

## COMPANY NOTE

Target Change

USA | Healthcare | Pharmaceutical Svcs.

July 28, 2015

# Jefferies

## PRA Health Sciences (PRAH) 4 Key Insights from 2Q

### Key Takeaway

**Management is making steady progress, accelerating organic growth and expanding margin. Clearly, FX has been a margin contributor, which won't last forever, but integration and efficiency savings remain. The valuation discount has closed, though PRAH's growth is accelerating. We raise PT by \$2.**

**Project P-redictiv<sup>TM</sup>**. PRAH recently launched Predictiv<sup>TM</sup> Connect, the first customer-facing application of the platform. Predictiv<sup>TM</sup> will be used primarily to facilitate PRAH's internal efficiency (maximizing staff utilization, building end-to-end contract visibility). Clients have expressed interest in the functionality. We do not believe PRAH is planning to compete with established transaction systems, but rather is augmenting with data integration and analytics akin to ICONIK or Infosario.

**Margin expansion progressing, FX a Clear Shot in the Arm.** 2015 started with a modest amount of FX margin benefit baked into guidance. 1Q15 updated guidance added \$0.07 per quarter. For 2Q15, management stated FX actually hurt by \$0.01 relative to that previous guidance. Updated guidance has been adjusted to allow for further FX headwind in 2H15. Operationally, PRAH is making progress on stat programmer labor cost and pricing and cost discipline in the Strategic Solutions business, but still has wood to chop.

**RFP flows, Book-to-bill Above Targets.** PRAH's BtB and backlog conversion have been consistent since 2Q14. The 1.21x BtB was slightly above targets, and management believes backlog conversion rates should hold steady. A growing backlog, with a steady conversion rate, should drive revenue growth acceleration.

**Debt down a Little, EBITDA up a Little.** Debt repayment has trailed slightly the commitments at the IPO. Management acknowledged on the call the more back-end loaded '15 gating, with seasonality of cash collections historically favoring the end of the year. That said, CFO Linda Baddour did highlight that strong collections in early July funded an additional \$10M of debt extinguishment so far in 3Q. PRAH's debt/EBITDA ratio has dropped to 3.8x somewhat quicker than we thought, but still needs to drop further to get into the peer range.

### Valuation/Risks

Our \$48 PT applies a 22.4x P/E (unchanged) to our increased 2016 EPSe. Peers currently trade at 22x 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	1,365.6	1,368.7	1,516.0	1,518.1
EBITDA (MM)	--	97.6	--	187.7	234.6	237.4	260.9	265.6
Cons. EPS	--	--	--	--	1.63	1.73	1.90	2.03
<b>EPS Non-GAAP</b>								
Mar	--	0.10	--	0.12	--	0.49A	--	--
Jun	--	0.24	--	0.25	0.39	0.40A	--	--
Sep	--	(0.02)	--	0.49	0.41	0.44	--	--
Dec	--	0.11	--	0.42	0.45	0.47	--	--
FY Dec	--	0.44	--	1.29	1.74	1.80	2.05	2.14

**BUY**

Price target \$48.00

(from \$46.00)

Price \$41.74

### Financial Summary

Book Value (MM):	\$695.5
Net Debt (MM):	\$852.0
Long-Term Debt (MM):	\$919.2
Cash & ST Invest. (MM):	\$67.2
Backlog:	2,274

### Market Data

52 Week Range:	\$44.02 - \$18.47
Total Entprs. Value (MM):	\$3,477.4
Market Cap. (MM):	\$2,625.4
Shares Out. (MM):	62.9
Float (MM):	20.1
Avg. Daily Vol.:	200,885

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### Price Performance

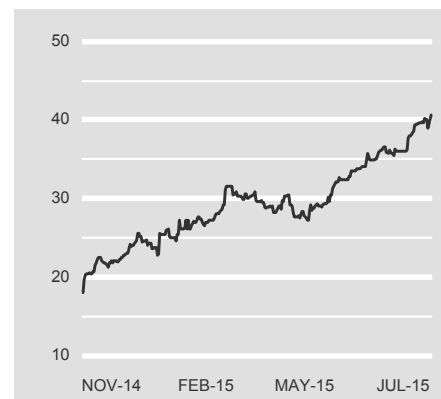


Chart 1: Summary of PRA's Results

## PRA Health Sciences (PRAH)

2Q15 Earnings Summary

Sources: Company filings and Jefferies LLC

Reports 7/27/2015 AMC

FY ending December 31 In thousands except EPS	Reported		Estimate	Actual	Consensus	Percentage Change		Difference		
	2Q14	1Q15	2Q15	2Q15	2Q15	Seq	YY	Seq	YY	Est.
Net revenue	\$311,423	\$ 331,968	\$334,116	\$ 336,518	\$ 336,700	1.4%	8.1%	\$ 4,550	\$ 25,095	\$ 2,402
Direct costs	213,378	218,961	221,576	219,877		0.4%	3.0%	916	6,499	(1,699)
SG&A	53,758	58,686	58,010	57,489		(2.0%)	0.9%	(1,197)	3,731	(521)
FOREX	5,387	(9,066)	-	3,966		<u>(143.7%)</u>	<u>(26.4%)</u>	<u>13,032</u>	<u>(1,421)</u>	<u>3,966</u>
Adj EBITDA	38,900	63,387	54,530	55,188	55,400	(12.0%)	41.0%	(8,201)	16,286	656
Depreciation	4,910	5,128	5,325	5,085		<u>(0.8%)</u>	<u>3.5%</u>	<u>(43)</u>	<u>175</u>	<u>(240)</u>
Total expenses	277,433	273,709	284,911	286,417		4.0%	3.2%	12,708	8,984	1,506
Adj EBITA	33,990	58,259	49,205	50,101		(14.0%)	47.4%	(8,158)	16,111	896
Interest income (expense)	(19,359)	(13,744)	(13,541)	(13,779)		0.3%	(28.8%)	(35)	5,580	(238)
Other income (expense)	(116)	(464)	-	(96)		<u>(70.3%)</u>	<u>(17.2%)</u>	<u>368</u>	<u>20</u>	<u>(96)</u>
Pretax income	14,514	44,051	35,665	36,226		(17.8%)	140.0%	(7,825)	21,712	561
Taxes	4,354	13,215	10,699	10,868		<u>(17.8%)</u>	<u>140.0%</u>	<u>(2,347)</u>	<u>6,514</u>	<u>169</u>
Adj Net income	10,160	30,836	24,965	25,358		(17.8%)	140.0%	(5,478)	15,198	393
Adj EPS b/f charges	\$ 0.25	\$ 0.49	\$ 0.39	\$ 0.40	\$ 0.40	(18.0%)	60.0%	\$ (0.09)	\$ 0.15	\$ 0.01
Diluted shares	40,286	62,777	63,822	62,951		0.3%	56.3%	174	22,665	(871)
COMMON SIZE										
Net revenue	100.0%	100.0%	100.0%	100.0%				-	-	-
Direct costs	<u>68.5%</u>	<u>66.0%</u>	<u>66.3%</u>	<u>65.3%</u>				<u>(50)</u>	<u>(320)</u>	<u>(100)</u>
Gross margin	31.5%	34.0%	33.7%	34.7%				50	320	100
SG&A	17.3%	17.7%	17.4%	17.1%				(50)	(20)	(30)
Adj EBITDA	12.5%	19.1%	16.3%	16.4%				(270)	390	10
Adj EBITDA ex-FOREX	14.2%	19.4%	16.3%	17.0%				-	(10)	(10)
Depreciation	1.6%	1.5%	1.6%	1.5%				270	(400)	(20)
Total expenses	89.1%	82.5%	85.3%	85.1%				(270)	400	20
Adj EBITA	10.9%	17.5%	14.7%	14.9%				-	210	-
Interest income (expense)	(6.2%)	(4.1%)	(4.1%)	(4.1%)				-	-	-
Other income (expense)	<u>(0.0%)</u>	<u>(0.1%)</u>	<u>0.0%</u>	<u>(0.0%)</u>				<u>10</u>	<u>-</u>	<u>-</u>
Pretax income	4.7%	13.3%	10.7%	10.8%				(250)	610	10
Taxes	<u>30.0%</u>	<u>30.0%</u>	<u>30.0%</u>	<u>30.0%</u>				-	-	-
Adjusted net income	3.3%	9.3%	7.5%	7.5%				(180)	430	10
Gross new bushes	423,800		477,600							
Cancellations	(51,900)		(76,416)							
% of backlog	2.0%		3.5%							
Net new business	371,900	398,000	401,184	407,800				2.5%	0.7%	1.0%
Book-to-bill	1.19x	1.20x	1.20x	1.21x						

Source: Company data, Jefferies LLC, Street Account

PRA International  
Earnings Model

Source: Jefferies &amp; Co.

FY December

(\$ in 000s, except for EPS)

FY December	2013					2014					2015E						
(\$ in 000s, except for EPS)	Q1	Q2	Q3	Q4	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4	2015	2016	
Net revenue	\$ 166,508	\$ 179,463	\$ 188,139	\$ 298,791	\$ 832,901	\$ 311,352	\$ 311,423	\$ 320,063	\$ 323,759	\$ 1,266,596	\$ 331,968	\$ 336,518	\$ 344,522	\$ 355,701	\$ 1,368,710	\$ 1,518,105	
										52.1%					8.1%	10.9%	
Direct costs	100,181	106,072	115,548	205,077	526,878	215,151	213,378	215,746	214,943	859,218	218,961	219,877	226,721	232,593	898,152	992,856	
SG&A	51,852	41,556	48,970	58,311	200,689	57,854	53,758	58,739	59,910	230,261	58,686	57,489	59,783	62,264	238,221	259,635	
FOREX	(6,078)	1,819	7,355	4,662	7,758	3,712	5,387	(10,658)	(8,979)	(10,538)	(9,066)	3,966	-	-	(5,100)	-	
Adj EBITDA	20,553	30,016	16,266	30,741	97,576	34,635	38,900	56,236	57,885	187,655	63,387	55,186	58,019	60,845	237,437	265,613	
Depreciation	4,143	3,978	4,445	5,487	18,053	5,895	4,910	5,989	5,418	22,212	5,128	5,085	5,254	5,429	20,896	23,522	
Total expenses	150,098	153,425	176,318	273,537	753,378	282,612	277,433	269,816	271,292	1,101,153	273,709	286,417	291,758	300,285	1,152,169	1,276,014	
Adj EBITA	16,410	26,038	11,821	25,254	79,523	28,740	33,990	50,247	52,467	165,443	58,259	50,101	52,764	55,416	216,541	242,091	
Interest income (expense)	(10,390)	(11,679)	(12,435)	(20,303)	(54,806)	(20,332)	(19,359)	(19,541)	(16,970)	(76,202)	(13,744)	(13,779)	(13,369)	(13,071)	(53,962)	(49,222)	
Other income (expense)	1	(296)	(263)	1,208	650	(59)	(116)	(532)	(2,020)	(2,727)	(464)	(96)	-	-	(560)	-	
Pretax income	6,021	14,063	(877)	6,159	25,367	8,349	14,514	30,174	33,477	86,514	44,051	36,226	39,396	42,346	162,018	192,869	
Taxes	1,806	4,219	(263)	1,848	7,610	3,548	4,354	10,259	11,382	29,544	13,215	10,868	11,819	12,704	48,606	57,861	
Adj Net income	4,215	9,844	(614)	4,312	17,757	4,801	10,160	19,915	22,095	56,970	30,836	25,358	27,577	29,642	113,413	135,008	
Adj EPS b/f charges	\$ 0.10	\$ 0.24	\$ (0.02)	\$ 0.11	\$ 0.44	\$ 0.12	\$ 0.25	\$ 0.49	\$ 0.42	\$ 1.29	\$ 0.49	\$ 0.40	\$ 0.44	\$ 0.47	\$ 1.80	\$ 2.14	
Diluted shares	40,286	40,286	40,286	40,286	40,286	40,624	40,286	40,286	53,008	44,121	62,777	62,951	62,988	63,030	62,966	63,117	
Common Size:																	
Direct costs	60.2%	59.1%	61.4%	68.6%	63.3%	69.1%	68.5%	67.4%	66.4%	67.8%	66.0%	65.3%	65.8%	65.4%	65.6%	65.4%	
Gross margin	39.8%	40.9%	38.6%	31.4%	36.7%	30.9%	31.5%	32.6%	33.6%	32.2%	34.0%	34.7%	34.2%	34.6%	34.4%	34.6%	
SG&A	31.1%	23.2%	26.0%	19.5%	24.1%	18.6%	17.3%	18.4%	18.5%	18.2%	17.7%	17.1%	17.4%	17.5%	17.4%	17.1%	
Adj EBITDA	12.3%	16.7%	8.6%	10.3%	11.7%	11.1%	12.5%	17.6%	17.9%	14.8%	19.1%	16.4%	16.8%	17.1%	17.3%	17.5%	
Depreciation	2.5%	2.2%	2.4%	1.8%	2.2%	1.9%	1.6%	1.9%	1.7%	1.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	
Total expenses	90.1%	85.5%	93.7%	91.5%	90.5%	90.8%	89.1%	84.3%	83.8%	86.9%	82.5%	85.1%	84.7%	84.4%	84.2%	84.1%	
Adj EBITA	9.9%	14.5%	6.3%	8.5%	9.5%	9.2%	10.9%	15.7%	16.2%	13.1%	17.5%	14.9%	15.3%	15.6%	15.8%	15.9%	
Interest income (expense)	-6.2%	-6.5%	-6.6%	-6.8%	-6.6%	-6.5%	-6.2%	-6.1%	-5.2%	-6.0%	-4.1%	-4.1%	-3.9%	-3.7%	-3.9%	-3.2%	
Other income (expense)	0.0%	-0.2%	-0.1%	0.4%	0.1%	0.0%	0.0%	-0.2%	-0.6%	-0.2%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
Pretax income	3.6%	7.8%	-0.5%	2.1%	3.0%	2.7%	4.7%	9.4%	10.3%	6.8%	13.3%	10.8%	11.4%	11.9%	11.8%	12.7%	
Taxes	30.0%	30.0%	30.0%	30.0%	30.0%	42.5%	30.0%	34.0%	34.0%	34.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	
Adjusted net income	2.5%	5.5%	-0.3%	1.4%	2.1%	1.5%	3.3%	6.2%	6.8%	4.5%	9.3%	7.5%	8.0%	8.3%	8.3%	8.9%	
% Change																	
Net Revenue	13.1%	22.2%	27.9%	91.7%	39.5%	87.0%	73.5%	70.1%	8.4%	52.1%	6.6%	8.1%	7.6%	9.9%	8.1%	10.9%	
Direct Costs	10.3%	20.2%	35.1%	118.2%	46.9%	114.8%	101.2%	86.7%	4.8%	63.1%	1.8%	3.0%	5.1%	8.2%	4.5%	10.5%	
SG&A	42.5%	17.4%	35.4%	26.8%	30.4%	11.6%	29.4%	19.9%	2.7%	14.7%	1.4%	6.9%	1.8%	3.9%	3.5%	9.0%	
Adj EBITDA	23.9%	14.3%	-23.1%	141.5%	27.2%	68.5%	29.6%	245.7%	88.3%	92.3%	83.0%	41.9%	3.2%	5.1%	26.5%	11.9%	
Depreciation	19.2%	7.3%	14.7%	37.8%	20.0%	42.3%	23.4%	34.7%	-1.3%	23.0%	-13.0%	3.6%	-12.3%	0.2%	-5.9%	12.6%	
Total expenses	11.9%	23.4%	35.8%	85.9%	40.7%	88.3%	80.8%	53.0%	-0.8%	46.2%	-3.2%	3.2%	8.1%	10.7%	4.6%	10.7%	
Adj EBITA	25.2%	15.5%	-31.6%	188.7%	28.9%	75.1%	30.5%	325.1%	107.8%	108.0%	102.7%	47.4%	5.0%	5.6%	30.9%	11.8%	
Interest expense	29.3%	52.8%	68.2%	108.1%	67.0%	95.7%	65.8%	57.2%	-16.4%	39.0%	-32.4%	-28.8%	-31.6%	-23.0%	-29.2%	-8.8%	
Pretax income	13.6%	-4.6%	-108.8%	-742.3%	-12.7%	38.7%	3.2%	-3542.1%	443.5%	241.1%	427.6%	149.6%	30.6%	26.5%	87.3%	19.0%	
Taxes	13.6%	-4.6%	-108.8%	-742.3%	-12.7%	96.4%	3.2%	-4001.1%	516.0%	288.2%	272.4%	149.6%	15.2%	11.6%	64.5%	19.0%	
Adj Net income	13.6%	-4.6%	-108.8%	-742.3%	-12.7%	13.9%	3.2%	-3345.5%	412.5%	220.8%	542.3%	149.6%	38.5%	34.2%	99.1%	19.0%	
EPS b/f Charges	13.6%	-4.6%	-108.8%	-742.3%	-12.7%	13.0%	3.2%	-3345.5%	289.5%	192.9%	315.7%	59.7%	-11.4%	12.8%	39.5%	18.8%	

## 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:

I, David Windley, CFA, CPA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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

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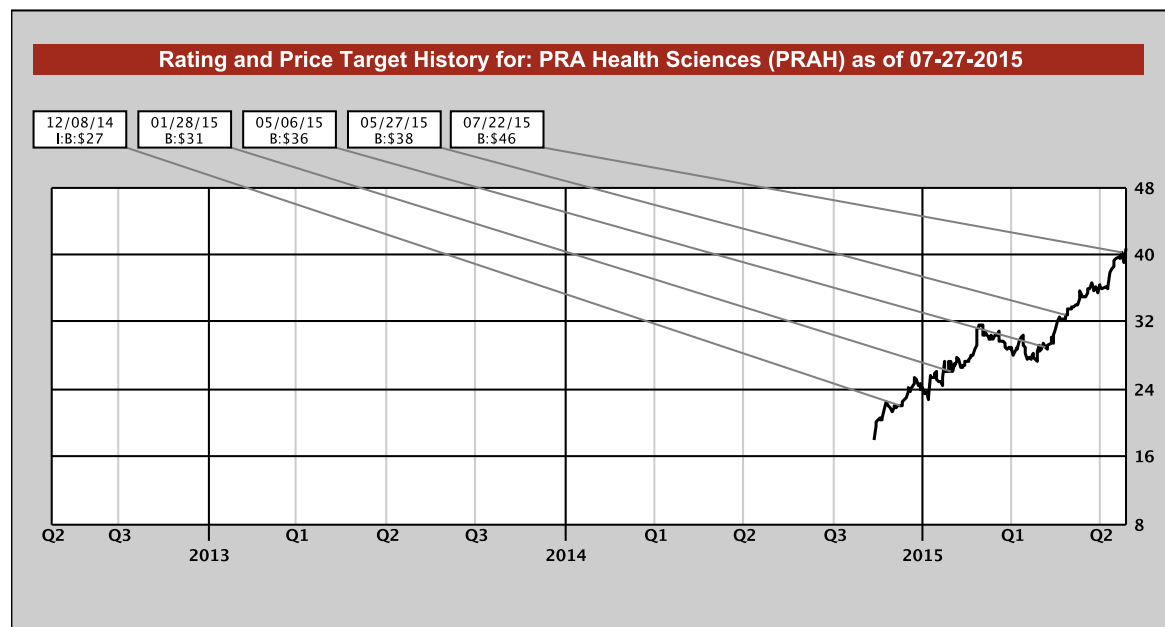
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## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1105	53.07%	308	27.87%
HOLD	826	39.67%	162	19.61%
UNDERPERFORM	151	7.25%	13	8.61%

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