

PRA Health Sciences Inc

Post Call: Are We Seeing a Trend Here?

Margin expansion is the name of the game in CRO industry

One of the focal points on today's call was the operational improvement and continued margin expansion. Mgmt noted that the operational synergies related to RPS were largely complete with a few components remaining. However, mgmt did note that with the use of the 'Predictivv' platform, the company has moved the company's contracts into the system, allowing for a better view of the financials of the contract and a better view on resource utilization. This may help move margins higher as the company can better streamline resources and focus on cost controls. Indeed mgmt indicated that the guidance implies some operational improvement in the range provided. Further, it seems PRAH has the right mix of staff on hand to pick-up new trials.

What about FX? PRAH client concentration still among lowest in industry

On the call, mgmt noted that PRAH did see an ~\$18 mil benefit to COGS from FX (offset by a ~\$14 mil hit to revs from FX), which partially offset some hiring the company did. However, mgmt did indicate that should FX rates turn out of favor, the company could create natural hedges by offering contracts in the local currency. Mgmt noted this would be done on a contract-by-contract basis. Separately on client concentration, PRAH saw one client creep above 10% in the quarter and expects the client to represent 10% of FY15 revenues. Mgmt pointed out that this may happen from time to time due to trial mix. Finally, while some investors were concerned on the quality of the beat given PRAH excluded FX losses, we note PRAH has excluded a net gain of ~\$5 mil during FY15 and as such, actually penalize themselves in this regard. Altogether, we think mgmt has a good handle on possible headwinds to the business and will mitigate as appropriate.

Commentary on additional CRO industry dynamics

On industry dynamics, mgmt indicated PRAH saw no change in terms of RFP volume and mgmt does not expect to see the burn rate slow down (which is what some late stage CROs have seen due to trial complexity and longer startup times). Mgmt did indicate that hiring for specific CRAs (contract research associates) was slightly more costly but nothing in the industry was different, from their perspective.

Valuation: Buy rated with \$46 PT

Our \$46 price target is based on 21x PE our CY16E EPS of \$2.15; equal to 13x EBITDA.

Equities

Americas
Healthcare Providers

12-month rating **Buy**

12m price target **US\$46.00**

Price **US\$40.61**

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

Trading data and key metrics

52-wk range	US\$40.61-0.00
Market cap.	US\$2.56bn
Shares o/s	63.0m (COM)
Free float	100%
Avg. daily volume ('000)	201
Avg. daily value (m)	US\$6.7
Common s/h equity (12/15E)	US\$0.71bn
P/BV (12/15E)	3.6x
Net debt / EBITDA (12/15E)	3.3x

EPS (UBS, diluted) (US\$)

	12/15E	
	UBS	Cons.
Q1	0.41	0.41
Q2E	0.47	0.47
Q3E	0.47	0.42
Q4E	0.48	0.43
12/15E	1.83	1.67
12/16E	2.15	1.97
12/17E	2.46	2.24

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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	1,368	1,477	1,580	1,688	1,800
EBIT (UBS)	81	113	162	220	239	262	288	314
Net earnings (UBS)	32	25	56	115	136	155	176	196
EPS (UBS, diluted) (US\$)	0.80	0.61	1.26	1.83	2.15	2.46	2.77	3.06
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)	(792)	(653)	(500)	(337)	(164)
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	16.1	16.2	16.6	17.1	17.4
ROIC (EBIT) %	-	-	10.4	14.9	16.8	19.6	22.8	26.2
EV/EBITDA (core) x	-	-	-	13.9	12.4	10.8	9.4	8.2
P/E (UBS, diluted) x	-	-	-	22.2	18.9	16.5	14.7	13.3
Equity FCF (UBS) yield %	-	-	-	3.4	5.7	6.3	6.7	7.0
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\$40.61 on 27 Jul 2015 19:38 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 we believe 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 \$46 based on a P/E of 21x our 2016 EPS estimate of \$2.15.

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 23x PE to an EPS estimate of \$2.15 equates to a valuation of \$50/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 2016E EPS of \$1.93. On a slightly lower multiple of ~17x, this leads to a valuation of \$33/sh.

Upcoming catalysts

October 2015 – 3Q15 Earnings Results

12-month rating

Buy

12m price target

US\$46.00

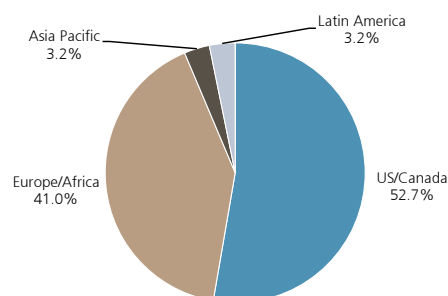
Business description

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

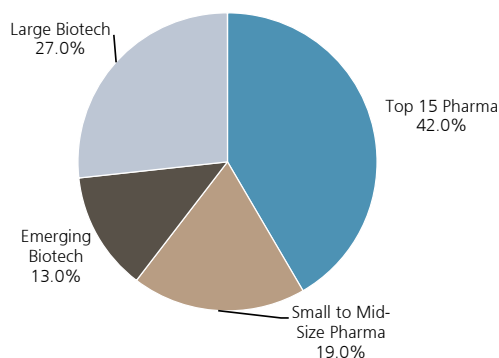
The CRO industry has been growing at a steady clip, primarily the result of significant growth in the phase II-IV market. However, we expect the early development market to have relatively flat growth through 2018. We expect the overall CRO industry to grow at a CAGR of ~6-7% through 2018, with CRO market 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	FY15 7/27/2015
Consolidated Services Revenues	\$1.35 - 1.40 bil	\$1.34 - 1.39 bil	\$1.34 - 1.39 bil
Effective Tax Rate	30.0%	30.0%	30.0%
Non-GAAP Diluted EPS	\$1.35 - 1.45	\$1.62 - 1.72	\$1.75 - 1.85
Non-GAAP EPS Y-O-Y Growth	+7 - 15%	+29 - 37%	+39 - 47%
GAAP Diluted EPS	\$0.60 - 0.65	\$0.70 - 0.80	\$0.80 - 0.90
FX	Assumes 1/1/15 rates	Assumes 4/1/15 rates	Assumes July '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	PRAH 06/30/15 Actual	09/30/15 Projected	12/31/15 Projected
Revenues:								
Gross Revenues	\$354.7	\$357.5	\$377.3	\$370.0	\$388.6	\$392.8	\$411.3	\$401.4
Reimbursable Revenue	(43.4)	(46.1)	(57.3)	(46.2)	(56.6)	(56.3)	(63.6)	(49.7)
Net Revenues	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	\$336.5	\$347.7	\$351.7
Yr/Yr Growth	87.0%	73.5%	70.1%	8.4%	6.6%	8.1%	8.6%	8.6%
Backlog:								
Backlog	\$1,987	\$2,045	\$2,091	\$2,141	\$2,200	\$2,262	\$2,322	\$2,374
Yr/Yr Growth	39.8%	41.6%	42.7%	10.4%	10.7%	10.6%	11.0%	10.9%
Gross New business	\$422.8	\$423.8	\$442.0	\$456.8	\$444.3	\$462.4	\$486.2	\$502.5
Net New business	\$351.3	\$371.9	\$382.0	\$388.4	\$398.0	\$407.8	\$403.5	\$417.1
Net new business growth y-o-y	91.7%	86.6%	101.3%	92.4%	13.3%	9.7%	5.6%	7.4%
Net book-to-bill ratio	1.13	1.19	1.19	1.20	1.20	1.21	1.16	1.19
Cancellations	(\$71.5)	(\$51.9)	(\$60.0)	(\$68.4)	(\$46.3)	(\$54.6)	(\$82.7)	(\$85.4)
As a % of Beginning Backlog	3.7%	2.6%	2.9%	3.3%	2.2%	2.5%	3.7%	3.7%
Burn Rate	16.1%	15.7%	15.7%	15.5%	15.5%	15.3%	15.4%	15.1%
Net revenue % by geographical area								
US/Canada	57.5%	58.7%	56.0%	59.7%	60.8%	61.1%	--	--
Europe/Africa	34.1%	33.1%	33.0%	31.8%	30.4%	29.5%	--	--
Asia Pacific	3.9%	4.2%	5.0%	4.1%	4.1%	4.1%	--	--
Latin America	4.5%	4.0%	6.0%	4.4%	4.7%	5.3%	--	--
Total	100.0%	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	\$205.7	--	--
Europe/Africa	106.1	103.0	105.6	102.9	101.0	99.2	--	--
Asia Pacific	12.3	13.0	16.0	13.4	13.4	13.8	--	--
Latin America	13.9	12.5	19.2	14.1	15.5	17.8	--	--
Total	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	\$336.5	--	--

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	PRAH 06/30/15 Actual	09/30/15 Projected	12/31/15 Projected
Total Revenue	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	\$336.5	\$347.7	\$351.7
% change	87.0%	73.5%	70.1%	8.4%	6.6%	8.1%	8.6%	8.6%
Expenses								
COGS	215.2	213.4	215.7	214.9	219.0	219.9	228.5	231.4
% of revenue	69.1%	68.5%	67.4%	66.4%	66.0%	65.3%	65.7%	65.8%
Gross Profit (incl stock comp exp)	96.2	98.0	104.3	108.8	113.0	116.6	119.3	120.3
% of revenue	30.9%	31.5%	32.6%	33.6%	34.0%	34.7%	34.3%	34.2%
SG&A (incl stock comp exp)	60.8	56.0	63.4	61.8	60.8	58.9	60.2	59.8
% of revenue	19.5%	18.0%	19.8%	19.1%	18.3%	17.5%	17.3%	17.0%
Stock Comp (Addback to EBITDA)	(0.9)	(0.9)	(1.0)	(0.7)	(0.8)	(1.2)	(0.9)	(0.8)
Other Op Exp. (Addback to EBITDA)	(3.5)	(2.6)	(5.2)	(2.9)	(2.8)	(2.3)	(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>61.3</i>		
Adjusted EBITDA	39.7	45.5	47.0	50.6	55.7	61.3	61.0	62.3
% of revenue	12.8%	14.6%	14.7%	15.6%	16.8%	18.2%	17.5%	17.7%
Depreciation (ex Deal Amortization)	5.9	4.9	4.5	5.4	5.1	5.1	5.2	5.3
% of revenue	1.9%	1.6%	1.4%	1.7%	1.5%	1.5%	1.5%	1.5%
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	56.2	55.8	57.0
% of revenue	10.9%	13.0%	13.3%	14.0%	15.2%	16.7%	16.1%	16.2%
Interest Expense (Income), net	20.3	19.4	21.0	17.0	13.7	13.8	13.6	13.5
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	42.5	42.2	43.5
% of revenue	4.3%	6.8%	6.7%	8.7%	11.1%	12.6%	12.1%	12.4%
Income Taxes	4.6	7.2	7.3	9.6	11.1	12.7	12.7	13.3
Tax Rate (%)	34.0%	34.0%	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	8.907	13.994	14.181	18.644	25.8	29.7	29.5	30.2
% of revenue	2.9%	4.5%	4.4%	5.8%	7.8%	8.8%	8.5%	8.6%
	\$0.22	\$0.34	\$0.34	\$0.35	\$0.41	\$0.47		
EPS - Fully Diluted	\$0.22	\$0.34	\$0.34	\$0.35	\$0.41	\$0.47	\$0.47	\$0.48
% change	1.9%	14.2%	-313.9%	37.7%	87.5%	37.3%	38.7%	35.8%
Fully Diluted Shares (mil.)	40.6	40.7	42.1	53.0	62.8	63.0	63.2	63.3
P&L Line Growth Comparison:								
Revenues	87.0%	73.5%	70.1%	8.4%	6.6%	8.1%	8.6%	8.6%
COGS	114.8%	101.2%	86.7%	4.8%	1.8%	3.0%	5.9%	7.7%
Gross Profit (incl stock comp exp)	45.0%	33.6%	43.7%	16.1%	17.5%	19.0%	14.3%	10.5%
SG&A (incl stock comp exp)	15.4%	25.0%	25.0%	-4.0%	0.0%	5.2%	-5.2%	-3.2%
EBITDA	35.6%	37.6%	42.5%	43.6%	40.3%	34.9%	29.8%	23.0%
Depreciation and Amortization	42.3%	23.4%	1.3%	-1.3%	-13.0%	3.6%	15.5%	-2.2%
Operating Income	34.5%	39.6%	48.9%	51.8%	49.6%	38.6%	31.3%	26.1%
Interest Expense	108.3%	75.8%	78.0%	-16.5%	-32.4%	-28.8%	-35.3%	-20.4%
Pretax Income	-12.3%	17.5%	28.4%	198.4%	173.2%	100.2%	96.4%	54.0%
Net Income	-1.5%	10.7%	-314.3%	79.8%	189.8%	112.4%	108.4%	62.2%
EPS	1.9%	14.2%	-313.9%	37.7%	87.5%	37.3%	38.7%	35.8%
Shares Outstanding	-3.3%	-3.1%	0.2%	30.6%	54.5%	54.7%	50.2%	19.4%
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	\$1,594.1	\$1,720.1	\$1,840.5	\$1,965.6	\$2,095.4
Reimbursable Revenue	(102.7)	(158.4)	(193.0)	(226.2)	(243.4)	(260.4)	(277.3)	(295.4)
Net Revenues	\$699.7	\$832.9	\$1,266.6	\$1,367.9	\$1,476.7	\$1,580.1	\$1,688.3	\$1,800.0
Yr/Yr Growth	27.8%	19.0%	52.1%	8.0%	7.9%	7.0%	6.8%	6.6%
Backlog:								
Backlog	\$1,383	\$1,940	\$2,141	\$2,374	\$2,524	\$2,692	\$2,875	\$3,067
Yr/Yr Growth	5.2%	40.3%	10.4%	10.9%	6.3%	6.7%	6.8%	6.7%
Gross New business	\$947.8	\$997.7	\$1,745.4	\$1,895.4	\$2,039.4	\$2,192.4	\$2,345.9	\$2,498.3
Net New business	\$653.5	\$774.3	\$1,493.6	\$1,626.4	\$1,748.4	\$1,870.8	\$1,992.4	\$2,111.9
Net new business growth y-o-y	-11.3%	18.5%	92.9%	8.9%	7.5%	7.0%	6.5%	6.0%
Net book-to-bill ratio	0.93	0.93	1.18	1.19	1.18	1.18	1.18	1.17
Cancellations	\$294.3	\$223.4	\$251.8	\$269.0	\$291.0	\$321.6	\$353.5	\$386.4
As a % of Beginning Backlog	22.4%	16.2%	13.0%	12.6%	12.3%	12.7%	13.1%	13.4%
Burn Rate	11.4%	14.5%	15.7%	15.3%	15.5%	15.7%	15.7%	15.7%
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	\$1,367.9	\$1,476.7	\$1,580.1	\$1,688.3	\$1,800.0
% change	9.0%	39.5%	52.1%	8.0%	7.9%	7.0%	6.8%	6.6%
Expenses								
COGS	358.6	526.9	859.2	898.7	970.2	1,036.5	1,105.8	1,179.0
% of revenue	60.1%	63.3%	67.8%	65.7%	65.7%	65.6%	65.5%	65.5%
Gross Profit (incl stock comp exp)	238.5	306.0	407.4	469.2	506.5	543.5	582.5	621.0
% of revenue	39.9%	36.7%	32.2%	34.3%	34.3%	34.4%	34.5%	34.5%
SG&A (incl stock comp exp)	160.6	212.6	242.1	239.7	254.0	267.0	280.3	293.4
% of revenue	26.9%	25.5%	19.1%	17.5%	17.2%	16.9%	16.6%	16.3%
Stock Comp (Addback to EBITDA)	(11.6)	(24.7)	(3.5)	(3.7)	(4.0)	(4.5)	(5.0)	(5.5)
Other Op Exp. (Addback to EBITDA)	(6.7)	(12.4)	(14.1)	(7.1)	(5.0)	(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	240.4	261.5	285.5	312.2	338.1
% of revenue	16.1%	15.7%	14.4%	17.6%	17.7%	18.1%	18.5%	18.8%
Depreciation (ex Deal Amortization)	15.0	18.1	20.7	20.7	23.0	23.5	24.0	24.4
% of revenue	2.5%	2.2%	1.6%	1.5%	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	219.7	238.5	262.0	288.2	313.7
% of revenue	13.6%	13.5%	12.8%	16.1%	16.2%	16.6%	17.1%	17.4%
Interest Expense (Income), net	28.5	52.9	77.7	54.6	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	165.0	192.5	219.0	247.2	273.7
% of revenue	8.8%	7.2%	6.7%	12.1%	13.0%	13.9%	14.6%	15.2%
Income Taxes	20.7	34.2	28.7	49.7	56.8	63.7	71.2	78.0
Tax Rate (%)	39.4%	57.3%	34.0%	30.1%	29.5%	29.1%	28.8%	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	55.7	115.3	135.7	155.3	176.0	195.7
% of revenue	5.3%	3.1%	4.4%	8.4%	9.2%	9.8%	10.4%	10.9%
<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	\$1.83	\$2.15	\$2.46	\$2.77	\$3.06
% change	-4.6%	-24.0%	108.5%	44.8%	17.8%	14.4%	12.5%	10.3%
Fully Diluted Shares (mil.)	40.0	42.0	44.1	63.1	63.0	63.0	63.5	64.0
P&L Line Growth Comparison:								
Revenues	9.0%	39.5%	52.1%	8.0%	7.9%	7.0%	6.8%	6.6%
COGS	11.6%	46.9%	63.1%	4.6%	8.0%	6.8%	6.7%	6.6%
Gross Profit (incl stock comp exp)	5.3%	28.3%	33.1%	15.2%	7.9%	7.3%	7.2%	6.6%
SG&A (incl stock comp exp)	16.1%	32.3%	13.9%	-1.0%	6.0%	5.1%	5.0%	4.7%
EBITDA	1.2%	35.8%	40.0%	31.5%	8.8%	9.2%	9.3%	8.3%
Depreciation and Amortization	13.6%	20.0%	14.8%	-0.1%	11.0%	2.2%	2.1%	1.7%
Operating Income	-0.9%	38.7%	44.1%	35.5%	8.6%	9.9%	10.0%	8.8%
Interest Expense	-9.1%	85.6%	46.9%	-29.7%	-15.8%	-6.5%	-4.7%	-2.4%
Pretax Income	4.3%	13.3%	41.6%	95.5%	16.6%	13.8%	12.9%	10.7%
Net Income	-6.0%	-20.2%	119.1%	106.9%	17.7%	14.4%	13.4%	11.2%
EPS	-4.6%	-24.0%	108.5%	44.8%	17.8%	14.4%	12.5%	10.3%
Shares Outstanding	-1.5%	5.0%	5.1%	42.9%	-0.1%	0.0%	0.8%	0.8%
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	1,368	8.0	1,477	7.9	1,580	1,688	1,800
Gross profit	239	306	407	469	15.2	507	7.9	544	582	621
EBITDA (UBS)	96	131	183	240	31.5	262	8.8	286	312	338
Depreciation & amortisation	(15)	(18)	(21)	(21)	-0.1	(23)	11.0	(23)	(24)	(24)
EBIT (UBS)	81	113	162	220	35.5	239	8.6	262	288	314
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)	(55)	29.7	(46)	15.8	(43)	(41)	(40)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	53	60	84	165	95.5	193	16.6	219	247	274
Tax	(21)	(34)	(29)	(50)	-73.2	(57)	-14.2	(64)	(71)	(78)
Profit after tax	32	25	56	115	106.9	136	17.7	155	176	196
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	56	115	106.9	136	17.7	155	176	196
Net earnings (UBS)	32	25	56	115	106.9	136	17.7	155	176	196
Tax rate (%)	39.4	57.3	34.0	30.1	-11.4	29.5	-2.1	29.1	28.8	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	1.83	44.8	2.15	17.8	2.46	2.77	3.06
EPS (local GAAP, diluted)	0.80	0.61	1.26	1.83	44.8	2.15	17.8	2.46	2.77	3.06
EPS (UBS, basic)	0.80	0.61	1.26	1.83	44.8	2.15	17.8	2.46	2.77	3.06
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	2.16	24.5	2.52	16.8	2.84	3.15	3.44
Book value per share	4.40	11.13	11.32	11.18	-1.2	12.10	8.2	13.31	14.63	16.22
Average shares (diluted)	40.00	42.00	44.12	63.06	42.9	63.00	-0.1	63.00	63.50	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	97	6.2	176	81.0	269	372	485
Other current assets	215	377	400	481	20.4	527	9.5	582	647	723
Total current assets	-	458	491	578	17.7	702	21.5	851	1,019	1,208
Net tangible fixed assets	650	1,875	1,707	1,643	-3.8	1,557	-5.2	1,470	1,383	1,295
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	8	62	42	39	-6.8	39	0.0	39	39	39
Total assets	-	2,395	2,241	2,260	0.9	2,299	1.7	2,360	2,441	2,542
Trade payables & other ST liabilities	303	450	466	515	10.6	556	8.0	602	652	704
Short term debt	3	19	0	0	-	0	-	0	0	0
Total current liabilities	306	469	466	515	10.6	556	8.0	602	652	704
Long term debt	451	1,246	949	889	-6.3	829	-6.7	769	709	649
Other long term liabilities	50	212	150	151	0.9	151	0.0	151	151	151
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	807	1,927	1,564	1,555	-0.6	1,536	-1.2	1,522	1,512	1,504
Common s/h equity	176	467	677	705	4.2	763	8.1	839	929	1,038
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	983	2,395	2,241	2,260	0.9	2,299	1.7	2,360	2,441	2,542
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	56	115	106.9	136	17.7	155	176	196
Depreciation & amortisation	15	18	21	21	-0.1	23	11.0	24	24	24
Net change in working capital	47	58	(16)	(31)	-94.9	15	-	12	5	(5)
Other operating	16	(31)	17	16	-5.1	10	-37.0	10	10	10
Operating cash flow	110	70	77	121	56.4	184	52.1	201	215	225
Tangible capital expenditure	(18)	(20)	(27)	(34)	-22.8	(37)	-10.2	(40)	(45)	(45)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	(1,115)	0	(1)	-	0	-	0	0	0
Other investing	0	(5)	15	(3)	-	0	-	0	0	0
Investing cash flow	(18)	(1,140)	(12)	(37)	-202.7	(37)	0.3	(40)	(45)	(45)
Equity dividends paid	(102)	(132)	0	0	-	0	-	0	0	0
Share issues / (buybacks)	0	470	334	5	-98.5	10	98.9	10	10	10
Other financing	(2)	(59)	(7)	(3)	63.48	0	-	0	0	0
Change in debt & pref shares	61	798	(319)	(60)	81.18	(60)	0.00	(60)	(60)	(60)
Financing cash flow	(42)	1,078	8	(57)	-	(50)	13.0	(50)	(50)	(50)
Cash flow inc/(dec) in cash	50	8	73	26	-64.2	97	268.9	111	120	130
FX / non cash items	-	(36)	(63)	(21)	67.2	(18)	12.5	(17)	(17)	(17)
Balance sheet inc/(dec) in cash	-	(28)	11	6	-46.8	79	NM	93	103	113

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)	-	-	-	22.2	18.9	16.5	14.7	13.3
P/E (UBS, diluted)	-	-	-	22.2	18.9	16.5	14.7	13.3
P/CEPS	-	-	-	18.8	16.1	14.3	12.9	11.8
Equity FCF (UBS) yield %	-	-	-	3.4	5.7	6.3	6.7	7.0
Net dividend yield (%)	-	-	-	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	-	3.6	3.4	3.1	2.8	2.5
EV/revenues (core)	-	-	-	2.4	2.2	2.0	1.7	1.5
EV/EBITDA (core)	-	-	-	13.9	12.4	10.8	9.4	8.2
EV/EBIT (core)	-	-	-	15.2	13.6	11.8	10.2	8.8
EV/OpFCF (core)	-	-	-	17.9	16.0	14.0	12.2	10.4
EV/op. invested capital	-	-	-	2.3	2.3	2.3	2.3	2.3
Enterprise value (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	-	-	-	2,556	2,556	2,556	2,556	2,556
Net debt (cash)	345	765	1,020	824	723	577	418	251
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	-	-	-	3,381	3,279	3,133	2,975	2,807
Non core assets	(8)	(17)	(41)	(39)	(39)	(39)	(39)	(39)
Core enterprise value	-	-	-	3,342	3,240	3,094	2,936	2,768
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	9.0	39.5	52.1	8.0	7.9	7.0	6.8	6.6
EBITDA (UBS)	1.2	35.8	40.0	31.5	8.8	9.2	9.3	8.3
EBIT (UBS)	-0.9	38.7	44.1	35.5	8.6	9.9	10.0	8.8
EPS (UBS, diluted)	-4.6	-24.0	108.5	44.8	17.8	14.4	12.5	10.3
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	34.3	34.3	34.4	34.5	34.5
EBITDA margin	16.1	15.7	14.4	17.6	17.7	18.1	18.5	18.8
EBIT margin	13.6	13.5	12.8	16.1	16.2	16.6	17.1	17.4
Net earnings (UBS) margin	5.3	3.1	4.4	8.4	9.2	9.8	10.4	10.9
ROIC (EBIT)	-	-	10.4	14.9	16.8	19.6	22.8	26.2
ROIC post tax	-	2.9	6.8	10.4	11.9	13.9	16.2	18.8
ROE (UBS)	18.1	7.9	9.7	16.7	18.5	19.4	19.9	19.9
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	3.3	2.5	1.8	1.1	0.5
Net debt / total equity %	196.2	253.3	126.6	112.3	85.7	59.6	36.3	15.8
Net debt / (net debt + total equity) %	66.2	71.7	55.9	52.9	46.1	37.4	26.6	13.7
Net debt/EV %	-	-	-	23.7	20.2	16.2	11.5	5.9
Capex / depreciation %	120.1	109.2	131.8	162.1	160.9	170.2	187.5	184.4
Capex / revenue %	3.0	2.4	2.2	2.5	2.5	2.5	2.7	2.5
EBIT / net interest	2.8	2.1	2.1	4.0	5.2	6.1	7.0	7.8
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	1,368	1,477	1,580	1,688	1,800
Total	597	833	1,267	1,368	1,477	1,580	1,688	1,800
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	220	239	262	288	314
Total	81	113	162	220	239	262	288	314

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

Forecast returns

Forecast price appreciation	+13.3%
Forecast dividend yield	0.0%
Forecast stock return	+13.3%
Market return assumption	5.7%
Forecast excess return	+7.6%

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%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	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 30 June 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\$40.61	27 Jul 2015

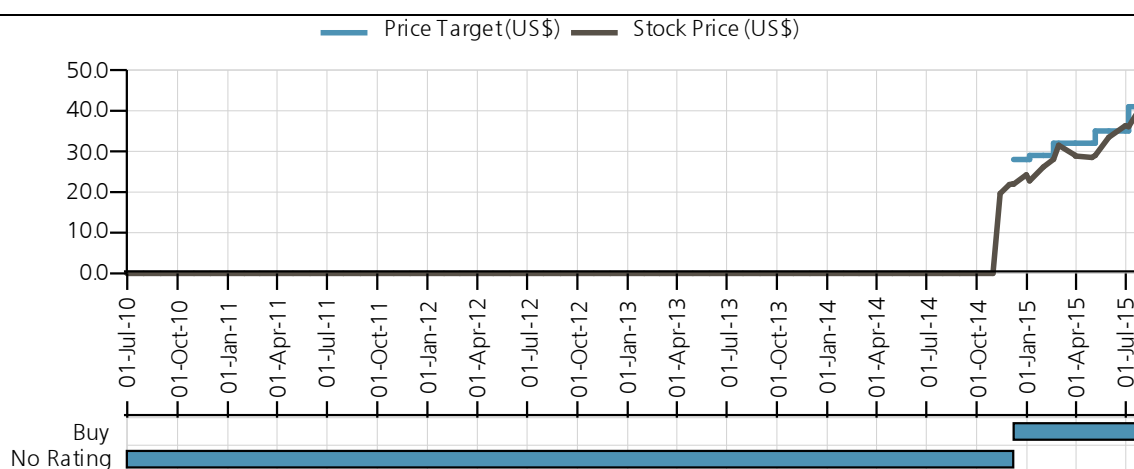
Source: UBS. All prices as of local market close.

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PRA Health Sciences Inc (US\$)



Source: UBS; as of 27 Jul 2015

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