

PRA Health Sciences Inc

Big Q; Another CRO Operating Leverage Story

Continuing to outpace expectations with EPS of \$0.52 vs Street \$0.45

PRAH once again put together a solid quarter of results with revenues of \$345 mil (+8% y/y; +12% cc) which was essentially in-line with the Street estimate of \$346 mil. The company posted EBITDA of ~\$67 mil (+42% y/y) and above the Street's expectation of \$60 mil which led to an EPS of \$0.52 (+55%), well ahead of the Street's \$0.45 expectation. PRAH posted bookings of \$431 mil (+13% y/y) translating into a book to bill of 1.25x, one of the highest reported during 3Q15. The burn rate remained at 15.3% and is in-line with the trends seen over the past few months.

Costs continue to improve as PRAH approaches industry average margins

Strong cost controls continues to be the name of the game with adjusted gross margins coming in at ~35.9% which was up ~120 bps sequentially which mgmt partially attributed to FX benefits during the quarter. The company continued to control SG&A costs as SG&A was down slightly y/y. Altogether, EBITDA came in strong (+42% y/y) and EBITDA margin came in at a solid 19.3% and is an improvement of 110 bps sequentially. The results quickly bring PRAH near the average EBITDA margin of ~20%.

Taking guidance up again to \$1.89-1.92 EPS from \$1.75-1.85

With solid top-line, strong cost controls and seemingly strengthening underlying trends, PRAH raised FY15 EPS guidance to \$1.89-1.92 (from \$1.75-1.85) pointing to 51-54% growth y/y. This compared to the Street's \$1.79 expectation. Revenue guidance was adjusted to \$1.365-1.370 bil from \$1.34-1.39 bil, which actually increases the mid-pt of guidance (a break from most CROs who have trimmed revenue guidance). The new guidance implies 4Q15 EPS of \$0.48-0.51 (above Street's \$0.47) and revenues of \$351-356 mil (in-line with Street's \$353 mil). We raise our FY15E EPS to \$1.90 (was \$1.83) on continued cost controls. For tomorrow's call, we'll be looking to hear how FX may have impacted the quarter and how sustainable are margins given the strong run up as well as industry dynamics.

Valuation: Buy & \$47 PT on same P/E on higher CY16E EPS of \$2.22 (was \$2.15)

\$47 PT is based on same 21x P/E on our CY16E EPS of \$2.22; still equals 13x EBITDA.

Equities

Americas
Healthcare Providers

12-month rating **Buy**

12m price target **US\$47.00**
Prior: **US\$46.00**

Price **US\$35.04**

RIC: PRAH.O BBG: PRAH US

Trading data and key metrics

52-wk range	US\$45.44-0.00
Market cap.	US\$2.23bn
Shares o/s	63.5m (COM)
Free float	100%
Avg. daily volume ('000)	215
Avg. daily value (m)	US\$8.5
Common s/h equity (12/15E)	US\$0.70bn
P/BV (12/15E)	3.2x
Net debt / EBITDA (12/15E)	3.4x

EPS (UBS, diluted) (US\$)

	12/15E			
	From	To	% ch	Cons.
Q1	0.41	0.41	0	0.41
Q2	0.47	0.47	0	0.47
Q3	0.47	0.52	12	0.45
Q4E	0.48	0.50	4	0.47
12/15E	1.83	1.90	4	1.81
12/16E	2.15	2.22	3	2.11
12/17E	2.46	2.56	4	2.39

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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	1,484	1,603	1,723	1,844
EBIT (UBS)	81	113	162	227	252	279	309	337
Net earnings (UBS)	32	25	56	120	142	166	191	216
EPS (UBS, diluted) (US\$)	0.80	0.61	1.26	1.90	2.22	2.56	2.92	3.28
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)	(831)	(686)	(522)	(343)	(150)
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	16.6	17.0	17.4	17.9	18.3
ROIC (EBIT) %	-	-	10.4	15.2	17.4	20.5	24.0	27.6
EV/EBITDA (core) x	-	-	-	12.2	10.7	9.2	7.8	6.7
P/E (UBS, diluted) x	-	-	-	18.4	15.8	13.7	12.0	10.7
Equity FCF (UBS) yield %	-	-	-	4.8	6.9	7.7	8.4	9.1
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\$35.04 on 30 Oct 2015 19:42 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 \$47 based on a P/E of 21x our 2016 EPS estimate of \$2.22.

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 P/E multiple given the EPS growth from the contract. Applying a hypothetical 23x PE to an EPS estimate of \$2.22 equates to a valuation of \$51/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

November 2015 – various investor conferences

12-month rating

Buy

12m price target

US\$47.00

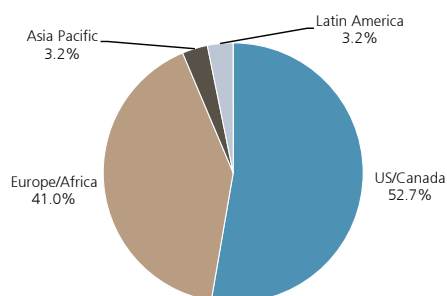
Business description

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

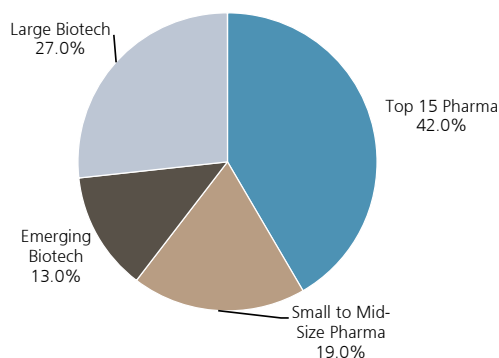
The CRO industry has been growing at a steady clip, primarily the result of significant growth in the phase II-IV market. However, we expect the early development market to have relatively flat growth through 2018. We expect the overall CRO industry to grow at a CAGR of ~6-7% through 2018, with CRO market 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	FY15 11/2/2015	4Q15 11/2/2015
Consolidated Services Revenues	\$1.35 - 1.40 bil	\$1.34 - 1.39 bil	\$1.34 - 1.39 bil	\$1.365 - 1.370 bil	\$351.4 - 356.4 bil
Effective Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%
Non-GAAP Diluted EPS	\$1.35 - 1.45	\$1.62 - 1.72	\$1.75 - 1.85	\$1.89 - 1.92	\$0.48 - 0.51
Non-GAAP EPS Y-O-Y Growth	+7 - 15%	+29 - 37%	+39 - 47%	+51 - 54%	+36 - 45%
GAAP Diluted EPS	\$0.60 - 0.65	\$0.70 - 0.80	\$0.80 - 0.90	\$1.00 - 1.05	
FX	Assumes 1/1/15 rates	Assumes 4/1/15 rates	Assumes July '15 rates	Assumes Oct. 15, 2015 Rates	Assumes Oct. 15, 2015 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	PRAH 09/30/15 Actual	PRAH 12/31/15 Projected
Revenues:								
Gross Revenues	\$354.7	\$357.5	\$377.3	\$370.0	\$388.6	\$392.8	\$403.5	\$405.1
Reimbursable Revenue	(43.4)	(46.1)	(57.3)	(46.2)	(56.6)	(56.3)	(58.4)	(50.6)
Net Revenues	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	\$336.5	\$345.1	\$354.5
Yr/Yr Growth	87.0%	73.5%	70.1%	8.4%	6.6%	8.1%	7.8%	9.5%
Backlog:								
Backlog	\$1,987	\$2,045	\$2,091	\$2,141	\$2,200	\$2,262	\$2,348	\$2,425
Yr/Yr Growth	39.8%	41.6%	42.7%	10.4%	10.7%	10.6%	12.3%	13.3%
Gross New business	\$422.8	\$423.8	\$442.0	\$456.8	\$444.3	\$462.4	\$507.4	\$502.5
Net New business	\$351.3	\$371.9	\$382.0	\$388.4	\$398.0	\$407.8	\$431.4	\$427.1
Net new business growth y-o-y	91.7%	86.6%	101.3%	92.4%	13.3%	9.7%	12.9%	10.0%
Net book-to-bill ratio	1.13	1.19	1.19	1.20	1.20	1.21	1.25	1.20
Cancellations As a % of Beginning Backlog	(\$71.5) 3.7%	(\$51.9) 2.6%	(\$60.0) 2.9%	(\$68.4) 3.3%	(\$46.3) 2.2%	(\$54.6) 2.5%	(\$76.0) 3.4%	(\$75.4) 3.2%
Burn Rate	16.1%	15.7%	15.7%	15.5%	15.5%	15.3%	15.3%	15.1%
Net revenue % by geographical area								
US/Canada	57.5%	58.7%	56.0%	59.7%	60.8%	61.1%	60.3%	--
Europe/Africa	34.1%	33.1%	33.0%	31.8%	30.4%	29.5%	30.2%	--
Asia Pacific	3.9%	4.2%	5.0%	4.1%	4.1%	4.1%	5.4%	--
Latin America	4.5%	4.0%	6.0%	4.4%	4.7%	5.3%	4.1%	--
Total	100.0%	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	\$208.1	--
Europe/Africa	106.1	103.0	105.6	102.9	101.0	99.2	104.1	--
Asia Pacific	12.3	13.0	16.0	13.4	13.4	13.8	18.8	--
Latin America	13.9	12.5	19.2	14.1	15.5	17.8	14.1	--
Total	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	\$336.5	\$345.1	--

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	PRAH 09/30/15 Actual	12/31/15 Projected
Total Revenue	\$311.4	\$311.4	\$320.1	\$323.8	\$332.0	\$336.5	\$345.1	\$354.5
% change	87.0%	73.5%	70.1%	8.4%	6.6%	8.1%	7.8%	9.5%
Expenses								
COGS	215.2	213.4	215.7	214.9	219.0	219.9	212.8	231.1
% of revenue	69.1%	68.5%	67.4%	66.4%	66.0%	65.3%	61.7%	65.2%
Gross Profit (incl stock comp exp)	96.2	98.0	104.3	108.8	113.0	116.6	132.3	123.4
% of revenue	30.9%	31.5%	32.6%	33.6%	34.0%	34.7%	38.3%	34.8%
SG&A (incl stock comp exp)	60.8	56.0	63.4	61.8	60.8	58.9	63.1	62.0
% of revenue	19.5%	18.0%	19.8%	19.1%	18.3%	17.5%	18.3%	17.5%
Stock Comp (Addback to EBITDA)	(0.9)	(0.9)	(1.0)	(0.7)	(0.8)	(1.2)	(1.6)	(1.0)
Other Op Exp. (Addback to EBITDA)	(3.5)	(2.6)	(5.2)	(2.9)	(2.8)	(2.3)	4.2	(2.0)
<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>	<i>66.6</i>	
Adjusted EBITDA	39.7	45.5	47.0	50.6	55.7	61.3	66.6	64.3
% of revenue	12.8%	14.6%	14.7%	15.6%	16.8%	18.2%	19.3%	18.1%
Depreciation (ex Deal Amortization)	5.9	4.9	4.5	5.4	5.1	5.1	5.4	5.5
% of revenue	1.9%	1.6%	1.4%	1.7%	1.5%	1.5%	1.6%	1.6%
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	61.2	58.8
% of revenue	10.9%	13.0%	13.3%	14.0%	15.2%	16.7%	17.7%	16.6%
Interest Expense (Income), net	20.3	19.4	21.0	17.0	13.7	13.8	13.7	13.6
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	47.4	45.2
% of revenue	4.3%	6.8%	6.7%	8.7%	11.1%	12.6%	13.7%	12.8%
Income Taxes	4.6	7.2	7.3	9.6	11.1	12.7	14.2	13.6
Tax Rate (%)	34.0%	34.0%	34.0%	34.0%	30.0%	30.0%	30.0%	30.0%
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	33.2	31.7
% of revenue	2.9%	4.5%	4.4%	5.8%	7.8%	8.8%	9.6%	8.9%
	\$0.22	\$0.34	\$0.34	\$0.35	\$0.41	\$0.47	\$0.52	\$0.50
EPS - Fully Diluted	\$0.22	\$0.34	\$0.34	\$0.35	\$0.41	\$0.47	\$0.52	\$0.50
% change	1.9%	14.2%	-313.9%	37.7%	87.5%	37.3%	55.2%	41.1%
Fully Diluted Shares (mil.)	40.6	40.7	42.1	53.0	62.8	63.0	63.5	63.8
P&L Line Growth Comparison:								
Revenues	87.0%	73.5%	70.1%	8.4%	6.6%	8.1%	7.8%	9.5%
COGS	114.8%	101.2%	86.7%	4.8%	1.8%	3.0%	-1.4%	7.5%
Gross Profit (incl stock comp exp)	45.0%	33.6%	43.7%	16.1%	17.5%	19.0%	26.8%	13.4%
SG&A (incl stock comp exp)	15.4%	25.0%	25.0%	-4.0%	0.0%	5.2%	-0.5%	0.4%
EBITDA	35.6%	37.6%	42.5%	43.6%	40.3%	34.9%	41.6%	27.0%
Depreciation and Amortization	42.3%	23.4%	1.3%	-1.3%	-13.0%	3.6%	20.6%	1.5%
Operating Income	34.5%	39.6%	48.9%	51.8%	49.6%	38.6%	43.9%	30.1%
Interest Expense	108.3%	75.8%	78.0%	-16.5%	-32.4%	-28.8%	-34.8%	-19.9%
Pretax Income	-12.3%	17.5%	28.4%	198.4%	173.2%	100.2%	120.8%	60.1%
Net Income	-1.5%	10.7%	-314.3%	79.8%	189.8%	112.4%	134.2%	69.8%
EPS	1.9%	14.2%	-313.9%	37.7%	87.5%	37.3%	55.2%	41.1%
Shares Outstanding	-3.3%	-3.1%	0.2%	30.6%	54.5%	54.7%	50.9%	20.4%
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	\$1,590.0	\$1,725.2	\$1,863.2	\$2,003.0	\$2,143.2
Reimbursable Revenue	(102.7)	(158.4)	(193.0)	(221.9)	(241.0)	(260.3)	(279.8)	(299.4)
Net Revenues	\$699.7	\$832.9	\$1,266.6	\$1,368.1	\$1,484.2	\$1,602.9	\$1,723.1	\$1,843.7
Yr/Yr Growth	27.8%	19.0%	52.1%	8.0%	8.5%	8.0%	7.5%	7.0%
Backlog:								
Backlog	\$1,383	\$1,940	\$2,141	\$2,425	\$2,605	\$2,792	\$2,983	\$3,178
Yr/Yr Growth	5.2%	40.3%	10.4%	13.3%	7.4%	7.1%	6.9%	6.5%
Gross New business	\$947.8	\$997.7	\$1,745.4	\$1,916.6	\$2,062.2	\$2,216.9	\$2,372.1	\$2,526.3
Net New business	\$653.5	\$774.3	\$1,493.6	\$1,664.3	\$1,789.1	\$1,914.4	\$2,038.8	\$2,161.1
Net new business growth y-o-y	-11.3%	18.5%	92.9%	11.4%	7.5%	7.0%	6.5%	6.0%
Net book-to-bill ratio	0.93	0.93	1.18	1.22	1.21	1.19	1.18	1.17
Cancellations	\$294.3	\$223.4	\$251.8	\$252.3	\$273.1	\$302.5	\$333.3	\$365.1
As a % of Beginning Backlog	22.4%	16.2%	13.0%	11.8%	11.3%	11.6%	11.9%	12.2%
Burn Rate	11.4%	14.5%	15.7%	15.3%	15.3%	15.4%	15.4%	15.5%
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	\$1,368.1	\$1,484.2	\$1,602.9	\$1,723.1	\$1,843.7
% change	9.0%	39.5%	52.1%	8.0%	8.5%	8.0%	7.5%	7.0%
Expenses								
COGS	358.6	526.9	859.2	882.8	960.3	1,035.5	1,111.4	1,189.2
% of revenue	60.1%	63.3%	67.8%	64.5%	64.7%	64.6%	64.5%	64.5%
Gross Profit (incl stock comp exp)	238.5	306.0	407.4	485.3	523.9	567.4	611.7	654.5
% of revenue	39.9%	36.7%	32.2%	35.5%	35.3%	35.4%	35.5%	35.5%
SG&A (incl stock comp exp)	160.6	212.6	242.1	244.9	258.2	274.1	289.5	304.2
% of revenue	26.9%	25.5%	19.1%	17.9%	17.4%	17.1%	16.8%	16.5%
Stock Comp (Addback to EBITDA)	(11.6)	(24.7)	(3.5)	(4.6)	(5.0)	(5.0)	(6.0)	(7.0)
Other Op Exp. (Addback to EBITDA)	(6.7)	(12.4)	(14.1)	(2.9)	(4.0)	(5.0)	(5.5)	(6.0)
<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	248.0	274.7	303.3	333.7	363.3
% of revenue	16.1%	15.7%	14.4%	18.1%	18.5%	18.9%	19.4%	19.7%
Depreciation (ex Deal Amortization)	15.0	18.1	20.7	21.1	23.0	24.0	25.0	26.0
% of revenue	2.5%	2.2%	1.6%	1.5%	1.5%	1.5%	1.5%	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	226.8	251.7	279.3	308.7	337.3
% of revenue	13.6%	13.5%	12.8%	16.6%	17.0%	17.4%	17.9%	18.3%
Interest Expense (Income), net	28.5	52.9	77.7	54.8	50.0	45.0	40.0	35.0
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	172.0	201.7	234.3	268.7	302.3
% of revenue	8.8%	7.2%	6.7%	12.6%	13.6%	14.6%	15.6%	16.4%
Income Taxes	20.7	34.2	28.7	51.6	59.5	68.2	77.4	86.2
Tax Rate (%)	39.4%	57.3%	34.0%	30.0%	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	120.4	142.2	166.1	191.3	216.2
% of revenue	5.3%	3.1%	4.4%	8.8%	9.6%	10.4%	11.1%	11.7%
<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	\$1.90	\$2.22	\$2.56	\$2.92	\$3.28
% change	-4.6%	-24.0%	108.5%	50.7%	16.7%	15.1%	14.3%	12.1%
Fully Diluted Shares (mil.)	40.0	42.0	44.1	63.3	64.0	65.0	65.5	66.0
P&L Line Growth Comparison:								
Revenues	9.0%	39.5%	52.1%	8.0%	8.5%	8.0%	7.5%	7.0%
COGS	11.6%	46.9%	63.1%	2.7%	8.8%	7.8%	7.3%	7.0%
Gross Profit (incl stock comp exp)	5.3%	28.3%	33.1%	19.1%	8.0%	8.3%	7.8%	7.0%
SG&A (incl stock comp exp)	16.1%	32.3%	13.9%	1.2%	5.5%	6.1%	5.6%	5.1%
EBITDA	1.2%	35.8%	40.0%	35.6%	10.8%	10.4%	10.0%	8.9%
Depreciation and Amortization	13.6%	20.0%	14.8%	2.0%	8.8%	4.3%	4.2%	4.0%
Operating Income	-0.9%	38.7%	44.1%	39.9%	10.9%	11.0%	10.5%	9.3%
Interest Expense	-9.1%	85.6%	46.9%	-29.4%	-8.8%	-10.0%	-11.1%	-12.5%
Pretax Income	4.3%	13.3%	41.6%	103.7%	17.2%	16.2%	14.7%	12.5%
Net Income	-6.0%	-20.2%	119.1%	116.1%	18.1%	16.9%	15.2%	13.0%
EPS	-4.6%	-24.0%	108.5%	50.7%	16.7%	15.1%	14.3%	12.1%
Shares Outstanding	-1.5%	5.0%	5.1%	43.4%	1.2%	1.6%	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)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Income statement (US\$m)										
Revenues	597	833	1,267	1,368	8.0	1,484	8.5	1,603	1,723	1,844
Gross profit	239	306	407	485	19.1	524	8.0	567	612	655
EBITDA (UBS)	96	131	183	248	35.6	275	10.8	303	334	363
Depreciation & amortisation	(15)	(18)	(21)	(21)	2.0	(23)	8.8	(24)	(25)	(26)
EBIT (UBS)	81	113	162	227	39.9	252	10.9	279	309	337
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)	29.4	(50)	8.8	(45)	(40)	(35)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	53	60	84	172	103.7	202	17.2	234	269	302
Tax	(21)	(34)	(29)	(52)	-79.7	(59)	-15.3	(68)	(77)	(86)
Profit after tax	32	25	56	120	116.1	142	18.1	166	191	216
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	120	116.1	142	18.1	166	191	216
Net earnings (UBS)	32	25	56	120	116.1	142	18.1	166	191	216
Tax rate (%)	39.4	57.3	34.0	30.0	-11.8	29.5	-1.7	29.1	28.8	28.5
Per share (US\$)										
EPS (UBS, diluted)	0.80	0.61	1.26	1.90	50.7	2.22	16.7	2.56	2.92	3.28
EPS (local GAAP, diluted)	0.80	0.61	1.26	1.90	50.7	2.22	16.7	2.56	2.92	3.28
EPS (UBS, basic)	0.80	0.61	1.26	1.90	50.7	2.22	16.7	2.56	2.92	3.28
Net DPS (US\$)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted) ¹	1.17	1.04	1.73	2.24	29.1	2.58	15.3	2.93	3.30	3.67
Book value per share	4.40	11.13	11.32	11.05	-2.3	11.92	7.8	13.07	14.58	16.44
Average shares (diluted)	40.00	42.00	44.12	63.26	43.4	64.00	1.2	65.00	65.50	66.00
Balance sheet (US\$m)										
Cash and equivalents	-	81	92	83	-9.0	169	102.2	273	391	524
Other current assets	215	377	400	483	21.0	531	9.8	588	656	734
Total current assets	-	458	491	567	15.4	699	23.4	861	1,047	1,258
Net tangible fixed assets	650	1,875	1,707	1,636	-4.2	1,550	-5.2	1,463	1,376	1,288
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	8	62	42	46	10.2	46	0.0	46	46	46
Total assets	-	2,395	2,241	2,249	0.4	2,296	2.1	2,370	2,469	2,593
Trade payables & other ST liabilities	303	450	466	509	9.3	552	8.6	600	654	707
Short term debt	3	19	0	20	-	20	0.00	20	20	20
Total current liabilities	306	469	466	529	13.6	572	8.2	620	674	727
Long term debt	451	1,246	949	894	-5.7	834	-6.7	774	714	654
Other long term liabilities	50	212	150	126	-15.6	126	0.0	126	126	126
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	807	1,927	1,564	1,550	-0.9	1,533	-1.1	1,521	1,514	1,508
Common s/h equity	176	467	677	699	3.3	763	9.1	849	955	1,085
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	983	2,395	2,241	2,249	0.4	2,296	2.1	2,370	2,469	2,593
Cash flow (US\$m)										
Net income (before pref divs)	32	25	56	120	116.1	142	18.1	166	191	216
Depreciation & amortisation	15	18	21	21	2.0	23	8.8	24	25	26
Net change in working capital	47	58	(16)	(26)	-60.5	15	-	12	5	(5)
Other operating	16	(31)	17	25	47.3	10	-59.4	10	10	10
Operating cash flow	110	70	77	141	82.0	190	35.3	212	231	247
Tangible capital expenditure	(18)	(20)	(27)	(34)	-25.5	(37)	-7.9	(40)	(45)	(45)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	(1,115)	0	0	-	0	-	0	0	0
Other investing	0	(5)	15	(58)	-	0	-	0	0	0
Investing cash flow	(18)	(1,140)	(12)	(92)	NM	(37)	59.9	(40)	(45)	(45)
Equity dividends paid	(102)	(132)	0	0	-	0	-	0	0	0
Share issues / (buybacks)	0	470	334	3	-99.1	10	230.4	10	10	10
Other financing	(2)	(59)	(7)	(3)	63.48	0	-	0	0	0
Change in debt & pref shares	61	798	(319)	(35)	89.02	(60)	-71.43	(60)	(60)	(60)
Financing cash flow	(42)	1,078	8	(34)	-	(50)	-44.9	(50)	(50)	(50)
Cash flow inc/(dec) in cash	50	8	73	14	-81.3	103	NM	122	136	152
FX / non cash items	-	(36)	(63)	(22)	65.0	(18)	17.8	(18)	(18)	(19)
Balance sheet inc/(dec) in cash	-	(28)	11	(8)	-	85	-	104	118	133

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash 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)	-	-	-	18.4	15.8	13.7	12.0	10.7
P/E (UBS, diluted)	-	-	-	18.4	15.8	13.7	12.0	10.7
P/CEPS	-	-	-	15.7	13.6	12.0	10.6	9.6
Equity FCF (UBS) yield %	-	-	-	4.8	6.9	7.7	8.4	9.1
Net dividend yield (%)	-	-	-	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	-	3.2	2.9	2.7	2.4	2.1
EV/revenues (core)	-	-	-	2.2	2.0	1.7	1.5	1.3
EV/EBITDA (core)	-	-	-	12.2	10.7	9.2	7.8	6.7
EV/EBIT (core)	-	-	-	13.3	11.7	10.0	8.5	7.2
EV/OpFCF (core)	-	-	-	15.7	13.6	11.6	10.0	8.3
EV/op. invested capital	-	-	-	2.0	2.0	2.0	2.0	2.0
Enterprise value (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	-	-	-	2,225	2,225	2,225	2,225	2,225
Net debt (cash)	345	765	1,020	844	759	604	433	247
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	-	-	-	3,069	2,984	2,829	2,658	2,472
Non core assets	(8)	(17)	(41)	(46)	(46)	(46)	(46)	(46)
Core enterprise value	-	-	-	3,023	2,937	2,783	2,612	2,426
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	8.5	8.0	7.5	7.0
EBITDA (UBS)	1.2	35.8	40.0	35.6	10.8	10.4	10.0	8.9
EBIT (UBS)	-0.9	38.7	44.1	39.9	10.9	11.0	10.5	9.3
EPS (UBS, diluted)	-4.6	-24.0	108.5	50.7	16.7	15.1	14.3	12.1
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	35.5	35.3	35.4	35.5	35.5
EBITDA margin	16.1	15.7	14.4	18.1	18.5	18.9	19.4	19.7
EBIT margin	13.6	13.5	12.8	16.6	17.0	17.4	17.9	18.3
Net earnings (UBS) margin	5.3	3.1	4.4	8.8	9.6	10.4	11.1	11.7
ROIC (EBIT)	-	-	10.4	15.2	17.4	20.5	24.0	27.6
ROIC post tax	-	2.9	6.8	10.7	12.3	14.5	17.1	19.8
ROE (UBS)	18.1	7.9	9.7	17.5	19.4	20.6	21.2	21.2
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	3.4	2.5	1.7	1.0	0.4
Net debt / total equity %	196.2	253.3	126.6	118.8	89.9	61.4	36.0	13.9
Net debt / (net debt + total equity) %	66.2	71.7	55.9	54.3	47.3	38.1	26.5	12.2
Net debt/EV %	-	-	-	27.5	23.4	18.8	13.2	6.2
Capex / depreciation %	120.1	109.2	131.8	162.1	160.9	166.7	180.0	173.1
Capex / revenue %	3.0	2.4	2.2	2.5	2.5	2.5	2.6	2.4
EBIT / net interest	2.8	2.1	2.1	4.1	5.0	6.2	7.7	9.6
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	1,484	1,603	1,723	1,844
Total	597	833	1,267	1,368	1,484	1,603	1,723	1,844
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	227	252	279	309	337
Total	81	113	162	227	252	279	309	337

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

Forecast returns

Forecast price appreciation	+34.1%
Forecast dividend yield	0.0%
Forecast stock return	+34.1%
Market return assumption	5.7%
Forecast excess return	+28.4%

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.	49%	33%
Neutral	FSR is between -6% and 6% of the MRA.	40%	26%
Sell	FSR is > 6% below the MRA.	12%	18%
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 September 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.

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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, 5, 6, 16}	PRAH.O	Buy	N/A	US\$37.75	02 Nov 2015

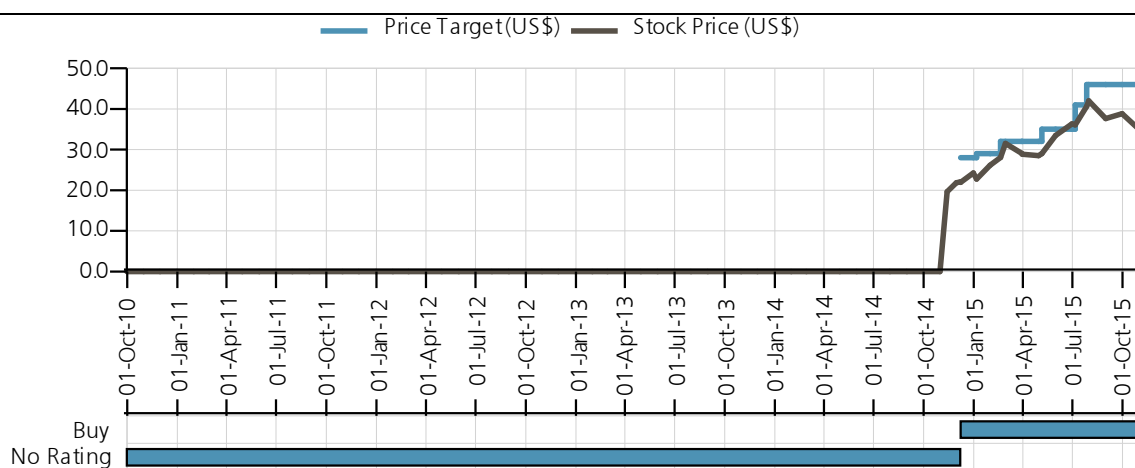
Source: UBS. All prices as of local market close.

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PRA Health Sciences Inc (US\$)



Source: UBS; as of 02 Nov 2015

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