

PRA Health Sciences, Inc. (PRAH)

Rating	OUTPERFORM* [V]
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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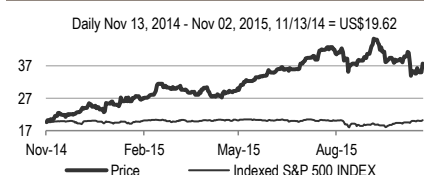
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COMMENT

Second Opinion Suggests 3Q Results Stronger Than Our Initial Review

- **Bottom Line:** Upon further review of PRAH's 3Q15 results released this afternoon we believe the company reported stronger results than our initial take. We had initially held reservations about the quality of PRAH's \$0.52 adjusted EPS result due to R&D tax credits which we believed to be one-time in nature recognized from prior periods in the current quarter, but on second glance we realized we failed to notice a footnote that explained the R&D benefits from prior periods had been excluded from adjusted EBITDA and adjusted EPS results. Taking that into consideration, we revise our initial opinion of PRAH's 3Q15 results. We believe the solid revenue growth, margins and book-to-bill reported in the quarter reaffirm our conviction that fundamentals at PRAH and the clinical CRO market continue to be healthy. We now believe that despite the high expectations coming into the quarter, the magnitude of PRAH's EPS beat and subsequent guidance raise is likely to sustain the momentum in the shares. We look forward to tomorrow morning's earnings call for further color on this afternoon's results.

Share price performance



On 11/02/15 the S&P 500 INDEX closed at 2104.05

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

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

Disclosure Appendix

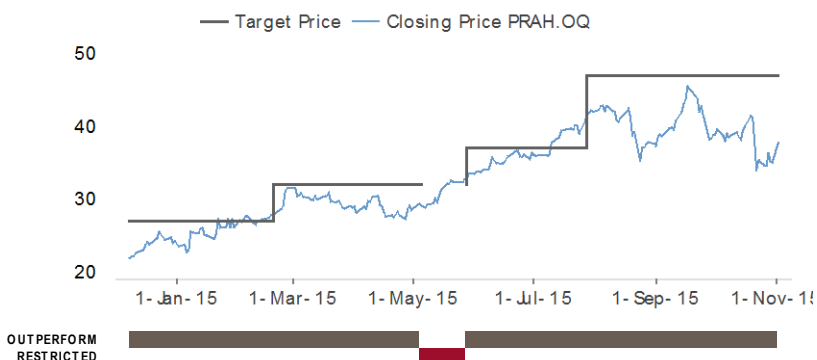
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3-Year Price and Rating History for PRA Health Sciences, Inc. (PRAH.OQ)

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)
Restricted	2%	

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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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