 4Q14 earnings release, PRAH provided initial F15 revenue and EPS guidance. Management targets F15 revenues of \$1.35B-\$1.4B (vs. FactSet consensus \$1.36B) and an adjusted EPS range of \$1.35-\$1.45 (vs. FactSet consensus \$1.39). The revenue guidance is likely to be well received as it captures consensus on the low-end and likely absorbs a greater FX headwind than embedded in consensus models, although we believe that PRAH does have slightly more modest FX exposure than peers. We would highlight that the guidance range assumes foreign currency exchange rates as of the first of January 2015. Management also expects an effective income tax rate of roughly 30% in F15. We will look to tomorrow's earnings call for further commentary on any additional assumptions embedded within guidance, particularly around the cadence of earnings, margin improvements, and capital deployment.
- **Details on the Quarter:** PRAH reported 4Q14 adjusted EPS of \$0.35 above FactSet consensus of \$0.30 characterized by in-line revenues that were augmented by better than expected margin expansion and a tax rate that was slightly lower than our forecast. PRAH reported net service revenue growth of 8% y/y (+10% y/y cc) to \$323.8M (vs. FactSet 324.0M), driven by an increase in opening backlog, mix of business in active studies, and a growth in new business awards due to higher demand for PRAH's services. Reported gross margins increased a solid 220 bps y/y to 33.6% driven by leveraging staff productivity and synergies/benefits from integrating recent acquisitions. While there were a number of one-time & non-cash items that were excluded from the results, adjusted EBITDA increased 44% y/y to \$50.6M and adjusted EBITDA margins of 15.6% expanded an impressive 380 bps y/y. The margin expansion was paced by the aforementioned gross margin drivers, synergies from recent deals, as well as continued leverage of selling and administrative functions. PRAH reported net new business wins of \$388.4M in the quarter which represents a book to bill ratio of 1.2 with y/y and sequential growth in gross new business wins partially offset by cancellations consistent with historical levels.

Companies Mentioned (Price as of 18-Feb-2015)

PRA Health Sciences, Inc. (PRAH.OQ, \$27.84, OUTPERFORM[V], TP \$27.0)

Disclosure Appendix

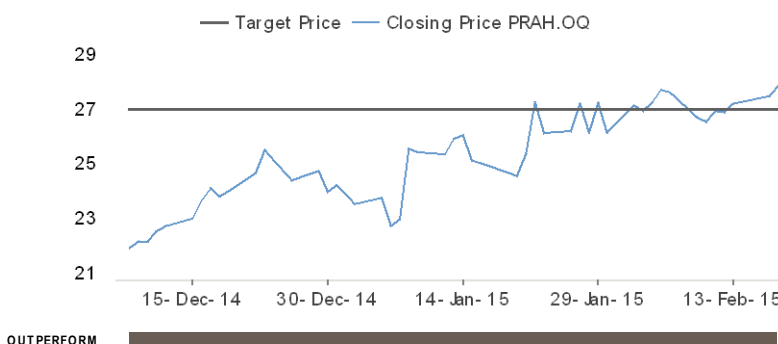
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3-Year Price and Rating History for PRA Health Sciences, Inc. (PRAH.OQ)

PRAH.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
08-Dec-14	21.92	27.00	O *

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for PRA Health Sciences, Inc. (PRAH.OQ)

Method: Our target price of \$27 for PRA Health Sciences is based on an equal-weighted blend of our P/E & EV/EBITDA target multiples. We apply a roughly 18.5x multiple on our F16 EPS estimate, implying a \$28 price target. Our EV/EBITDA target multiple of 11.8 times yields a \$26 price target. An equally-weighted blend of the two methodologies yields our \$27 price target. The target EV/EBITDA multiple is roughly in-line with target multiples applied at Outperform-rated peers given PRAH's EPS growth forecast at the high end of industry peer group rates, balanced by a more limited public history & higher leverage. In valuing the contract research organization (CRO) stocks and INC Research, we primarily utilize P/E & EV/EBITDA multiples to assess the risk/reward profile of the individual stocks and the group as a whole since multiples provide both a historical and relative perspective. We evaluate multiples relative to historic averages to ensure that the stocks are trading in-line with our assessment of how current fundamentals fit into historical context. Multiples relative to a benchmark or to other industry peers sheds light on competitive positioning and performance.

Risk: Risks to PRA Health Sciences' achievement of our \$27 target price include: 1) disruption from the RPS integration; 2) favorable biotech funding environment could moderate; 3) controlled company status & PE ownership overhang; 4) pricing & margins always bear monitoring; and 5) high expectations for clinical CROs. With the CROs trading at elevated valuations we would acknowledge that earnings disappointments could result in contraction in group valuation multiples. Similarly, strong biotech funding environment has been viewed as a tailwind and to the extent that moderates it could impact sentiment as well as pose a revenue headwind, particularly given PRAH's exposure to this customer base.

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See the Companies Mentioned section for full company names

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