

PRA Health Sciences (PRAH)

\$106.40 (As of 02/04/20)

Price Target (6-12 Months): **\$112.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

PRA Health has outperformed the industry in a year's time. The company ended the third quarter on a mixed note. Strong performance by the Clinical Research segment is a positive. PRA Health continues to gain from large pharmaceutical companies, which has contributed substantially to the top line in recent times. Management is optimistic about the integration of Symphony Health. With this buyout, PRA Health expects to enhance ability in the field of data and analytics. The company is also well poised on CRO market prospects. Strong performance by the Clinical Research segment remains a tailwind. A solid EPS view for 2019 instils optimism in the stock. Meanwhile, direct costs shot up in the quarter under review. A slashed revenue guidance for 2019 raises concern. The stock is overvalued at the moment.

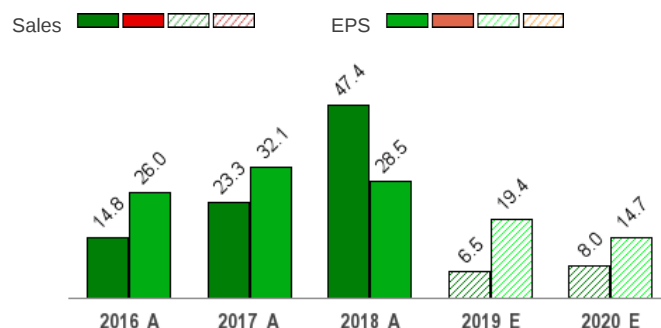
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$115.50 - \$85.00
20 Day Average Volume (sh)	447,357
Market Cap	\$6.7 B
YTD Price Change	-4.3%
Beta	1.21
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Services
Zacks Industry Rank	Top 44% (113 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/20/2020
Earnings ESP	-0.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	782 E	828 E	841 E	857 E	3,305 E
2019	722 A	763 A	781 A	794 E	3,060 E
2018	625 A	723 A	718 A	730 A	2,872 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.30 E	\$1.44 E	\$1.51 E	\$1.62 E	\$5.86 E
2019	\$1.10 A	\$1.22 A	\$1.32 A	\$1.48 E	\$5.11 E
2018	\$0.85 A	\$1.00 A	\$1.13 A	\$1.31 A	\$4.28 A

*Quarterly figures may not add up to annual.

P/E TTM	21.5
P/E F1	18.2
PEG F1	1.1
P/S TTM	2.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

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.

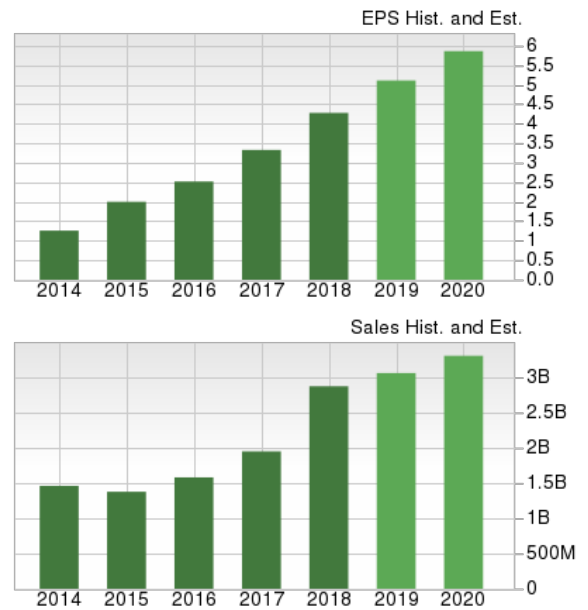
The **Clinical Research** segment covers a broad array of services across the spectrum of clinical development programs.

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

2018 at a Glance

PRA Health's 2018 revenues totaled \$2.87 billion, which shot up 27.1% from 2017.

For 2018, Clinical Research revenues totaled \$2.62 billion (91.3% of net sales) and Data Solutions revenues were \$249.5 million (8.7% of net sales).



Reasons To Buy:

▲ **Share Price Up:** Over the past year, shares of PRA Health have lost 1.6%, narrower than the industry's decline of 17.3%. The S&P 500 index has rallied 17.8%. The company's Clinical Research segment has consistently bolstered the top line, which has risen 9% year over year in the third quarter. A raised EPS guidance for 2019 is indicative of bright prospects.

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

▲ **EPS View Impressive:** For 2019, PRA Health expects EPS between \$5.07 and \$5.12 (up from the previously guided range of \$4.98-\$5.08), reflecting year-over-year growth of 18-20%.

▲ **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.

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.

In third-quarter 2019, PRA Health derived 54% of its service revenues from large pharmaceutical companies, 10% from small to midsized pharmaceutical companies, 16% from large biotechnology companies and 20% 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.

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 completed last September. 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.

▲ **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.

Reasons To Sell:

- ▼ **Valuation Looks Dull:** PRA Health is currently trading at a forward P/E (F12M basis) ratio of 17.92 over the past year, which compares with 18.61 for the S&P 500 Index.
 - ▼ **Revenue Guidance Slashed:** For 2019, PRA Health expects revenues within \$3.02-\$3.10 billion, representing reported growth of 5-8% and 6-8% at constant currency (cc). Notably, this is lower than the earlier provided range of \$3.09-\$3.20 billion, which called for reported and cc growth of 8-11%, respectively.
 - ▼ **Other Headwinds:** In the third quarter, PRA Health's direct costs shot up 4.8% year over year to \$386.2 million. Per management, the increase in direct costs was primarily owing to a rise in labor-related costs at the Clinical Research segment.
 - ▼ **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.
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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 Q3 Earnings and Revenues Beat Estimates

PRA Health Sciences reported third-quarter 2019 adjusted earnings per share of \$1.32, which outpaced the Zacks Consensus Estimate of \$1.30. The bottom line rose 16.8% from the prior-year quarter tally.

The Zacks Rank #2 (Buy) company registered revenues of \$780.7 million in the quarter under review, up 8.8% year over year and 9.7% on a constant currency (cc) basis. Also, the figure surpassed the Zacks Consensus Estimate by 1.1%.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	1.01%
EPS Surprise	1.54%
Quarterly EPS	1.32
Annual EPS (TTM)	4.95

Q3 in Detail

Segmental Analysis

Net new business at the Clinical Research segment came in at \$669.4 million in the third quarter. Through this segment, the company receives contracts from customers to provide clinical research services with payments based on fixed-fee or fee-for-service arrangements.

Revenues at the Clinical Research segment and Data Solutions segment amounted to \$719 million and \$61.7 million, respectively, in the quarter under review. The company provides weekly, monthly or quarterly data reports and analytics to customers.

Direct Costs

Direct costs totaled \$389.3 million in the quarter, up 4.8% year over year. Per management, the increase in direct costs was primarily driven by an increase in labor-related costs in the Clinical Research segment.

Margin Trend

Operating profit in the quarter was \$95.8 million, up significantly from the year-ago quarter's figure of \$38.8 million. Operating margin in the quarter was 12.3%, down significantly from the year-ago quarter's 22.6%.

Financial Update

Cash and cash equivalents came in at \$181.7 million, up 26% from the 2018-end level.

Guidance

For 2019, PRA Health expects revenues within \$3.02-\$3.10 billion, representing reported growth of 5-8% and 6-8% at cc. Notably, this is lower than the earlier provided range of \$3.09-\$3.20 billion, representing reported and cc growth of 8-11%, respectively. The Zacks Consensus Estimate of \$3.06 billion is within the guided range.

Adjusted EPS is expected between \$5.07 and \$5.12, calling for year-over-year growth of 18-20%, higher than the earlier projected range of \$4.98 and \$5.08, mirroring year-over-year growth of 16-19%. The Zacks Consensus Estimate of \$5.07 is at the low end of the guided range.

Valuation

PRA Health's shares are down 4.2% in the year-to-date period and down 1.6% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 8.6% while the Zacks Medical sector fell 0.4% in the year-to-date period. Over the past year, the Zacks sub-industry is down 9.5% and sector is up 1.2%.

The S&P 500 index is up 0.9% in the year-to-date period and increased 18.2% in the past year.

The stock is currently trading at 17.92X Forward 12-months earnings, which compares to 28.12X for the Zacks sub-industry, 20.82X for the Zacks sector and 18.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.42X and as low as 15.55X, with a 5-year median 20.58X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$112 price target reflects 18.7X 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	17.92	28.12	20.82	18.61
	5-Year High	28.42	44.02	21.25	19.34
	5-Year Low	15.55	25.68	15.84	15.18
	5-Year Median	20.58	30.46	18.9	17.46
P/S F12M	Current	2.02	3.09	2.79	3.45
	5-Year High	3	3.92	3.82	3.45
	5-Year Low	1.1	2.37	2.44	2.54
	5-Year Median	1.96	2.83	2.95	3
P/CF	Current	35.72	28.22	15.22	22.81
	5-Year High	70.25	29.46	19.43	22.81
	5-Year Low	15.63	12.08	12.46	11.78
	5-Year Median	25.29	22.73	15.04	16.27

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Top 44% (113 out of 255)



Top Peers

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

Industry Comparison Industry: Medical Services				Industry Peers		
	PRAH Neutral	X Industry	S&P 500	ICLR Neutral	IQV Neutral	LH Neutral
VGM Score	B	-	-	B	B	B
Market Cap	6.73 B	215.64 M	24.31 B	9.20 B	30.47 B	17.72 B
# of Analysts	6	4	13	7	10	9
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	C	B
Cash/Price	0.03	0.05	0.04	0.05	0.03	0.02
EV/EBITDA	20.24	-0.67	13.98	20.63	21.85	11.66
PEG Ratio	1.14	1.65	2.01	2.06	1.56	1.80
Price/Book (P/B)	7.11	4.71	3.29	5.99	4.77	2.45
Price/Cash Flow (P/CF)	18.07	16.19	13.58	22.41	14.16	10.94
P/E (F1)	18.16	21.17	18.82	22.10	21.62	15.28
Price/Sales (P/S)	2.25	2.97	2.66	3.33	2.80	1.56
Earnings Yield	5.51%	3.84%	5.30%	4.53%	4.62%	6.54%
Debt/Equity	1.65	0.06	0.71	0.28	1.85	0.93
Cash Flow (\$/share)	5.89	-0.02	6.92	7.61	11.09	16.68
Growth Score	C	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	30.28%	26.58%	10.80%	17.28%	17.29%	11.29%
Proj. EPS Growth (F1/F0)	14.74%	26.09%	7.40%	11.96%	14.00%	6.10%
Curr. Cash Flow Growth	28.56%	4.00%	10.22%	15.04%	9.13%	9.98%
Hist. Cash Flow Growth (3-5 yrs)	117.31%	16.71%	8.55%	21.33%	40.99%	14.10%
Current Ratio	1.10	1.45	1.21	2.03	1.12	1.17
Debt/Capital	62.20%	33.67%	42.91%	21.82%	64.93%	48.26%
Net Margin	8.00%	-11.26%	11.79%	13.16%	2.24%	6.63%
Return on Equity	27.73%	-20.19%	17.24%	24.86%	16.95%	15.33%
Sales/Assets	0.88	0.73	0.55	1.06	0.48	0.66
Proj. Sales Growth (F1/F0)	7.99%	11.32%	4.10%	8.03%	7.18%	3.41%
Momentum Score	C	-	-	B	A	C
Daily Price Chg	3.55%	1.24%	1.49%	0.97%	1.15%	2.20%
1 Week Price Chg	-3.80%	-3.16%	-2.60%	-3.62%	-1.80%	-1.00%
4 Week Price Chg	-3.85%	0.49%	0.51%	0.97%	0.15%	7.89%
12 Week Price Chg	4.57%	8.97%	4.44%	15.80%	9.86%	9.87%
52 Week Price Chg	-1.62%	-7.79%	14.65%	20.57%	20.72%	28.61%
20 Day Average Volume	447,357	153,991	1,935,862	187,405	1,102,402	692,732
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.19%	0.00%	0.00%	0.09%	0.00%	-0.07%
(F1) EPS Est 12 week change	0.07%	0.00%	-0.10%	0.13%	0.37%	-0.10%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-0.06%

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	B
Growth Score	C
Momentum Score	C
VGM Score	B

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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