

July 28, 2015

PRA Health Sciences, Inc.

Second-Quarter Analysis; Guidance Increased Thanks to Strong Dollar and Solid Execution

- Conclusions.** PRA reported impressive second-quarter results on Monday evening, July 27, with adjusted EPS that were \$0.07 above our model (including stock-based compensation expense) and consensus. Relative to our expectations, operating margin drove 6.5 cents of the outperformance in the period given favorable foreign exchange impact on gross margin and cost savings initiatives. The remaining 0.5 cents were driven by a stronger top line, which was \$3 million above our target. Note that management typically excludes foreign exchange losses that are incurred below the operating line from adjusted EPS. If we did not exclude such currency losses, PRA's results would have exceeded our target by \$0.03 instead of the \$0.07 noted above.
- Following another impressive quarter, management increased guidance for the year by \$0.13 to a revised range of \$1.75 to \$1.85 (excluding roughly \$0.07 of stock option expense). While we believe foreign exchange is a significant contributor to the performance in the quarter and guidance increase, we believe the respectable bookings and strong revenue growth of 12% (constant currency) suggest underlying business trends are strong for PRA and the broader clinical CRO group. As a result, we are increasing our 2015 EPS target for PRA by \$0.13, to \$1.73 (including \$0.07 of stock compensation expense), up from \$1.60 previously. In 2016, we now model EPS of \$2.00, up from \$1.86 previously. We maintain our Outperform rating.
- Net New Business and Revenue Growth Ahead of Our Target.** PRA's net book-to-bill ratio was a strong 1.21 times, thanks to net bookings of \$407.8 million. These were up 10% from a year ago and \$24 million above our \$383.3 million estimate. We believe bookings are being driven by a return to R&D spending growth by large pharma and yet another extremely strong quarter capital flows into the biotech industry. More specific to PRA, we believe it is executing well in cross-selling full-service capabilities to larger pharma clients and improving the returns within the Strategic Solutions business. Revenue growth in the quarter was 12% constant currency—about 250 basis points ahead of our 9.5% estimate.
- Margins Well Above Our Model.** Better leverage of technology, efficiency initiatives, and foreign exchange movement all appeared to drive adjusted EBITDA margin to an impressive 17.9% in the second quarter, 170 basis points above our estimate and up more than 360 basis points from a year ago. Foreign exchange likely contributed at least half of the margin upside, but tighter cost controls also held the SG&A spending ratio 47 basis points below our model.

PRA Health Sciences is one of the largest clinical CROs in the world, serving both the pharmaceutical and biotechnology industries. The company has a revenue base of \$1.2 billion and more than 10,000 employees serving clients across 80 countries.

William Blair

John Kreger +1 312 364 8597
jkreger@williamblair.com

Roberto Fatta +1 312 364 8797
rfatta@williamblair.com

Matt Bacso, CFA +1 312 364 8996
mbacso@williamblair.com

Stock Rating: **Outperform**
Company Profile: **Aggressive Growth**

Symbol: PRAH (NASDAQ)
Price: \$40.61 (52-Wk.: \$18-\$41)
Market Value (mil.): \$2,430
Fiscal Year End: December
Long-Term EPS Growth Rate: 17%
Dividend/Yield: None

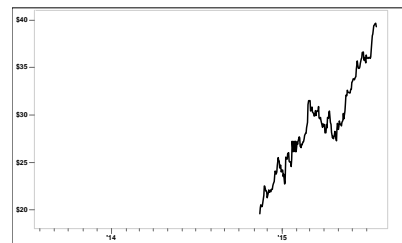
	2014A	2015E	2016E
Estimates			
EPS Q1	\$0.18	A\$0.40	NA
Q2	\$0.34	A\$0.46	NA
Q3	\$0.33	\$0.43	NA
Q4	\$0.34	\$0.44	NA
FY	\$1.20	\$1.73	\$2.00
CY		\$1.73	\$2.00

Valuation			
FY P/E	33.8x	23.5x	20.3x
CY P/E		23.5x	20.3x

Trading Data (FactSet)		
Shares Outstanding (mil.)		60
Float (mil.)		20
Average Daily Volume		193,469

Financial Data (FactSet)		
Book Value Per Share (MRQ)		10.8
Return on Equity (TTM)		-6.2

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

Please consult pages 5-6 of this report for all disclosures. Analyst certification is on page 5. William Blair or an affiliate does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making an investment decision.

- Model changes.** Following the better quarter and increased guidance, we have made the following changes to our model:
 - We now model 2015 revenue of \$1.359 billion (up 7.3%), adjusted EBITDA margin of 17.0%, and EPS of \$1.73 (up 45%). This compares with our previous estimates of \$1.356 billion (up 7.1%), adjusted EBITDA margin of 16.1%, and EPS of \$1.60 (up 33%).
 - For 2016, we now model revenue of \$1.468 billion (up 8.0%), adjusted EBITDA margin of 17.3%, and EPS of \$2.00 (up 16%). This compares with our previous estimates of \$1.460 billion (up 7.7%), adjusted EBITDA margin of 16.4%, and EPS of \$1.86 (up 16%).
- Valuation and stock thoughts.** PRA now trades at 20.3 times our revised 2016 EPS estimate of \$2.00 (up 16%). This multiple is right in line with the clinical CRO peer group average of 20.0 times (Icon [ICLR \$64.95; Outperform] 15.9 times, Quintiles [Q \$74.58; Outperform] 21.2 times, INC [INCR \$41.50; Outperform] 23.9 times, and Parexel [PRXL \$66.70; Outperform] 19.2 times). Given its broad client mix, double-digit revenue growth, and respectable bookings, we view the stock's relative valuation as reasonable and believe the group's fundamentals remain robust. We maintain our Outperform rating on PRA given the group's solid demand trends. Exhibits 1-3 below compare PRA's second-quarter performance and guidance update to our model. Exhibit 4 summarizes our updated model.

Exhibit 1. Second-Quarter Variance Analysis

July 27, 2015	2Q 2015 (Actual)	2Q 2014 (Actual)	Year/Year % Change	2Q 2015 (Estimate)	Year/Year % Change	Act.-Est. Difference
Total Net Revenue	\$336,518	\$311,422	8.1%	\$333,322	7.0%	\$3,196
Direct Costs	219,626	213,222	3.0%	221,659	4.0%	(2,033)
Selling, general and administrative	56,818	53,914	5.4%	57,831	7.3%	(1,013)
Depreciation	5,085	4,910	3.6%	5,000	1.8%	85
Total operating expenses	281,529	272,046	3.5%	284,490	4.6%	(2,961)
Operating income	54,989	39,376	39.7%	48,832	24.0%	6,157
Interest and other income (net)	(13,779)	(19,359)	-28.8%	(13,687)	NM	(92)
Earnings before tax	41,210	20,017	105.9%	35,145	75.6%	6,065
Income taxes	12,364	6,231	98.4%	10,543	69.2%	1,821
Net income (excl. extraod. incl. options)	28,847	13,786	109.2%	24,602	78.5%	4,245
Extraordinary item, net of tax	(17,303)	(17,842)		(14,896)		
Net income (incl. extraod. and options)	\$11,544	(\$4,056)	-384.6%	\$9,706	-339.3%	1,838
Shares outstanding	62,951	40,268	56.3%	62,802	56.0%	149
EPS (excl. extraod., incl options)	\$0.46	\$0.34	33.8%	\$0.39	14.4%	\$0.0665
EPS (incl. extraod. and options)	\$0.18	(\$0.10)	-282.1%	\$0.15	-253.4%	\$0.03
% of Net Revenue:			Change		Change	
Direct costs	65.26	68.47	(3.20)	66.50	(2.0)	(1.24)
Gross profit	34.74	31.53	3.20	33.50	2.0	1.24
SG&A	16.88	17.31	(0.43)	17.35	0.0	(0.47)
Depreciation and amortization	1.51	1.58	(0.07)	1.50	(0.1)	0.01
Operating income (incl. options)	16.34	12.64	3.70	14.65	2.0	1.69
Net income	8.57	4.43	4.15	7.38	3.0	1.19
Effective tax rate	30.00	31.13	(1.13)	30.00	(1.1)	0.00
New Business Awards						
Adjusted Net New Business Awards	\$407,800	\$371,900	9.7%	\$383,320	3.1%	\$24,480
Adjusted Net Book-to-Bill Ratio	1.21	1.19		1.15		

Sources: Company reports and William Blair estimates

Exhibit 2. EPS Outperformance Relative to Our Expectations

Revenues	\$ 0.005
Gross Profit	\$ 0.047
SG&A	\$ 0.020
Depreciation	\$ (0.000)
Interest	\$ (0.001)
Taxes	\$ -
Share Count	\$ (0.001)
Total	\$ 0.069

Sources: Company reports and William Blair estimates

Exhibit 3. PRA Guidance Changes for 2015

	2015 - Guidance		2015	
	<u>Current</u>	<u>Previous</u>	<u>WB - est.</u>	<u>Consensus - est.</u>
Revenue	\$1,340 to \$1,390	\$1,340 to \$1,390	\$ 1,356	\$ 1,367
% growth	5.8% to 9.7%	5.8% to 9.7%	7.1%	7.9%
Adjusted EPS (excl. SBC)	\$1.75 to \$1.85	\$1.62 to \$1.72	\$ 1.67	\$1.67
% growth	39% to 47%	29% to 37%	32.5%	32.5%
Adjusted EPS (incl. SBC)	\$1.68 to \$1.78	\$1.55 to \$1.65	\$ 1.60	NA
% growth	40% to 48%	29% to 38%	33.3%	

Sources: Company reports and William Blair estimates

Exhibit 4: Updated Income Statement for PRA Health Sciences, 2012 to 2017(E)

	2012	2013	2014	Q1'15	Q2'15	Q3'15E	Q4'15E	2015E	2016E	2017E
Net revenue	\$597,072	\$832,901	\$1,266,596	\$331,968	\$336,518	\$341,125	\$349,912	\$1,359,522.8	\$1,468,455	\$1,580,863
Cost of revenue	357,812	525,488	858,493	218,786	219,626	223,096	229,192	890,700	969,278	1,040,208
Gross profit	239,260	307,413	408,103	113,182	116,892	118,029	120,720	468,823	499,177	540,655
Selling, general and administrative expense	143,077	177,338	226,494	57,440	55,573	58,674	59,835	231,521	238,962	254,904
Stock comp	1,010	1,141	3,467	775	1,245	1,876	2,099	5,996	6,261	7,202
EBITDA	95,173	128,934	178,142	54,967	60,074	57,480	58,785	231,306	253,955	278,549
Depreciation	15,041	18,053	22,211	5,128	5,085	5,117	5,249	20,579	22,771	24,514
Operating income (including options beg Q105)	80,132	110,881	155,931	49,839	54,989	52,363	53,536	210,727	231,184	254,035
Interest and other income (expense), net	(28,499)	(52,898)	(76,202)	(13,744)	(13,779)	(13,743)	(13,723)	(54,989)	(50,788)	(44,588)
Pretax income	51,633	57,983	79,729	36,095	41,210	38,620	39,814	155,739	180,396	209,448
Income tax expense	20,347	33,556	27,188	10,829	12,364	11,586	11,944	46,723	54,119	62,834
Net income (excl. nonrecurring items, excl. amort., incl. options and deferred rent)	31,286	24,427	52,541	25,267	28,846	27,034	27,870	109,016	126,277	146,613
Nonrecurring items	(56,188)	(185,581)	(123,626)	(10,886)	(24,417)	(\$21,280)	(\$21,290)	(77,873)	(50,044)	(37,632)
Tax adjustment	22,195	72,821	35,343	2,806	7,114	6,384	6,387	22,691	15,013	11,290
Nonrecurring items (net of tax)	(33,993)	(112,760)	(88,283)	(8,080)	(17,303)	(14,896)	(14,903)	(55,182)	(35,031)	(26,342)
Net income (GAAP)	(\$2,707)	(\$88,333)	(\$35,742)	\$17,187	\$11,543	\$12,138	\$12,967	\$53,834	\$91,246	\$120,271
EPS (excl. nonrecurring items, excl. amort. incl. options and def rent)	\$0.79	\$0.62	\$1.20	\$0.40	\$0.46	\$0.43	\$0.44	\$1.73	\$2.00	\$2.32
EPS (excl. nonrecurring items, excl. amort. incl. options and def rent)	(\$0.07)	(\$2.25)	(\$0.75)	\$0.27	\$0.18	\$0.19	\$0.21	\$0.86	\$1.45	\$1.90
EPS (as reported)	(\$0.07)	(\$2.25)	(\$0.75)	\$0.27	\$0.18	\$0.19	\$0.21	\$0.86	\$1.45	\$1.90
Weighted average shares outstanding (diluted)	39,641	39,337	43,457	62,777	62,951	62,976	63,001	62,926	63,064	63,164
MARGIN ANALYSIS:										
Gross profit	40.1%	36.9%	32.2%	34.1%	34.7%	34.6%	34.5%	34.5%	34.0%	34.2%
SG&A	24.0%	21.3%	17.9%	17.3%	16.5%	17.2%	17.1%	17.0%	16.3%	16.1%
Stock comp	0.2%	0.1%	0.3%	0.2%	0.4%	0.6%	0.6%	0.4%	0.4%	0.5%
Total SG&A	24.1%	21.4%	18.2%	17.5%	16.9%	17.8%	17.7%	17.5%	16.7%	16.6%
EBITDA	15.9%	15.5%	14.1%	16.6%	17.9%	16.9%	16.8%	17.0%	17.3%	17.6%
Depreciation & amortization	2.5%	2.2%	1.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%	1.6%
Operating income	13.4%	13.3%	12.31%	15.0%	16.3%	15.4%	15.3%	15.50%	15.7%	16.1%
Tax rate	39.4%	57.9%	34.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net income	5.2%	2.9%	4.1%	7.6%	8.6%	7.9%	8.0%	8.0%	8.6%	9.3%
GROWTH RATES:										
Revenue		39.5%	52.1%	6.6%	8%	7%	8%	7.3%	8.0%	7.7%
Revenue (excl. foreign exchange effect)				9.8%	12%	9%	9%	10.0%		
Revenue (organic)		17.2%	10.0%	9.8%	12%	9%	9%	10.0%	8%	8%
Gross profit		28%	33%	18%	19%	13%	11%	15%	6%	8%
SG&A		24%	28%	1%	5%	1%	2%	2%	3%	7%
EBITDA		35%	38%	43%	36%	26%	18%	30%	10%	10%
Operating income		38%	41%	54%	40%	32%	20%	35%	10%	10%
Net income (excl. non-recurring items)		-22%	115%	248%	109%	103%	53%	107%	16%	16%
EPS (excl. non-recurring items, incl. options)		-21%	92.6%	123%	34%	30%	29%	45%	16%	16%
EPS (as reported)		3188%	-67%	NM	NM	NM	NM	NM	69%	32%
Diluted shares outstanding		-1%	10%	56%	56%	56%	19%	45%	0%	0%

Sources: Company reports and William Blair estimates

IMPORTANT DISCLOSURES

William Blair or an affiliate was a manager or co-manager of a public offering of equity securities for PRA Health Sciences, Inc. within the prior 12 months.

William Blair or an affiliate is a market maker in the security of PRA Health Sciences, Inc.

William Blair or an affiliate expects to receive or intends to seek compensation for investment banking services from PRA Health Sciences, Inc. within the next three months.

William Blair or an affiliate received compensation for investment banking services from PRA Health Sciences, Inc. within the last 12 months. PRA Health Sciences, Inc. is or was, within the last 12 months, an investment banking client of William Blair & Company and/or one or more of its affiliates.

Additional information is available upon request.

This report is available in electronic form to registered users via R*Docs™ at www.rdocs.com or www.williamblair.com.

Please contact us at +1 800 621 0687 or consult williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx for all disclosures.

John Kreger attests that 1) all of the views expressed in this research report accurately reflect his/her personal views about any and all of the securities and companies covered by this report, and 2) no part of his/her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed by him/her in this report. We seek to update our research as appropriate, but various regulations may prohibit us from doing so. Other than certain periodical industry reports, the majority of reports are published at irregular intervals as deemed appropriate by the analyst.

DOW JONES: 17,440.59

S&P 500: 2,067.64

NASDAQ: 5,039.78



Current Rating Distribution (as of 06/30/15)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	66	Outperform (Buy)	15
Market Perform (Hold)	32	Market Perform (Hold)	2
Underperform (Sell)	2	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm's departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

OTHER IMPORTANT DISCLOSURES

Stock ratings, price targets, and valuation methodologies: William Blair & Company, L.L.C. uses a three-point system to rate stocks. Individual ratings and price targets (where used) reflect the expected performance of the stock relative to the broader market (generally the S&P 500, unless otherwise indicated) over the next 12 months. The assessment of expected performance is a function of near-, intermediate-, and long-term company fundamentals, industry outlook, confidence in earnings estimates, valuation (and our valuation methodology), and other factors. Outperform (O) – stock expected to outperform the broader market over the next 12 months; Market Perform (M) – stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) – stock expected to underperform the broader market over the next 12 months; not rated (NR) – the stock is not currently rated. The valuation methodologies used to determine price targets (where used) include (but are not limited to) price-to-earnings multiple (P/E), relative P/E (compared with the relevant market), P/E-to-growth-rate (PEG) ratio, market capitalization/revenue multiple, enterprise value/EBITDA ratio, discounted cash flow, and others.

Company Profile: The William Blair research philosophy is focused on quality growth companies. Growth companies by their nature tend to be more volatile than the overall stock market. Company profile is a fundamental assessment, over a longer-term horizon, of the business risk of the company relative to the broader William Blair universe. Factors assessed include: 1) durability and strength of franchise (management strength and track record, market leadership, distinctive capabilities); 2) financial profile (earnings growth rate/consistency, cash flow generation, return on investment, balance sheet, accounting); 3) other factors such as sector or industry conditions, economic environment, confidence in long-term growth prospects, etc. Established Growth (E) – Fundamental risk is lower relative to the broader William Blair universe; Core Growth (C) – Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

The ratings, price targets (where used), valuation methodologies, and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies—to our clients and our trading desks—that are contrary to opinions expressed in this research. Certain outstanding reports may contain discussions or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent report on a company or issuer before making an investment decision. Our asset management and trading desks may make investment decisions that are inconsistent with recommendations or views expressed in this report. We will from time to time have long or short positions in, act as principal in, and buy or sell the securities referred to in this report. Our research is disseminated primarily electronically, and in some instances in printed form. Electronic research is simultaneously available to all clients. This research is for our clients only. No part of this material may be copied or duplicated in any form by any means or redistributed without the prior written consent of William Blair & Company, L.L.C.

This is not in any sense a solicitation or offer of the purchase or sale of securities. The factual statements herein have been taken from sources we believe to be reliable, but such statements are made without any representation as to accuracy or completeness or otherwise. Opinions expressed are our own unless otherwise stated. Prices shown are approximate.

This material is distributed in the United Kingdom and the European Economic Area (EEA) by William Blair International, Ltd., authorized and regulated by the Financial Conduct Authority (FCA), and is only directed at and is only made available to persons falling within articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). This document is intended for persons regarded as professional investors (or equivalent) and is not to be distributed to or passed onto any “retail clients.” No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.

“William Blair” and “R*Docs” are registered trademarks of William Blair & Company, L.L.C. Copyright 2015, William Blair & Company, L.L.C. All rights reserved.