

Equity Research

PRA Health Sciences, Inc.

PRAH: Q4 2014 Earnings First Look

- **Summary.** PRAH's first quarterly report as a public company was a strong one, with beats in revenue, EPS, and bookings. We believe the stock's strength since the November IPO (up 55% versus 3% for the S&P 500) largely anticipated the good performance. However, with the midpoint of 2015 guidance coming in slightly above consensus, we believe shares will continue to find support at current levels.
- **Revenue.** \$324MM versus \$322MM (Wells Fargo) and \$320MM (consensus). FX was ~2% headwind, while we estimate the core growth (ex-FX and a small amount of acquisition-related revenue) was about 9%.
- **Bookings.** The company reported \$388MM of net bookings, versus our estimate of \$374MM. Book-to-bill was 1.20 versus our 1.16 expectation.
- **EPS.** \$0.32 versus \$0.29 (Wells Fargo), which INCLUDES stock comp and non-cash rent. Excluding those items (per the company's preferred method), EPS would have been \$0.35. We believe consensus EPS is a blend of methodologies and therefore not useful for comparison.
- **Operating Margin.** 13.6% versus our estimate of 12.5% (we include stock comp and non-cash rent). The strong margin was attributable to gross margin performance (33.7% versus 32.6% Wells Fargo).
- **2015 Guidance.** 2015 EPS guidance of \$1.35-1.45 on \$1,350-1,400MM revenue. We believe non-cash rent and stock comp make up about \$0.04 of EPS, so on an apple-to-apples basis with our \$1.31 estimate, the midpoint of guidance is about \$0.05 above us. Likewise, revenue guidance at the midpoint is about 1.6% higher than our current estimate.
- **Conference Call.** 2/19/2015 at 9:00am ET. 877-930-0862 Password: 81129194.

Valuation Range: \$27.00 to \$28.00

Our valuation range is DCF-based (WACC = 8.5%; terminal NOPLAT growth = 2%) and represents 21x our 2015 EPS estimate. Risks include: (1) project cancellations or delays due to client M&A, economic weakness, pipeline reprioritization, or compound failure; (2) a reversal in the trend toward increased outsourcing; (3) regulatory risks; (4) significant financial leverage; (5) integration risks, and (6) controlled company status.

Investment Thesis:

Between high-single digit revenue growth, ongoing margin expansion, and a reduction in interest expense, we believe the company will be able to generate solid 20%+ earnings growth for several years, which we believe is attractive growth at current valuation levels.

Outperform / V

Sector: Pharmaceutical Services

Overweight

Earnings Reported - First Look

EPS	2014A	2015E	2016E	
		Curr.	Prior	Curr. Prior
Q1 (Mar.)	\$0.18	\$0.29	NC	NE
Q2 (June)	0.33	0.32	NC	NE
Q3 (Sep.)	0.30	0.34	NC	NE
Q4 (Dec.)	0.32	0.36	NC	NE
FY	\$1.06	\$1.31	NC	NE
CY	NE	NE		NE
FY P/EPS	26.3x	21.3x		NM
Rev.(MM)	\$1,265	\$1,353		NE

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
 NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
 V = Volatile, * = Company is on the Priority Stock List

Non-GAAP EPS excludes amortization of purchased intangibles and certain non-recurring items

Ticker	PRAH
Price (02/18/2015)	\$27.84
52-Week Range:	\$18-29
Shares Outstanding: (MM)	60.0
Market Cap.: (MM)	\$1,670.4
S&P 500:	2,099.68
Avg. Daily Vol.:	162,498
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$932.0
LT Debt/Total Cap.:	56.0%
ROE:	29.0%
3-5 Yr. Est. Growth Rate:	22.0%
CY 2015 Est. P/EPS-to-Growth:	NM
Last Reporting Date:	02/18/2015

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Please see page 3 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 02/18/15 unless otherwise stated.

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Together we'll go far



PRAH Q4 2014 Variance Table

Reported 02/17/2015

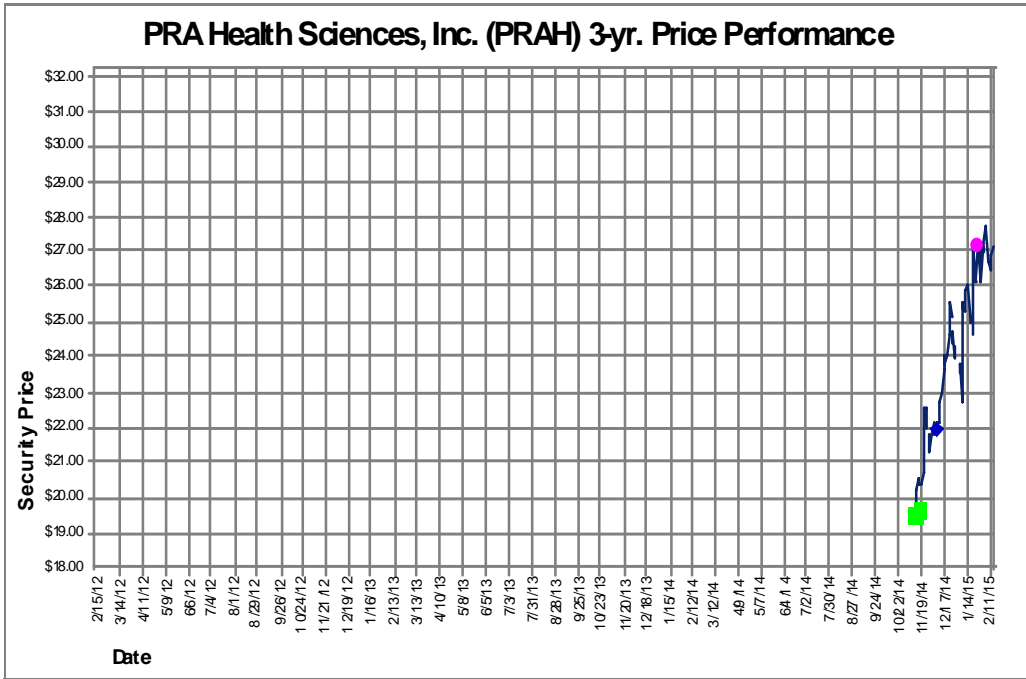
FY ending December In millions except EPS	Actual		Est	Actual	Cons	Yr / Yr change	Seq change
	Q4 2013	Q3 2014	Q4 2014	Q4 2014	Q4 2014		
Total revenues	\$ 299	\$ 320	\$ 322	\$ 324	\$ 320	8.4%	1.2%
Cost of revenues	205	216	217	214		4.6%	(0.6%)
Gross profit	94	104	105	109		16.6%	4.7%
Selling, general & administrative	59	59	59	60		1.4%	2.0%
Depreciation	5	6	6	5		(1.3%)	(9.5%)
Operating income	29	40	40	44		50.8%	11.0%
Interest expense and other, net	20	20	16	17		(16.5%)	(13.2%)
Pretax income	9	20	24	27		205.3%	34.6%
Provision for income taxes	(1)	7	8	9		NA	27.5%
Income before equity in affiliate	10	13	\$ 16	\$ 18		79.8%	38.5%
Equity in earnings from unconsolidated	(1)	(0)	(0)	(1)		67.4%	118.6%
Net income	9	12	\$ 16	\$ 17		80.6%	35.4%
Non-GAAP EPS	\$ 0.24	\$ 0.30	\$ 0.29	\$ 0.32			7.5%
Non-GAAP EPS (company method)	\$ 0.26	\$ 0.34	\$ 0.31	\$ 0.35			3.8%
Diluted shares outstanding	39	42	53	53			
EBITDA	\$ 35	\$ 46	\$ 46	\$ 49	\$ 47	42.5%	8.3%
MARGIN ANALYSIS							
Cost of revenue	68.6%	67.4%	67.4%	66.3%		(240) bps	(120) bps
Gross margin	31.4%	32.6%	32.6%	33.7%		240 bps	120 bps
SG&A / revenue	19.8%	18.4%	18.3%	18.5%		(130) bps	10 bps
Depreciation / revenue	1.8%	1.9%	1.8%	1.7%		(20) bps	(20) bps
Operating margin	9.8%	12.4%	12.5%	13.6%		380 bps	120 bps
Tax rate	(13.0%)	35.3%	34.0%	33.4%		4650 bps	(190) bps
Net margin	3.3%	4.1%	5.0%	5.2%		190 bps	120 bps
EBITDA margin	11.6%	14.2%	14.3%	15.2%		370 bps	100 bps
REVENUE ANALYSIS							
Total revenues	\$ 299	\$ 320	\$ 322	\$ 324			
Growth: core	17.6%	10.4%	8.4%	8.8%			
Growth: FX	0.0%	0.2%	(3.1%)	(1.6%)			
Growth: acquisitions	74.1%	59.5%	2.3%	1.1%			
Growth: total	91.7%	70.1%	7.7%	8.4%			
BOOKINGS & BACKLOG							
Beginning backlog	\$ 1,466	\$ 2,045	\$ 2,091	\$ 2,091			
Revenue	(299)	(320)	(322)	(324)			
Gross bookings	270	442	435				
Cancellations	(68)	(60)	(61)				
Other adjustments	571	(15)	(9)				
Ending backlog	\$ 1,940	\$ 2,091	\$ 2,135	\$ 2,100		8.3%	0.4%
Total net bookings	\$ 202	\$ 382	\$ 374	\$ 388		92.3%	1.6%
Gross book-to-bill	0.90	1.38	1.35				
Net book-to-bill	0.68	1.19	1.16	1.20			
Backlog burn rate	20.4%	15.7%	15.4%	15.5%			

Source: FactSet; Company data; Wells Fargo Securities, LLC estimates

Company Description:

Raleigh, North Carolina-based PRA Health Sciences, Inc. (NASDAQ: PRAH) is a top-five clinical contract research organization by revenue. The company is a pure play in clinical (phase I-IV) development and is differentiated by a large footprint in non-programmatic outsourcing (e.g., functional outsourcing). It operates in one segment.

Required Disclosures



	Date	Publication Price (\$)	RatingCode	Val. Rng. Low	Val. Rng. High	Close Price(\$)
■	11/13/2014		IPO at \$18.00			
◆	12/8/2014	22.06	Evans	25.00	26.00	21.92
●	1/22/2015	25.35	1	27.00	28.00	27.25

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key		Rating Code Key	
▼	Rating Downgrade	1	Outperform/Buy
▲	Rating Upgrade	2	Market Perform/Hold
●	Valuation Range Change	3	Underperform/Sell
◆	Initiation, Resumption, Drop or Suspend	SR	Suspended
■	Analyst Change	NR	Not Rated
□	Split Adjustment	NE	No Estimate

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

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O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 18, 2015

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