

PRA Health Sciences (PRAH)

\$103.50 (As of 05/29/20)

Price Target (6-12 Months): **\$109.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

PRA Health ended the first quarter on a strong note, with earnings and revenues beating estimates. Strong performance by the Clinical Research and Data Solutions segments is a major positive. PRA Health continues to gain from large pharmaceutical companies. Management is optimistic about the integration of Symphony Health. Symphony Health's recent partnership with Datavant buoys optimism. The company is also well-poised on CRO market prospects. Expansion in both margins is encouraging as well. On the flip side, direct costs shot up in the first quarter. Further, global coronavirus outbreak has added to the woes. Over the past six months, the company has underperformed its industry.

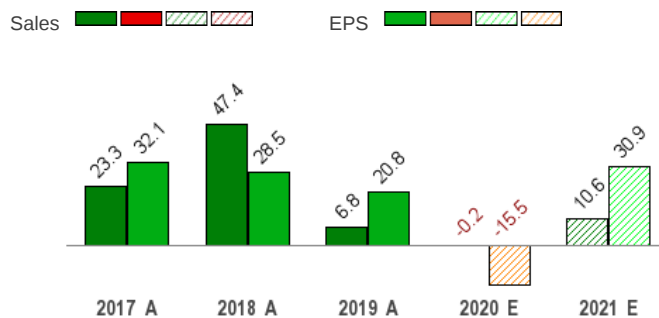
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$113.10 - \$58.67
20 Day Average Volume (sh)	453,593
Market Cap	\$6.6 B
YTD Price Change	-6.9%
Beta	1.09
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Services
Zacks Industry Rank	Top 28% (72 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	-7.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	20.2
P/E F1	23.7
PEG F1	1.5
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	792 E	825 E	844 E	869 E	3,383 E
2020	784 A	718 E	751 E	807 E	3,059 E
2019	722 A	763 A	781 A	800 A	3,066 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.32 E	\$1.39 E	\$1.46 E	\$1.60 E	\$5.72 E
2020	\$1.05 A	\$0.82 E	\$1.08 E	\$1.42 E	\$4.37 E
2019	\$1.10 A	\$1.22 A	\$1.32 A	\$1.54 A	\$5.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/29/2020. The reports text is as of 06/01/2020.

Overview

Headquartered in Raleigh, North Carolina, PRA Health Sciences (PRAH) is a renowned global Contract Research Organization (CRO). The company provides outsourced clinical development services to biotechnology and pharmaceutical industries. The company conducts clinical trials across all major therapeutic areas on a global basis. PRA Health's global clinical development platform currently has 70 offices across North America, Europe, Asia, Latin America, South Africa, Australia and the Middle East.

In September 2017, PRA Health completed the acquisition of Symphony Health Solutions Corporation, or Symphony Health, a data and analytics provider. With this acquisition, the company expects to enhance its ability in the field of clinical research and commercial development process.

Following the acquisition, PRA Health currently has two reportable segments: Clinical Research and Data Solutions.

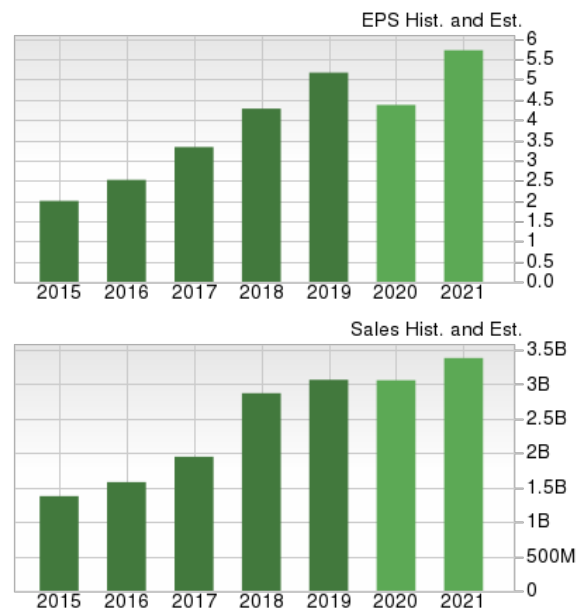
The **Clinical Research** segment covers a broad array of services across the spectrum of clinical development programs.

The **Data Solutions** division provides data, analytics, technology, and consulting solutions to the life sciences market.

2019 at a Glance

PRA Health's revenues totaled \$3.07 billion in 2019, up 6.8%.

Revenues at the Clinical Research segment were \$725.1 million (90.6% of net sales) while Data Solutions segment grossed \$75.1 million (9.4%).



Reasons To Buy:

▲ **Launch of PSN:** PRA Health recently launched Pediatric Site Network (PSN) — a series of key pediatric research centers which will allow PRA Health to improve pediatric clinical development around the world. It will also improve access to novel pediatric medicines. The move is likely to drive the company's Center for Pediatric Clinical Development. For investors' notice, PRA Health's Center for Pediatric Clinical Development was launched in 2017. The center boasts highly skilled experts in pediatric clinical trial design and implementation.

PRA Health's organic growth remains strong at CER. Also, the company's international business is growing with prospects.

In September 2019, the company launched a new market measurement – Metys – a first of its kind that delivers pharmaceutical market, analytics and intelligent capabilities to customers.

▲ **Favorable Biopharmaceutical Industry Dynamics:** PRA Health, like other CROs, derive substantially all of its revenues from the research, development and marketing expenditures of the pharmaceutical, biotechnology and medical device industries. Outsourcing of these services has increased substantially over the past and will increase in the future because of several factors, including pressures to contain costs, limitations on internal capacity, the need for faster development time for new drugs, simultaneous research in multiple countries, stringent government regulation and expertise that customers lack internally. These trends pose potential opportunities for companies like PRA Health that can help make the process of drug development all the more efficient. In this regard, we note that, the company's Strategic Solutions offerings have significantly expanded its relationships with large pharmaceutical companies in recent years.

During the first quarter of 2020, the company derived 56% of its service revenues from large pharmaceutical companies, 10% from small to mid-sized pharmaceutical companies, 16% from large biotechnology companies and 18% from all other biotechnology companies.

▲ **CRO Market Booms:** The CRO industry is getting onto a high growth path of late—thanks to the gradual transformation of the industry from providing limited clinical trial services in the 1970s to a full-service industry characterized by broad relationships with clients and also by offering service that encompass the entire drug development process. With worldwide increase in demand for outsourced clinical development solutions, the industry is currently under limelight and gaining traction. Going by a CRO Market Size Projections report by Industry Standard Research (ISR), the size of the worldwide CRO market was approximately \$32 billion in 2016 and will grow at a 7% CAGR to \$44 billion in 2021. This growth will be driven by an increase in the amount of research and development expenditure and levels of clinical development outsourcing by biopharmaceutical companies. Moreover, ISR estimates that approximately 37% of Phase I through IV of clinical development spend by biopharmaceutical companies is outsourced to CROs and the levels of penetration are expected to increase to approximately 45% by 2021. According to PRA Health, increase in outsourcing is primarily due to factors like the need to maximize R&D productively, the increasing burden of clinical trial complexity and the desire to pursue simultaneous registration in multiple countries.

Through the Clinical Research segment, the company receives contracts to provide clinical research services with payments based on fixed-fee or fee-for-service arrangements. Within its Data Solutions segment, the company added more data assets and saw increases in renewal rates on current data contracts in the first quarter.

The above data clearly indicate that the CRO market prospect is extremely bullish at present and hence stocks like PRA Health should be under the limelight.

▲ **Symphony Acquisition - a Strategic Fit:** PRA Health is highly optimistic about the company's acquisition of Symphony Health Solutions, that was completed in September of 2017. Symphony Health is a provider of data and analytics to help professionals understand the full market lifecycle of products offered for sale by companies in the pharmaceutical industry. With this \$530-million acquisition, PRA Health expects to enhance its ability to serve customers throughout the clinical research and commercial development process with technologies that provide data and analytics.

In March 2020, the company announced a partnership between Symphony Health and Datavant that expands the availability of data for integration and enables life sciences companies to get the most detailed view of the patient journey in the commercial market. In April, the company announced that Symphony Health will make a 30-day license of its newly-released Metys COVID-19 Module available to the U.S. life science industry free of cost. The COVID-19 Module within the Metys platform will offer up to three users per company access to all drugs and markets within any U.S. geographic region down to CBSA (core-based statistical area).

▲ **Strategic International Expansion as a Major Growth Driver:** PRA Health is one of the largest CROs in the world by revenue, focused on executing clinical trials on a global basis. Its global clinical development platform includes establishments across North America, Europe, Asia, Latin America, South Africa, Australia and the Middle East. Within the company's Early Development Services, so far it has conducted studies for major pharmaceutical companies outside the nation, especially in Europe and Japan.

We note that, PRA Health's revenue from international operations is growing fast (currently Europe, Africa, and Asia-Pacific region contributes more than 30% of the company's total revenue). The company has been strategically expanding its Asia Pacific operations since 2000 and has supported 345 clinical trials in the region at 4300+ sites across Australia, China, Hong Kong, India, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan, and Thailand. In the second quarter, the company successfully completed the buyout of its Japanese joint venture with Takeda.

▲ **Balance Sheet View:** The company exited the first quarter of 2020 with cash and cash equivalents amounting to \$150.8 million, down from \$236.2 million sequentially. Meanwhile, the company's long-term debt came up to \$1.43 billion in the first quarter of 2020, noticeably up from \$1.31 billion sequentially. The long-term debt level is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of \$62 million in the quarter, substantially down from \$151 million sequentially, is in fact much lower than the short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

Reasons To Sell:

▼ **Share Price Down:** Over the past six months, shares of PRA Health have lost 5.4%, compared with the industry's decline of 0.6%. Escalation in direct costs is a major dampener. Further, the ongoing economic volatility on account of the global coronavirus outbreak is weighing on the stock.

▼ **Other Headwinds:** In the first quarter, PRA Health's direct costs shot up 6.9% year over year. Per management, the increase was primarily driven by a rise in labor-related costs at the Clinical Research and Data Solutions segments.

▼ **Capital Spending Environment Remains Cautious:** PRA Health continues to remain cautious about the general capital spending environment. The company's cautious view comes on the back of macroeconomic factors in the U.S., the recent socio-political chaos and international trade dispute affecting the financial markets. This may tighten capital equipment expenditure and lengthened the decision process leading to purchases. Also, smaller biotechnology companies that are customers of PRA Health are especially reliant on the credit and capital markets. With the unfavorable economic conditions, they may not get adequate access to credit or equity funding, which could affect their demand for the company's services and ability to make timely payments. Thus, any further deterioration in the economic scenario in both the U.S. and internationally could have an adverse impact on the company.

Escalating direct cost remains a cause of concern for PRA Health. Moreover, the company continues to remain worried about the tough capital spending environment.

Last Earnings Report

PRA Health Q1 Earnings and Revenues Beat Estimates

PRA Health Sciences, Inc reported first-quarter 2020 adjusted earnings per share of \$1.05, which outpaced the Zacks Consensus Estimate of \$1.04 by 0.9%. The bottom line fell 4.5% from the prior-year quarter tally.

The company registered revenues of \$783.7 million in the quarter under review, up 8.5% year over year and 9.3% on a constant currency (cc) basis. The figure also surpassed the consensus estimate of \$761 million by 3%.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	3.04%
EPS Surprise	0.96%
Quarterly EPS	1.05
Annual EPS (TTM)	4.56

Results in Detail

Segmental Analysis

Net new business at the Clinical Research segment came in at \$604.7 million. Through the segment, the company receives contracts to provide clinical research services with payments based on fixed-fee or fee-for-service arrangements.

Revenues at the Clinical Research segment amounted to \$726.1 million, up from \$666.6 million a year-ago. Revenues at the Data Solutions segment amounted to \$57.6 million, up from \$55.4 million in the year-ago period.

Direct Costs

Direct costs totaled \$403.9 million in the quarter, compared with \$377.9 million in the prior-year quarter. Per management, the increase was primarily driven by a rise in labor-related costs at the Clinical Research and Data Solutions segments.

Margin Trend

Gross margin came in at 48.5%, highlighting an expansion of 81 basis points (bps). Operating profit in the quarter grossed \$272.9 million, up 10.5% from the year-ago quarter. Adjusted operating margin in the quarter was 34.8%, up 61bps.

Financial Update

The company exited the first quarter of 2020 with cash and cash equivalents of \$150.8 million, down from \$236.2 million at the end of 2019.

2020 Guidance

Due to uncertainty regarding the magnitude and duration of the coronavirus pandemic, the company has withdrawn its 2020 guidance.

Nonetheless, for second-quarter 2020, PRA Health expects revenues within \$705-\$740 million.

Adjusted EPS for second-quarter 2020 is expected within 75-90 cents. The Zacks Consensus Estimate for the same stands at \$1.02.

Recent News

On **Apr 8**, the company announced that Symphony Health will make a 30-day license of its newly-released MetysCOVID-19 Module available to the U.S. life science industry free of cost.

On **Mar 11**, the company announced a partnership between Symphony Health and Datavant that expands the availability of data for integration and enables life sciences companies to get the most detailed view of the patient journey in the commercial market.

Valuation

PRA Health's shares are down 6.9% in the year-to-date period and up 18.8% the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical Market are down 3.3% and up 0.1% in the year-to-date period, respectively. Over the past year, stocks in the Zacks sub-industry and sector are down 13.2% and up 7.4%, respectively.

The S&P 500 index is down 5.4% in the year-to-date period and up 11.1% in the past year.

The stock is currently trading at 20.9X Forward 12-months sales, which compares to 37.3X for the Zacks sub-industry, 23.4X for the Zacks sector and 22.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.4X and as low as 12.7X, with a 5-year median of 20.6X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$109 price target reflects 22X forward 12-months earnings.

The table below shows summary valuation data for PRAH.

Valuation Multiples - PRAH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.98	37.31	23.41	22.09
	5-Year High	28.42	37.31	23.41	22.09
	5-Year Low	12.68	21.25	15.93	15.23
	5-Year Median	20.61	26.66	18.94	17.49
P/S F12M	Current	2.07	3.22	2.82	3.43
	5-Year High	3.00	3.22	3.74	3.44
	5-Year Low	1.26	1.98	2.21	2.53
	5-Year Median	1.96	2.51	2.91	3.02
P/CF	Current	24.38	22.36	14.73	15.57
	5-Year High	51.13	23.67	19.08	22.72
	5-Year Low	15.63	8.29	11.05	11.69
	5-Year Median	24.44	17.65	14.91	16.36

As of 05/29/2020

Industry Analysis Zacks Industry Rank: Top 28% (72 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
AMN Healthcare Services Inc (AMN)	Neutral	4
Charles River Laboratories International, Inc. (CRL)	Neutral	2
Cognizant Technology Solutions Corporation (CTSH)	Neutral	4
ICON PLC (ICLR)	Neutral	3
IQVIA Holdings Inc. (IQV)	Neutral	3
Laboratory Corporation of America Holdings (LH)	Neutral	3
Medpace Holdings, Inc. (MEDP)	Neutral	3
Syneos Health, Inc. (SYNH)	Neutral	2

Industry Comparison Industry: Medical Services				Industry Peers		
	PRAH	X Industry	S&P 500	ICLR	IQV	LH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	D	-	-	B	C	A
Market Cap	6.60 B	185.52 M	21.48 B	9.03 B	28.55 B	17.04 B
# of Analysts	6	3	14	8	11	8
Dividend Yield	0.00%	0.00%	1.96%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	D	B
Cash/Price	0.02	0.08	0.06	0.05	0.04	0.02
EV/EBITDA	16.38	-0.65	12.56	16.20	19.77	10.96
PEG Ratio	1.49	2.22	2.87	2.57	2.57	3.76
Price/Book (P/B)	5.96	4.27	2.92	5.97	4.92	2.43
Price/Cash Flow (P/CF)	14.89	16.99	11.74	19.39	12.08	9.02
P/E (F1)	23.75	28.62	21.35	29.48	25.66	19.48
Price/Sales (P/S)	2.11	2.95	2.27	3.17	2.56	1.47
Earnings Yield	4.22%	1.62%	4.52%	3.39%	3.90%	5.13%
Debt/Equity	1.30	0.07	0.76	0.05	2.11	0.92
Cash Flow (\$/share)	6.95	-0.02	6.96	8.69	12.38	19.44
Growth Score	C	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	26.72%	23.34%	10.87%	14.85%	15.65%	9.93%
Proj. EPS Growth (F1/F0)	-15.44%	0.15%	-10.48%	-16.95%	-8.81%	-20.49%
Curr. Cash Flow Growth	14.92%	6.58%	5.39%	13.46%	8.25%	12.16%
Hist. Cash Flow Growth (3-5 yrs)	23.06%	14.80%	8.55%	14.80%	37.91%	17.70%
Current Ratio	0.93	1.49	1.29	1.29	1.09	1.18
Debt/Capital	56.51%	25.29%	44.54%	4.71%	67.88%	48.11%
Net Margin	7.66%	-1.72%	10.59%	13.26%	1.93%	2.77%
Return on Equity	27.59%	-10.60%	16.26%	24.20%	18.48%	15.03%
Sales/Assets	0.88	0.65	0.55	1.02	0.48	0.65
Proj. Sales Growth (F1/F0)	-0.23%	0.00%	-2.53%	-5.88%	-3.62%	-3.17%
Momentum Score	D	-	-	D	B	B
Daily Price Chg	1.60%	0.60%	-0.11%	1.71%	2.27%	-0.19%
1 Week Price Chg	5.95%	2.04%	4.99%	6.04%	6.48%	1.63%
4 Week Price Chg	7.25%	6.53%	4.40%	4.97%	4.86%	6.61%
12 Week Price Chg	5.25%	-5.07%	-2.75%	5.01%	8.18%	-6.26%
52 Week Price Chg	18.57%	-15.41%	0.07%	19.26%	9.84%	7.31%
20 Day Average Volume	453,593	119,498	2,425,602	246,718	1,037,058	840,428
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.42%	0.00%	-1.70%	0.07%	-0.84%	17.85%
(F1) EPS Est 12 week change	-28.48%	-24.95%	-16.00%	-25.73%	-20.71%	-24.93%
(Q1) EPS Est Mthly Chg	-24.22%	-4.20%	-3.25%	0.11%	-7.36%	-67.65%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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