

PRA Health Sciences Inc

Post-Call: Yet Another CRO with Margin Expansion Runway

Further synergies to come

As we noted in PRAH note last night, the integration and synergies at PRAH have played out as the company expected in CY14. But, during the call, mgmt noted that while most of the cost rationalization in the RPS business is complete, mgmt still foresees further margin expansion in CY15 and beyond. Further, PRAH did note that most of the margin expansion during the quarter and in the guidance is attributable to operations and minimal benefit from FX, which bodes well for CY15. Mgmt outlined that the long-term target for EBITDA margins is in the high-teens range from the current 14-15%.

Core PRAH business leading the way

Similar to other CROs in the market, PRAH sees robust demand for the company's services with a greater focus on traditional project-based work rather than the strategic solutions model. Mgmt noted that the legacy RPS business traditionally received a lot of requests for traditional project work, which may work in PRAH's favor given the combined capabilities of the organization. The company highlighted that clients were supportive of the transaction given PRAH would continue to support the business model, which bodes well for future growth opportunities. Finally, pricing remained competitive, but mgmt noted that pharma companies are more understanding of the need for some inflation in costs when outsourcing work to CROs.

Other tidbits and tweaks to model

We note PRAH's low customer concentration has appealed to clients who previously pondered PRAH's capacity for large customers. This may bode well for future bookings. In terms of debt paydown, mgmt expects to possibly pay down more debt in 2Q15 and is also reviewing the possibility for an upgrade from the ratings agencies and possible refinancing of debt. We tweak our model slightly on margins but leave EPS unchanged.

Valuation: Maintain Buy rating; Raise PT to \$32

We believe PRAH is making strong progress on margins and with possible debt paydowns should trade closer to peers on a PE multiple. We raise our price target to \$32 (was \$29) on a PE of 18x (was 17x) our 2016 EPS estimate of \$1.73; equals 12x EBITDA (was 11x).

Equities

Americas
Healthcare Providers

12-month rating **Buy**

12m price target **US\$32.00**
Prior: US\$29.00

Price **US\$28.61**

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

Trading data and key metrics

52-wk range	US\$28.61-0.00
Market cap.	US\$1.71bn
Shares o/s	59.8m (COM)
Free float	100%
Avg. daily volume ('000)	218
Avg. daily value (m)	US\$5.4
Common s/h equity (12/15E)	US\$0.67bn
P/BV (12/15E)	2.6x
Net debt / EBITDA (12/15E)	3.9x

EPS (UBS, diluted) (US\$)

	12/15E			
	From	To	% ch	Cons.
Q1E	0.31	0.31	0.00	0.31
Q2E	0.37	0.37	0.00	0.34
Q3E	0.37	0.37	0.00	0.36
Q4E	0.40	0.40	0.00	0.38
12/15E	1.45	1.45	0.00	1.39
12/16E	1.73	1.73	0.00	1.68
12/17E	2.00	2.00	0.00	1.93

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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	1,369	1,472	1,575	1,683	1,794
EBIT (UBS)	81	113	162	175	200	222	247	271
Net earnings (UBS)	32	25	55	88	107	125	146	165
EPS (UBS, diluted) (US\$)	0.80	0.61	1.26	1.45	1.73	2.00	2.32	2.61
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)	(774)	(664)	(541)	(408)	(265)
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	12.8	13.6	14.1	14.7	15.1
ROIC (EBIT) %	-	-	10.4	12.1	14.7	17.3	20.5	23.9
EV/EBITDA (core) x	-	-	-	12.6	10.7	9.3	7.9	6.8
P/E (UBS, diluted) x	-	-	-	19.8	16.6	14.3	12.3	11.0
Equity FCF (UBS) yield %	-	-	-	5.6	6.9	7.6	8.2	8.8
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\$28.61 on 19 Feb 2015 10:42 EST

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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 expect 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 \$32 based on a P/E of 18x our 2016 EPS estimate of \$1.73.

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 20x PE to an EPS of \$1.73 equates to a valuation of \$35/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 done over 2013. The integration issues could materialize in higher costs which could result in a hypothetical EPS of \$1.47. On a slightly lower multiple of ~15x, this leads to a valuation of \$22/sh.

Upcoming catalysts

May 2015 – 1Q15 Earnings

12-month rating

Buy

12m price target

US\$32.00

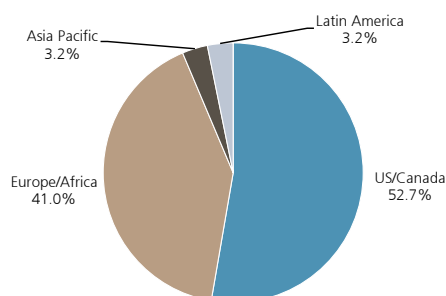
Business description

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

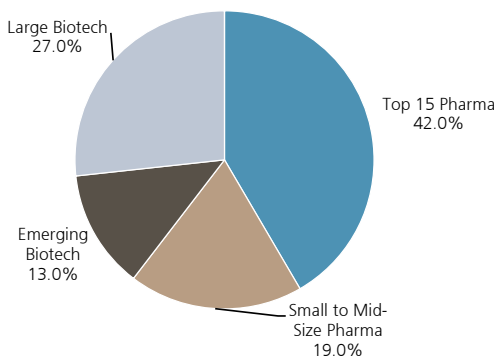
The CRO industry has been growing at a steady clip, primarily the result of significant growth in the phase II-IV market. However, we expect the early development market to have relatively flat growth through 2018. We expect the overall CRO industry to grow at a CAGR of ~6-7% through 2018, with CRO market 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 (2013)



Source: Company documents

Revenues by Customer Segment (3Q14)



Source: Company documents

Figure 1: PRA Health – 2015 Guidance Table

PRA Health: Company Guidance Table	
Guidance For Period: Date Announced:	FY15 2/18/2015
Consolidated Services Revenues	\$1.35 - 1.40 bil
Effective Tax Rate	30.0%
Non-GAAP Diluted EPS	\$1.35 - 1.45
Y-O-Y Growth	7 - 15%
GAAP Diluted EPS	\$0.60 - 0.65
FX	Assumes 1/1/15 rates
Note:	

Source: Company reports

Figure 2: PRA Health – Quarterly Revenue Model & Statistics (\$ mil)

PRAH - Quarterly Revenue Model (\$mm)								
	PRAH 03/31/14 Actual	PRAH 06/30/14 Actual	PRAH 09/30/14 Actual	PRAH 12/31/14 Actual	03/31/15 Projected	06/30/15 Projected	09/30/15 Projected	12/31/15 Projected
Revenues:								
Gross Revenues	\$354.7	\$357.5	\$377.3	\$370.0	\$381.3	\$389.7	\$411.3	\$399.6
Reimbursable Revenue	(43.4)	(46.1)	(57.3)	(46.2)	(49.0)	(50.3)	(63.6)	(49.7)
Net Revenues	\$311.4	\$311.4	\$320.1	\$323.8	\$332.3	\$339.4	\$347.7	\$349.9
Yr/Yr Growth	87.0%	73.5%	70.1%	8.4%	6.7%	9.0%	8.6%	8.1%
Backlog:								
Backlog	\$1,987	\$2,045	\$2,091	\$2,141	\$2,196	\$2,249	\$2,301	\$2,345
Yr/Yr Growth	39.8%	41.6%	42.7%	10.4%	10.5%	10.0%	10.0%	9.5%
Gross New business	\$422.8	\$423.8	\$442.0	\$456.8	\$465.1	\$466.2	\$486.2	\$502.5
Net New business	\$351.3	\$371.9	\$382.0	\$388.4	\$386.0	\$391.6	\$403.5	\$417.1
Net new business growth y-o-y	91.7%	86.6%	101.3%	92.4%	9.9%	5.3%	5.6%	7.4%
Net book-to-bill ratio	1.13	1.19	1.19	1.20	1.16	1.15	1.16	1.19
Cancellations	(\$71.5)	(\$51.9)	(\$60.0)	(\$68.4)	(\$79.1)	(\$74.6)	(\$82.7)	(\$85.4)
As a % of Beginning Backlog	3.7%	2.6%	2.9%	3.3%	3.7%	3.4%	3.7%	3.7%
Burn Rate	16.1%	15.7%	15.7%	15.5%	15.5%	15.5%	15.5%	15.2%
Net revenue % by geographical area								
US/Canada	57.5%	58.7%	56.0%	59.7%	--	--	--	--
Europe/Africa	34.1%	33.1%	33.0%	31.8%	--	--	--	--
Asia Pacific	3.9%	4.2%	5.0%	4.1%	--	--	--	--
Latin America	4.5%	4.0%	6.0%	4.4%	--	--	--	--
Total	100.0%	100.0%	100.0%	100.0%	--	--	--	--
Net revenue by geographical area								
US/Canada	\$179.1	\$182.9	\$179.2	\$193.4	--	--	--	--
Europe/Africa	106.1	103.0	105.6	102.9	--	--	--	--
Asia Pacific	12.3	13.0	16.0	13.4	--	--	--	--
Latin America	13.9	12.5	19.2	14.1	--	--	--	--
Total	\$311.4	\$311.4	\$320.1	\$323.8	--	--	--	--

Source: Company documents; UBS estimates

Figure 3: PRA Health Sciences – Quarterly Income Statement (\$ mil)

PRAH - Quarterly Income Statement (Millions)								
Revenues	PRAH 03/31/14 Actual	PRAH 06/30/14 Actual	PRAH 09/30/14 Actual	PRAH 12/31/14 Actual	03/31/15 Projected	06/30/15 Projected	09/30/15 Projected	12/31/15 Projected
Total Revenue	\$311.4	\$311.4	\$320.1	\$323.8	\$332.3	\$339.4	\$347.7	\$349.9
% change	87.0%	73.5%	70.1%	8.4%	6.7%	9.0%	8.6%	8.1%
Expenses								
COGS	215.2	213.4	215.7	214.9	225.6	230.8	234.7	234.4
% of revenue	69.1%	68.5%	67.4%	66.4%	67.9%	68.0%	67.5%	67.0%
Gross Profit (incl stock comp exp)	96.2	98.0	104.3	108.8	106.7	108.6	113.0	115.5
% of revenue	30.9%	31.5%	32.6%	33.6%	32.1%	32.0%	32.5%	33.0%
SG&A (incl stock comp exp)	60.8	56.0	63.4	61.8	63.1	60.8	65.0	64.7
% of revenue	19.5%	18.0%	19.8%	19.1%	19.0%	17.9%	18.7%	18.5%
Stock Comp (Addback to EBITDA)	(0.9)	(0.9)	(1.0)	(0.7)	(0.9)	(1.0)	(0.9)	(0.8)
Other Op Exp. (Addback to EBITDA)	(3.5)	(2.6)	(5.2)	(2.9)	(1.0)	(1.0)	(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>				
Adjusted EBITDA	39.7	45.5	47.0	50.6	45.4	49.9	49.9	52.5
% of revenue	12.8%	14.6%	14.7%	15.6%	13.7%	14.7%	14.3%	15.0%
Depreciation (ex Deal Amortization)	5.9	4.9	4.5	5.4	5.5	5.6	5.7	5.8
% of revenue	1.9%	1.6%	1.4%	1.7%	1.7%	1.6%	1.6%	1.7%
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	39.9	44.3	44.2	46.7
% of revenue	10.9%	13.0%	13.3%	14.0%	12.0%	13.0%	12.7%	13.4%
Interest Expense (Income), net	20.3	19.4	21.0	17.0	12.2	12.2	12.0	11.7
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	27.7	32.1	32.2	35.1
% of revenue	4.3%	6.8%	6.7%	8.7%	8.3%	9.4%	9.3%	10.0%
Income Taxes	5.4	6.7	7.3	9.6	8.6	9.6	9.7	10.7
Tax Rate (%)	40.0%	31.6%	34.0%	34.0%	31.0%	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	8.1	14.5	14.2	18.6	19.1	22.4	22.6	24.4
% of revenue	2.6%	4.7%	4.4%	5.8%	5.8%	6.6%	6.5%	7.0%
	\$0.20	\$0.36	\$0.34	\$0.35				
EPS - Fully Diluted	\$0.20	\$0.36	\$0.34	\$0.35	\$0.31	\$0.37	\$0.37	\$0.40
% change	-6.5%	18.1%	-313.9%	37.7%	55.8%	3.3%	9.2%	12.7%
Fully Diluted Shares (mil.)	40.3	40.8	42.1	53.0	61.0	61.1	61.3	61.5
P&L Line Growth Comparison:								
Revenues	87.0%	73.5%	70.1%	8.4%	6.7%	9.0%	8.6%	8.1%
COGS	114.8%	101.2%	86.7%	4.8%	4.9%	8.2%	8.8%	9.1%
Gross Profit (incl stock comp exp)	45.0%	33.6%	43.7%	16.1%	10.9%	10.8%	8.3%	6.1%
SG&A (incl stock comp exp)	15.4%	25.0%	25.0%	-4.0%	3.8%	8.5%	2.5%	4.8%
EBITDA	35.6%	37.6%	42.5%	43.6%	14.4%	9.7%	6.1%	3.7%
Depreciation and Amortization	42.3%	23.4%	1.3%	-1.3%	-6.7%	14.1%	26.6%	7.1%
Operating Income	34.5%	39.6%	48.9%	51.8%	18.1%	9.1%	3.9%	3.4%
Interest Expense	108.3%	75.8%	78.0%	-16.5%	-39.9%	-36.9%	-43.1%	-31.3%
Pretax Income	-12.3%	17.5%	28.4%	198.4%	105.3%	51.2%	50.0%	24.2%
Net Income	-10.4%	14.7%	-314.3%	79.8%	136.0%	54.7%	59.1%	30.8%
EPS	-6.5%	18.1%	-313.9%	37.7%	55.8%	3.3%	9.2%	12.7%
Shares Outstanding	-4.1%	-2.9%	0.2%	30.6%	51.5%	49.8%	45.7%	16.0%
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	\$1,581.9	\$1,700.6	\$1,819.6	\$1,943.3	\$2,071.6
Reimbursable Revenue	(102.7)	(158.4)	(193.0)	(212.5)	(228.5)	(244.5)	(260.4)	(277.3)
Net Revenues	\$699.7	\$832.9	\$1,266.6	\$1,369.4	\$1,472.1	\$1,575.1	\$1,683.0	\$1,794.3
Yr/Yr Growth	27.8%	19.0%	52.1%	8.1%	7.5%	7.0%	6.8%	6.6%
Backlog:								
Backlog	\$1,383	\$1,940	\$2,141	\$2,345	\$2,567	\$2,809	\$3,070	\$3,346
Yr/Yr Growth	5.2%	40.3%	10.4%	9.5%	9.5%	9.4%	9.3%	9.0%
Gross New business	\$947.8	\$997.7	\$1,745.4	\$1,919.9	\$2,065.9	\$2,220.8	\$2,376.3	\$2,530.7
Net New business	\$653.5	\$774.3	\$1,493.6	\$1,598.2	\$1,718.1	\$1,838.3	\$1,957.8	\$2,075.3
Net new business growth y-o-y	-11.3%	18.5%	92.9%	7.0%	7.5%	7.0%	6.5%	6.0%
Net book-to-bill ratio	0.93	0.93	1.18	1.17	1.17	1.17	1.16	1.16
Cancellations	\$294.3	\$223.4	\$251.8	\$321.7	\$347.8	\$382.5	\$418.4	\$455.4
As a % of Beginning Backlog	22.4%	16.2%	13.0%	15.0%	14.8%	14.9%	14.9%	14.8%
Burn Rate	11.4%	14.5%	15.7%	15.4%	15.7%	15.3%	15.0%	14.6%
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	\$1,369.4	\$1,472.1	\$1,575.1	\$1,683.0	\$1,794.3
% change	9.0%	39.5%	52.1%	8.1%	7.5%	7.0%	6.8%	6.6%
Expenses								
COGS	358.6	526.9	859.2	925.6	995.1	1,063.2	1,134.3	1,207.6
% of revenue	60.1%	63.3%	67.8%	67.6%	67.6%	67.5%	67.4%	67.3%
Gross Profit (incl stock comp exp)	238.5	306.0	407.4	443.8	477.0	511.9	548.6	586.7
% of revenue	39.9%	36.7%	32.2%	32.4%	32.4%	32.5%	32.6%	32.7%
SG&A (incl stock comp exp)	160.6	212.6	242.1	253.7	262.0	275.6	287.8	301.4
% of revenue	26.9%	25.5%	19.1%	18.5%	17.8%	17.5%	17.1%	16.8%
Stock Comp (Addback to EBITDA)	(11.6)	(24.7)	(3.5)	(3.6)	(4.0)	(4.5)	(5.0)	(5.5)
Other Op Exp. (Addback to EBITDA)	(6.7)	(12.4)	(14.1)	(4.0)	(4.0)	(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	197.7	222.9	245.3	270.9	295.8
% of revenue	16.1%	15.7%	14.4%	14.4%	15.1%	15.6%	16.1%	16.5%
Depreciation (ex Deal Amortization)	15.0	18.1	20.7	22.6	23.0	23.5	24.0	24.4
% of revenue	2.5%	2.2%	1.6%	1.7%	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	175.1	199.9	221.8	246.9	271.4
% of revenue	13.6%	13.5%	12.8%	12.8%	13.6%	14.1%	14.7%	15.1%
Interest Expense (Income), net	28.5	52.9	77.7	48.0	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	127.1	153.9	178.8	205.9	231.4
% of revenue	8.8%	7.2%	6.7%	9.3%	10.5%	11.3%	12.2%	12.9%
Income Taxes	20.7	34.2	29.0	38.6	46.9	53.6	59.7	65.9
Tax Rate (%)	39.4%	57.3%	34.4%	30.4%	30.5%	30.0%	29.0%	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	55.4	88.5	107.0	125.1	146.2	165.4
% of revenue	5.3%	3.1%	4.4%	6.5%	7.3%	7.9%	8.7%	9.2%
<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	\$1.45	\$1.73	\$2.00	\$2.32	\$2.61
% change	-4.6%	-24.0%	107.4%	15.1%	19.4%	16.0%	15.9%	12.3%
Fully Diluted Shares (mil.)	40.0	42.0	44.1	61.2	62.0	62.5	63.0	63.5
P&L Line Growth Comparison:								
Revenues	9.0%	39.5%	52.1%	8.1%	7.5%	7.0%	6.8%	6.6%
COGS	11.6%	46.9%	63.1%	7.7%	7.5%	6.8%	6.7%	6.5%
Gross Profit (incl stock comp exp)	5.3%	28.3%	33.1%	8.9%	7.5%	7.3%	7.2%	6.9%
SG&A (incl stock comp exp)	16.1%	32.3%	13.9%	4.8%	3.3%	5.2%	4.4%	4.7%
EBITDA	1.2%	35.8%	40.0%	8.1%	12.7%	10.0%	10.4%	9.2%
Depreciation and Amortization	13.6%	20.0%	14.8%	9.0%	1.8%	2.2%	2.1%	1.7%
Operating Income	-0.9%	38.7%	44.1%	8.0%	14.2%	10.9%	11.3%	9.9%
Interest Expense	-9.1%	85.6%	46.9%	-38.2%	-4.3%	-6.5%	-4.7%	-2.4%
Pretax Income	4.3%	13.3%	41.6%	50.5%	21.1%	16.1%	15.2%	12.4%
Net Income	-6.0%	-20.2%	117.9%	59.7%	20.9%	17.0%	16.8%	13.2%
EPS	-4.6%	-24.0%	107.4%	15.1%	19.4%	16.0%	15.9%	12.3%
Shares Outstanding	-1.5%	5.0%	5.1%	38.8%	1.3%	0.8%	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	1,369	8.1	1,472	7.5	1,575	1,683	1,794
Gross profit	239	306	407	444	8.9	477	7.5	512	549	587
EBITDA (UBS)	96	131	183	198	8.1	223	12.7	245	271	296
Depreciation & amortisation	(15)	(18)	(21)	(23)	9.0	(23)	1.8	(23)	(24)	(24)
EBIT (UBS)	81	113	162	175	8.0	200	14.2	222	247	271
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)	(48)	38.2	(46)	4.3	(43)	(41)	(40)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	53	60	84	127	50.5	154	21.1	179	206	231
Tax	(21)	(34)	(29)	(39)	-33.0	(47)	-21.7	(54)	(60)	(66)
Profit after tax	32	25	55	88	59.7	107	20.9	125	146	165
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	55	88	59.7	107	20.9	125	146	165
Net earnings (UBS)	32	25	55	88	59.7	107	20.9	125	146	165
Tax rate (%)	39.4	57.3	34.4	30.4	-11.6	30.5	0.5	30.0	29.0	28.5
Per share (US\$)										
EPS (UBS, diluted)	0.80	0.61	1.26	1.45	15.1	1.73	19.4	2.00	2.32	2.61
EPS (local GAAP, diluted)	0.80	0.61	1.26	1.45	15.1	1.73	19.4	2.00	2.32	2.61
EPS (UBS, basic)	0.80	0.61	1.26	1.45	15.1	1.73	19.4	2.00	2.32	2.61
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	1.81	5.1	2.10	15.5	2.38	2.70	2.99
Book value per share	10.09	25.89	11.32	10.88	-3.8	11.22	3.1	11.86	12.73	13.89
Average shares (diluted)	40.00	42.00	44.12	61.23	38.8	62.00	1.3	62.50	63.00	63.50
Balance sheet (US\$m)										
Cash and equivalents	-	81	92	75	-18.5	85	13.4	108	141	183
Other current assets	215	377	400	437	9.3	481	10.2	536	601	676
Total current assets	-	458	491	511	4.1	566	10.7	644	742	859
Net tangible fixed assets	650	1,875	1,707	1,628	-4.7	1,542	-5.3	1,455	1,367	1,280
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	8	62	42	42	0.0	42	0.0	42	42	42
Total assets	-	2,395	2,241	2,181	-2.7	2,150	-1.4	2,141	2,151	2,182
Trade payables & other ST liabilities	303	450	466	517	11.0	556	7.7	601	651	702
Short term debt	3	19	0	0	-	0	-	0	0	0
Total current liabilities	306	469	466	517	11.0	556	7.7	601	651	702
Long term debt	451	1,246	949	849	-10.5	749	-11.8	649	549	449
Other long term liabilities	50	212	150	150	0.0	150	0.0	150	150	150
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	807	1,927	1,564	1,515	-3.1	1,455	-4.0	1,399	1,349	1,300
Common s/h equity	176	467	677	666	-1.6	696	4.4	742	802	882
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	983	2,395	2,241	2,181	-2.7	2,150	-1.4	2,141	2,151	2,182
Cash flow (US\$m)										
Net income (before pref divs)	32	25	55	88	59.7	107	20.9	125	146	165
Depreciation & amortisation	15	18	21	23	9.0	23	1.8	24	24	24
Net change in working capital	47	58	(16)	6	-	15	150.0	12	5	(5)
Other operating	16	(31)	17	11	-35.4	10	-9.1	10	10	10
Operating cash flow	110	70	77	128	65.8	155	21.0	171	185	195
Tangible capital expenditure	(18)	(20)	(27)	(33)	-20.8	(37)	-12.1	(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	0	-	0	-	0	0	0
Investing cash flow	(18)	(1,140)	(12)	(33)	-169.2	(37)	-12.1	(40)	(45)	(45)
Equity dividends paid	(102)	(132)	0	0	-	0	-	0	0	0
Share issues / (buybacks)	0	470	334	7	-97.9	10	42.9	10	10	10
Other financing	(2)	(59)	(7)	0	-	0	-	0	0	0
Change in debt & pref shares	61	798	(319)	(100)	68.63	(100)	0.00	(100)	(100)	(100)
Financing cash flow	(42)	1,078	8	(93)	-	(90)	3.2	(90)	(90)	(90)
Cash flow inc/(dec) in cash	50	8	73	2	-97.1	28	NM	41	50	60
FX / non cash items	-	(36)	(63)	(19)	69.7	(18)	5.3	(17)	(17)	(17)
Balance sheet inc/(dec) in cash	-	(28)	11	(17)	-	10	-	23	33	42

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)	-	-	-	19.8	16.6	14.3	12.3	11.0
P/E (UBS, diluted)	-	-	-	19.8	16.6	14.3	12.3	11.0
P/CEPS	-	-	-	15.8	13.6	12.0	10.6	9.6
Equity FCF (UBS) yield %	-	-	-	5.6	6.9	7.6	8.2	8.8
Net dividend yield (%)	-	-	-	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	-	2.6	2.5	2.4	2.2	2.1
EV/revenues (core)	-	-	-	1.8	1.6	1.4	1.3	1.1
EV/EBITDA (core)	-	-	-	12.6	10.7	9.3	7.9	6.8
EV/EBIT (core)	-	-	-	14.2	11.9	10.2	8.7	7.4
EV/OpFCF (core)	-	-	-	17.2	14.6	12.5	10.8	9.0
EV/op. invested capital	-	-	-	1.7	1.8	1.8	1.8	1.8
Enterprise value (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	-	-	-	1,711	1,711	1,711	1,711	1,711
Net debt (cash)	345	765	1,020	815	719	602	474	336
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	-	-	-	2,526	2,430	2,313	2,185	2,047
Non core assets	(8)	(17)	(41)	(41)	(41)	(41)	(41)	(41)
Core enterprise value	-	-	-	2,486	2,389	2,272	2,144	2,007
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	9.0	39.5	52.1	8.1	7.5	7.0	6.8	6.6
EBITDA (UBS)	1.2	35.8	40.0	8.1	12.7	10.0	10.4	9.2
EBIT (UBS)	-0.9	38.7	44.1	8.0	14.2	10.9	11.3	9.9
EPS (UBS, diluted)	-4.6	-24.0	107.4	15.1	19.4	16.0	15.9	12.3
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	32.4	32.4	32.5	32.6	32.7
EBITDA margin	16.1	15.7	14.4	14.4	15.1	15.6	16.1	16.5
EBIT margin	13.6	13.5	12.8	12.8	13.6	14.1	14.7	15.1
Net earnings (UBS) margin	5.3	3.1	4.4	6.5	7.3	7.9	8.7	9.2
ROIC (EBIT)	-	-	10.4	12.1	14.7	17.3	20.5	23.9
ROIC post tax	-	2.9	6.8	8.4	10.2	12.1	14.5	17.1
ROE (UBS)	18.1	7.9	9.7	13.2	15.7	17.4	18.9	19.7
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	3.9	3.0	2.2	1.5	0.9
Net debt / total equity %	196.2	253.3	126.6	116.2	95.5	72.9	50.8	30.1
Net debt / (net debt + total equity) %	66.2	71.7	55.9	53.7	48.8	42.2	33.7	23.1
Net debt/EV	-	-	-	31.1	27.8	23.8	19.0	13.2
Capex / depreciation %	120.1	109.2	131.8	146.0	160.9	170.2	187.5	184.4
Capex / revenue %	3.0	2.4	2.2	2.4	2.5	2.5	2.7	2.5
EBIT / net interest	2.8	2.1	2.1	3.6	4.3	5.2	6.0	6.8
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	1,369	1,472	1,575	1,683	1,794
Total	597	833	1,267	1,369	1,472	1,575	1,683	1,794
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	175	200	222	247	271
Total	81	113	162	175	200	222	247	271

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

Forecast returns

Forecast price appreciation	+11.9%
Forecast dividend yield	0.0%
Forecast stock return	+11.9%
Market return assumption	5.6%
Forecast excess return	+6.3%

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.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
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 31 December 2014.

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, 6, 16}	PRAH.O	Buy	N/A	US\$27.84	18 Feb 2015

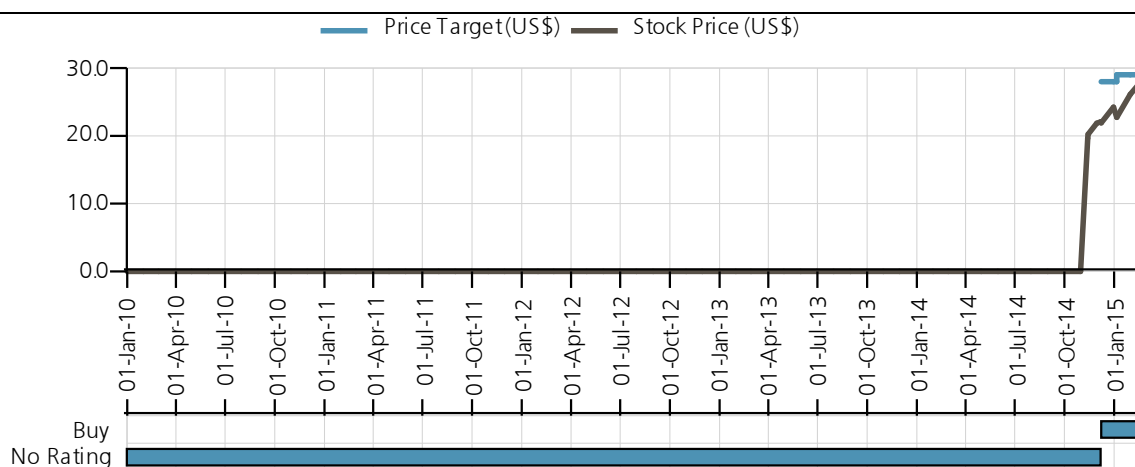
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PRA Health Sciences Inc (US\$)



Source: UBS; as of 18 Feb 2015

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