

## PRA Health Sciences, Inc. (PRAH)

Rating	<b>OUTPERFORM*</b> [V]
Price (04 Dec 14, US\$)	21.82
Target price (US\$)	27.00 <sup>1</sup>
52-week price range	22.50 - 19.62
Market cap. (US\$ m)	1,305.03
Enterprise value (US\$ m)	2,119.41

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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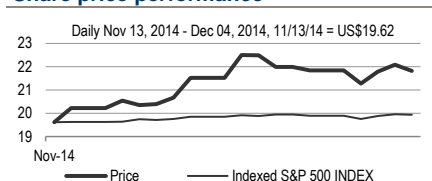
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### INITIATION

## Initiating with an Outperform Rating and a \$27 Target Price

- **Bottom Line:** We are initiating coverage of PRA Health Sciences, Inc. (PRAH) with an Outperform rating and a \$27 target price. PRAH is a global clinical contract research organization (CRO) that provides outsourced services to support all stages of the clinical development process for biopharmaceutical manufacturers. Our \$27 target price is based on the assumption that the shares can trade at 17 times our F16 EPS estimate.
- **Investment Positives:** We highlight the following investment positives: (1) favorable landscape for clinical CROs; (2) large & diversified client base; (3) levered to positive biotech environment & alternative, less-risky way to invest in biotech; (4) capital deployment & deleveraging could accelerate earnings growth profile; and (5) Embedded Solutions offers some differentiation & upsell opportunity.
- **Investment Risks:** We highlight the following investment risks: (1) disruption from RPS integration; (2) favorable biotech funding environment could moderate; (3) controlled company status and PE ownership could represent overhang; (4) pricing & margins always bear monitoring; and (5) high expectations for CROs, particularly clinical players.
- **Estimates and Price Target:** We are introducing our 2014, 2015, and 2016 EPS estimates of \$1.08, \$1.29, and \$1.54, respectively. Our price target of \$27 implies we believe that the shares can trade at roughly 17 times our F16 EPS or 11.8 times our F16 EV/EBITDA.
- **For our full slide deck initiation report click [here](#).**

### Share price performance



On 12/04/14 the S&P 500 INDEX closed at 2071.92

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.02	0.68	-0.72	0.23
2014E	0.18	0.33	0.32	0.26
2015E	0.29	0.32	0.34	0.34

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	0.39	1.08	1.29	1.54
Prev. EPS (US\$)	—	—	—	—
P/E (x)	55.9	20.1	16.9	14.2
P/E rel. (%)	295.9	114.9	105.6	99.3
Revenue (US\$ m)	832.9	1,267.3	1,365.2	1,471.0
EBITDA (US\$ m)	105.3	174.1	195.5	216.5
OCFPS (US\$)	1.10	1.76	2.10	2.34
P/OCF (x)	—	12.4	10.4	9.3
EV/EBITDA (current)	23.7	12.2	10.3	8.8
Net debt (US\$ m)	1,193	814	712	596
ROIC (%)	1.55	6.01	7.86	9.00
Number of shares (m)	59.81	IC (current, US\$ m)		1,659.89
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 04-Dec-2014)

Amgen Inc. (AMGN.OQ, \$166.55)  
 Charles River Laboratories International Inc. (CRL.N, \$63.98)  
 ICON plc (ICLR.OQ, \$53.96)  
 INC Research, Inc (INCR.OQ, \$23.98)  
 KKR and Co LP (KKR.N, \$22.25)  
 PAREXEL International Corp. (PRXL.OQ, \$58.82)  
 PRA Health Sciences, Inc. (PRAH.OQ, \$21.82, OUTPERFORM[V], TP \$27.0)  
 Quintiles Transnational Holdings, Inc. (Q.N, \$57.4)  
 UCB (UCB.BR, €64.42)

## Disclosure Appendix

**Important Global Disclosures**

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Underperform/Sell*	14%	(43% banking clients)
Restricted	2%	

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#### Price Target: (12 months) for PRA Health Sciences, Inc. (PRAH.OQ)

**Method:** Our target price of \$27 for PRA Health Sciences is based on an equal-weighted blend of our P/E & EV/EBITDA target multiples. We apply a roughly 18.5x multiple on our F16 EPS estimate, implying a \$28 price target. Our EV/EBITDA target multiple of 11.8 times yields a \$26 price target. An equally-weighted blend of the two methodologies yields our \$27 price target. The target EV/EBITDA multiple is roughly in-line with target multiples applied at Outperform-rated peers given PRAH's EPS growth forecast at the high end of industry peer group rates, balanced by a more limited public history & higher leverage. In valuing the contract research organization (CRO) stocks and INC Research, we primarily utilize P/E & 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 \$27 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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See the *Companies Mentioned* section for full company names

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