

PRA Health Sciences, Inc. (PRAH)

Rating	OUTPERFORM*
Price (02 Nov 15, US\$)	37.75
Target price (US\$)	47.00 ¹
52-week price range	45.44 - 19.62
Market cap. (US\$ m)	2,271.23
Enterprise value (US\$ m)	3,010.18

*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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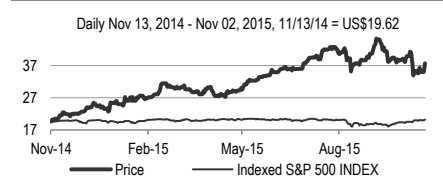
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EARNINGS

3Q EPS Beat & Raise Largely Driven by One-Time Benefit

- **Bottom Line – Roughly \$8.5M Pretax One-Time Benefit, or \$0.09, Recognized in Current Quarter:** PRAH reported adjusted 3Q15 EPS of \$0.52 vs. FactSet consensus of \$0.45. While revenues of \$345M fell modestly short of expectations, the better than expected margins more than made up the difference. With that said, the better than expected operating margin was largely attributable to ~\$8.5M worth (\$0.09) of R&D Credits related to prior years which were recognized in the current quarter. Although the revenues were a touch light of consensus, the 12% cc revenue growth again this quarter (consistent with 2Q) is an encouraging trend which highlights that PRAH is posting faster organic growth than most clinical peers. Also on a positive note, the company posted \$431M of net new business, representing a book-to-bill ratio of 1.25 for the period. The strength of new business bookings bodes well for future growth and has provided management with the confidence to raise its F15 guidance to a new range of \$1.89-\$1.92. We note this represents a \$0.105 raise at the midpoint, which is slightly larger than the \$0.09 one-time benefit recognized in the current quarter. With shares up an impressive 56% ytd (including ~8% today), we would characterize the expectations as fairly high, and given that the majority of the beat & raise was largely driven by a one-time item, we would not be surprised to see some modest profit-taking tomorrow. Looking longer-term we believe the solid revenue growth and book-to-bill reported in the quarter reaffirm our conviction that fundamentals in the clinical CRO market continue to be healthy.

Share price performance



On 11/02/15 the S&P 500 INDEX closed at 2099.77

Quarterly EPS	Q1	Q2	Q3	Q4
2014A	0.20	0.36	0.35	0.35
2015E	0.41	0.47	0.46	0.47
2016E	0.48	0.54	0.54	0.57

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	1.26	1.81	2.12	2.43
Prev. EPS (US\$)	—	—	—	—
P/E (x)	30.0	20.9	17.8	15.5
P/E rel. (%)	174.8	122.1	113.3	111.3
Revenue (US\$ m)	1,266.6	1,370.9	1,509.8	1,641.9
EBITDA (US\$ m)	182.8	238.9	266.9	294.6
OCFPS (US\$)	0.58	2.61	2.99	3.32
P/OCF (x)	41.5	14.5	12.6	11.4
EV/EBITDA (current)	17.1	12.6	10.7	9.1
Net debt (US\$ m)	863	739	589	418
ROIC (%)	6.85	10.32	11.92	13.60
Number of shares (m)	60.17	IC (current, US\$ m)		1,540.16
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

- **Increases F15 EPS Guidance...Again:** With its 3Q15 earnings release, PRAH provided updated F15 guidance. Management is narrowing and increasing the midpoint of its F15 revenue guidance range to \$1.365B-\$1.37B from \$1.34B-\$1.39B (vs. FactSet consensus \$1.37B) and is increasing its adjusted EPS range to \$1.89-\$1.92 from \$1.75-\$1.85 (vs. FactSet consensus of \$1.79). This is the third straight quarter wherein PRAH has raised EPS guidance by greater than the magnitude of the quarterly beat. The revised EPS range was driven (per the PR) by strength in the underlying business (i.e., profitability) and FX rates. We would highlight that the guidance range assumes foreign exchange rates as of October, 15 2015. Management continues to expect 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 margin improvements, sizing the FX benefit in the quarter, and capital deployment.
- **Details on the Quarter:** PRAH reported 3Q15 adjusted EPS of \$0.52, above FactSet consensus of \$0.45 and characterized by slightly lower revenues that were augmented by better than expected margin expansion. PRAH reported net service revenue growth of 8% y/y (+12% y/y cc) to \$345.1M (vs. FactSet 346.1M). Reported gross margins increased a solid 570 bps y/y to 38.3%, primarily due to the favorable impact from FX movements as well as R&D credits received in the current period related to prior years as the result of a comprehensive analysis of the organization done by PRAH. While there were a number of one-time & non-cash items that were excluded from the results, adjusted EBITDA increased 42% y/y to \$66.6M, and adjusted EBITDA margins of 19.3% expanded an impressive 460 bps y/y. Similar to the aforementioned gross margin expansion drivers, we believe FX and the R&D credits likely aided some of this EBITDA margin expansion, as well as continued leverage of selling and administrative functions also playing a role. As of the end of the company's 3Q15, PRAH's Net Debt/TTM EBITDA remained unchanged at ~3.8x compared to 2Q15. PRAH reported net new business wins of \$431.4M in the quarter which represents a book to bill ratio of 1.25x, characterized by solid y/y & q/q growth in gross & net wins despite cancellations of 3.4% of beginning backlog in the quarter.

Companies Mentioned (Price as of 02-Nov-2015)

PRA Health Sciences, Inc. (PRAH.OQ, \$37.75, OUTPERFORM[V], TP \$47.0)

Disclosure Appendix

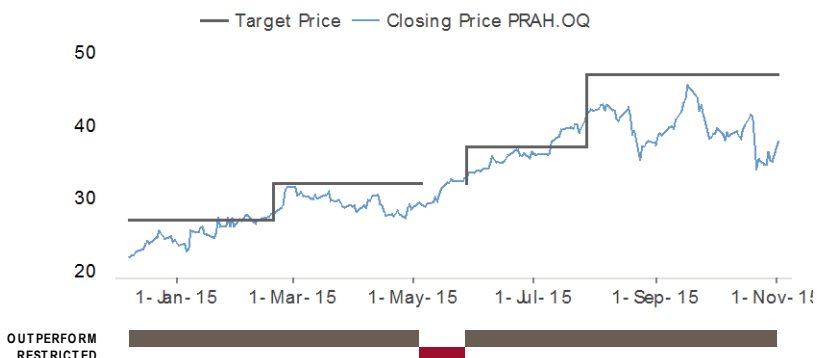
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3-Year Price and Rating History for PRA Health Sciences, Inc. (PRAH.OQ)

PRAH.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
08-Dec-14	21.92	27.00	O *
19-Feb-15	28.04	32.00	
05-May-15	29.07		R
28-May-15	32.73	37.00	O
28-Jul-15	41.74	47.00	
13-Aug-15	40.60	47.00	*

* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	13%	(23% banking clients)
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Price Target: (12 months) for PRA Health Sciences, Inc. (PRAH.OQ)

Method: We use a blended EV/EBITDA and P/E valuation methodology to come up with our updated \$47 target price. Our method assumes that shares can trade at ~14x our F16 EBITDA estimate of \$266.9M, implying a \$46 target valuation, and ~23x our F16 EPS estimate of \$2.12, implying a \$48 target valuation. Our target price of \$47 for PRA Health Sciences implies an equal weighting of the two valuation methodologies. The target EV/EBITDA and P/E multiples are roughly in-line with target multiples applied at Outperform-rated peers. In valuing the contract research organization (CRO) stocks and PRA Health Sciences, we primarily utilize P/E and 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 \$47 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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