

Syneos Health, Inc. (SYNH)

\$41.02 (As of 04/06/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

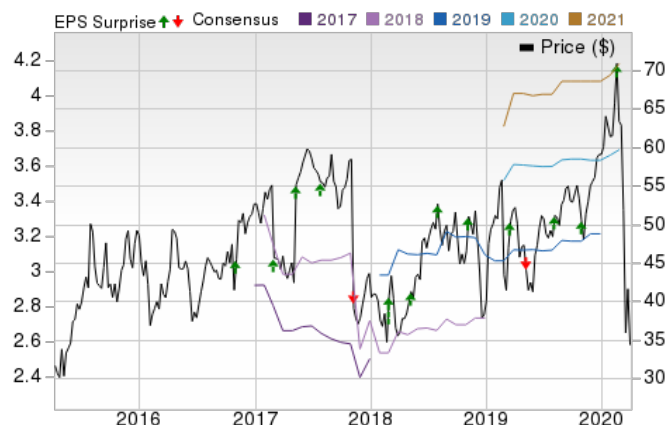
Growth: A

Momentum: F

Summary

We are upbeat about Syneos Health's strong year-over-year revenue growth at the Clinical Solutions segment. It has been strengthening its end-to-end market position by consistently innovating and expanding its Syneos One product. Strong RFP flow, a diverse portfolio of clinical and commercial initiatives, and sustained customer interest in its integrated offerings buoy optimism. Expansion in adjusted operating margin is encouraging. It put up a solid show in the fourth quarter of 2019. However, gross margin contraction and fall in Commercial Solutions revenues are worrying. The difficult macroeconomic conditions due to coronavirus outbreak is concerning as well. A stiff competitive landscape and foreign exchange fluctuations are other headwinds trailing the company. Overall, it has been underperforming its industry for the past six months.

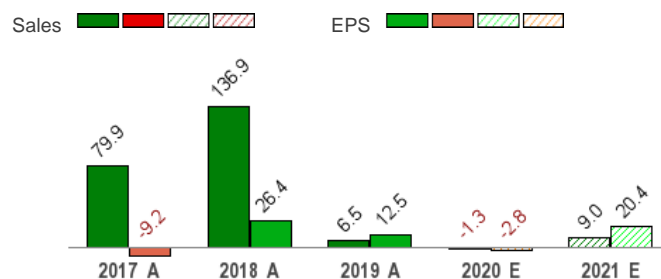
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$74.25 - \$30.02
20 Day Average Volume (sh)	955,638
Market Cap	\$4.3 B
YTD Price Change	-31.0%
Beta	1.55
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Top 19% (47 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-16.4%
Expected Report Date	05/14/2020
Earnings ESP	-2.6%
P/E TTM	12.7
P/E F1	13.1
PEG F1	1.2
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,273 E	1,310 E	1,327 E	1,374 E	5,033 E
2020	1,143 E	1,092 E	1,136 E	1,247 E	4,617 E
2019	1,119 A	1,167 A	1,177 A	1,213 A	4,676 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.79 E	\$0.95 E	\$1.12 E	\$1.32 E	\$3.78 E
2020	\$0.64 E	\$0.68 E	\$0.79 E	\$1.02 E	\$3.14 E
2019	\$0.59 A	\$0.74 A	\$0.87 A	\$1.03 A	\$3.23 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 04/06/2020. The reports text is as of 04/07/2020.

Overview

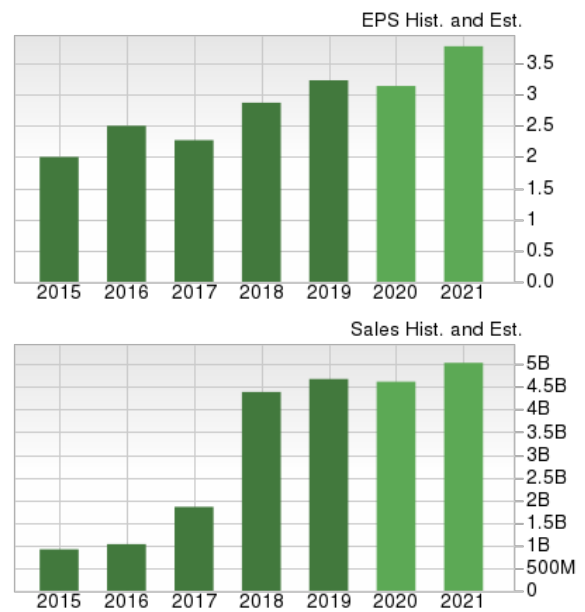
Morrisville, NC based Syneos Health, Inc. is a key global biopharmaceutical solutions company offering a broad range of clinical and commercial facilities. The company majorly provides these services to customers in the biopharmaceutical, biotechnology and medical device industries. Through its Contract Research Organization (CRO) and Contract Commercial Organization (CCO), it provides integrated and self-contained biopharmaceutical product development solutions varying from Early Phase (Phase I) clinical trials to the complete commercialization of biopharmaceutical products.

Although incorporated as INC Research Holdings, in August 2010 the company changed its name to Syneos Health after merging with inVentiv Health in 2017. Syneos Health operates through two reportable segments. Each reportable segment offers a wide range of services. The details are as follows:

Clinical Solutions (73.2% of total revenues in 2019; constant exchange rate or CER growth was 7.4%): This segment offers a wide range of services supporting the entire clinical development process from Phase I to Phase IV. This business also provides services to various therapeutic areas with strength in complex therapeutic areas such as CNS and oncology. The portfolio includes:

- Full service clinical development comprising services like patient recruitment and retention, site start-up and project management among others.
- Strategic Resourcing
- Early Phase offering providing a variety of services for Phase I to Phase IIA clinical trial conduct, bioanalytical analysis assay development and analysis, targeted translational science offerings, and clinical pharmacology services, including modeling and simulation.
- Real World Evidence and Late Phase services.

Commercial Solutions (26.8%; up 6.7%): This segment offers a wide range of complementary commercialization services, including specialized field teams and medication adherence services, communications solutions like advertising and public relations, and consulting services. Furthermore, it provides behavioral and patient insights that are used by the Clinical Solutions arm.



Reasons To Buy:

▲ **Partnerships to Add Value:** In November 2019, Syneos Health inked a partnership deal with AiCure (an AI and advanced data analytics company) to drive faster and smarter trials to optimize patient engagement. The companies aim to improve clinical trial adherence and patient outcomes through the deal. In September, Syneos Health entered a collaboration and also engaged in a minority investment in Indegene Omnipresence, which is a customer experience management platform integrating the power of Microsoft's AI capabilities into the healthcare industry. The platform improves traditional CRM multichannel technologies by tracking healthcare professionals' end-to-end experiences while combining CRM and omnichannel technology, with advanced analytics and AI capabilities.

Syneos Health gains on growth across all segments. The company's strong cash position is also encouraging.

▲ **High CRO Market Prospects:** The CRO market is seeing a trend of outsourcing of Phase I to Phase IV clinical trials by biopharmaceutical companies. This practice is more common in complex and high-growth therapeutic areas such as oncology. Moreover, small- to mid-sized biopharmaceutical companies with limited infrastructure and emerging biotechnology companies are more likely to outsource their clinical development to CROs. Thus, on increased funding, these companies open up high-growth opportunities in the CRO market. According to the company, \$26 billion, out of around \$54 billion of the total addressable clinical development market, was outsourced to CROs in 2018. Based on industry sources and management estimates, Syneos Health expects CRO market for Phase I to Phase IV clinical development activities to see a CAGR of 6% per annum through 2021.

▲ **Favorable Trends in CCO Market:** Syneos Health expects the CCO market to keep growing backed by a number of factors. The company believes that increasing and abundant biopharmaceutical sales and marketing budgets, and a robust funding environment, particularly for small to mid-sized companies, are some of the driving factors in the niche market. Moreover, a consistent inclination toward specialty and more complex therapies, continued political scrutiny of pharmaceutical pricing putting pressure on the players to further decrease fixed costs by outsourcing and the changing healthcare industry's operational landscape which is shifting to steadier and strategic relationships will likely accelerate growth in the CCO market. Accordingly, based on industry sources and management estimates, Syneos Health projects the CCO market to see a CAGR of 6% per annum through 2021.

▲ **Syneos One — A High-End Product:** Syneos One coordinates integrated solutions across the entire clinical development and commercialization processes. This product provides a cost-effective option to the small- to mid-sized customers for divesting, out-licensing, or co-promoting assets. Also, it offers big biopharmaceutical players with further scope to decrease their fixed-cost infrastructure. Given the bountiful opportunities this product offers and the company's strong relationships in both customer segments, Syneos Health aims at accelerating commercial outsourcing with Syneos One. The company is optimistic about the continuation and further growth of the customer's interest in Syneos One.

▲ **Segmental Growth:** Syneos Health witnessed sales growth across all segments in the fourth quarter. The Clinical Solutions segment service revenue growth was 9.5% year over year (up 9.7% at CER). Despite adverse currency movements, the segment was driven by higher revenues from net new business awards and higher growth in reimbursable expenses.

Despite dismal quarterly performance of the Commercial Solutions segment, yearly revenues grew 6.3% (up 6.7% at CER). This was led by higher revenues from net new business awards, including European expansion and the Company's acquisition of Kinapse.

▲ **Strong Balance Sheet:** The company remains focused on a balanced capital deployment, with an aim to drive shareholder value. Syneos Health exited 2019 with cash and cash equivalents, and restricted cash of \$163.7 million compared with \$155.9 million at the end of 2018. Cumulative cash flow from operating activities at the end of 2019 was \$318.5 million compared with \$303.4 million a year ago.

Reasons To Sell:

▼ **Share Price Performance:** Syneos Health has underperformed its industry in the past six months. The stock has lost 19.9% compared with the industry's 12.2% fall. The contraction in gross margin and decline in Commercial Solutions revenues are worrying. The company operates in a strict biopharmaceutical industry, which is governed by extremely stringent governmental regulation in both domestic and global markets. Weaker global economic conditions and exposure to the risk of political unrest may lead to reduced demand for the company's products. Further, the ongoing coronavirus pandemic is pulling down share prices as a whole and leading to an economic crisis. A stiff competitive landscape and foreign exchange fluctuations are other headwinds trailing the company.

Syneos Health operating in a strict regulatory environment is a concern. Also, a tough competitive landscape is another threat.

▼ **Strict Regulatory Environment:** The biopharmaceutical industry is governed by extremely stringent governmental regulation in both domestic and global markets. Within the Clinical Solutions business, the FDA regulates the clinical trials of drug products in human enrollments, the form and content of regulatory applications. Globally, the clinical trials are governed by the laws and regulations of the country where these are conducted.

▼ **Tough Competitive Landscape:** Syneos Health operates in a highly competitive environment, dominated by firms varying from large CROs and smaller specialty CROs, large global communications holding companies, smaller specialized communications agencies, contract sales organizations, and a wide range of consulting companies.

In the Clinical Solutions segment, Syneos Health primarily competes with full-service CROs and services offered by in-house R&D departments of biopharmaceutical companies, universities and teaching hospitals. Some major players the company has to compete against within the segment are Laboratory Corporation of America Holdings, PRA Health Sciences, Inc. and ICON plc among others.

Again, some prominent competitors in the Commercial Solutions segment are Ashfield, IQVIA, Havas SA and Omnicom Group Inc. among others.

▼ **Exposure to Foreign Currency:** Syneos Health has been exposed to fluctuations in foreign currency. In the past several years, the company's earnings were significantly affected by foreign exchange. Adverse currency movements impacted revenues by 0.7% in 2019.

▼ **Economic Uncertainty Continues to Hamper Growth:** Syneos Health's business largely depends on global economic conditions. The company has operations in many foreign countries, including countries in the Asia-Pacific region, Europe, Latin America, and the Middle East and Africa.

Weaker global economic conditions may lead to reduced demand for the company's products, increased competition, pressure on prices, declining supply and lengthier sales cycle. Furthermore, Syneos Health is exposed to the risk of political unrest, like the present situations in the Middle East. Per management, this could delay or disturb Syneos Health's ability to conduct clinical trials or other business. Further, the company is closely monitoring the adverse possible impacts on its business following the U.K.'s decision to exit the European Union. We are particularly cautious as growth could moderate further if the economic scenario worsens.

Last Earnings Report

Syneos Health Q4 Earnings and Revenues Top Estimates

Syneos Health reported fourth-quarter 2019 adjusted earnings per share of \$1.03, which beat the Zacks Consensus Estimate by 1.9%. The metric also improved 8.4% from the year-ago figure.

GAAP earnings per share were 86 cents, marking an improvement of 9.5% from the year-ago number.

For 2019, adjusted earnings per share were \$3.23, up 12.5% from the year-ago period. The bottom line beat the Zacks Consensus Estimate by 0.6%.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	1.70%
EPS Surprise	1.98%
Quarterly EPS	1.03
Annual EPS (TTM)	3.23

Revenues in Detail

Service revenues in the quarter totaled \$1.21 billion. The top line rose 6.1% year over year, beating the Zacks Consensus Estimate by 1.7%.

For 2019, revenues totaled \$4.67 billion, up 6.4% year over year. The top line surpassed the Zacks Consensus Estimate by 0.2%.

Segmental Details

The **Clinical Solutions** segment recorded service revenues of \$899.3 million in the fourth quarter, up 9.5% year over year (adjusted revenues were up 9.7% at CER). The upside resulted from net new business growth. However, an adverse impact of foreign currency fluctuation offset revenue growth.

Commercial Solutions revenues were \$313.7 million in the reported quarter, down 3.3% year over year (adjusted revenues moved down 3.4% at CER). The decline was caused by project cancellations and delays in 2019, and a reduction in medication adherence revenues.

Margin Details

Direct costs (excluding depreciation and amortization) rose 6.2% to \$927.9 million in the quarter. Gross margin contracted 22 basis points (bps) to 23.5%.

Selling, general and administrative expenses rose 2.3% year over year to \$112.4 million.

However, adjusted operating margin (excluding depreciation, amortization, transaction and integration-related, and restructuring and other expenses) expanded 11 bps from the year-ago quarter to 14.2%.

Financial Details

Syneos Health exited 2019 with cash and cash equivalents, and restricted cash of \$163.7 million compared with \$155.9 million at the end of 2018.

Cumulative cash flow from operating activities at the end of 2019, was \$318.5 million compared with \$303.4 million a year ago.

Guidance Updated

For 2020, the company reaffirmed the service revenue guidance at \$4.88-\$5 billion. The Zacks Consensus Estimate for the same is pegged at \$4.94 billion.

For 2020, Syneos Health reaffirmed the adjusted earnings per share view at \$3.58-\$3.78. The Zacks Consensus Estimate for the same is pegged at \$3.66.

Recent News

On **Mar 27, 2020**, Syneos Health announced the launch of a Ventilator Initiative, which is a multi-disciplinary initiative designed to raise awareness among healthcare providers about a bridging option. This will be done using intubated Bi-level Positive Airway Pressure (BiPAP) devices for appropriate COVID-19 patients with the aim of addressing the projected ventilator shortage.

On **Jan 9, 2020**, Syneos Health announced a strategic collaboration and minority investment in Indegene Omnipresence and the company's next-generation unified customer experience platform.

Valuation

Syneos Health shares are down 31% and down 21.8% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 21.9% while the Zacks Medical sector declined 16.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 15.1 % and sector is down 16.4%.

The S&P 500 index is down 22.6% in the year-to-date period and down 14.2% in the past year.

The stock is currently trading at 12.4X Forward 12-months earnings, which compares to 48.9X for the Zacks sub-industry, 18X for the Zacks sector and 15.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.9X and as low as 9.9X, with a 5-year median of 18.3.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 12.9X forward 12-months earnings.

The table below shows summary valuation data for SYNH.

Valuation Multiples - SYNH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.40	48.88	18.01	15.73
	5-Year High	28.90	51.91	21.10	19.34
	5-Year Low	9.85	24.52	15.81	15.19
	5-Year Median	18.26	32.18	18.63	17.44
P/S F12M	Current	0.85	1.72	2.33	2.72
	5-Year High	2.98	3.14	3.84	3.44
	5-Year Low	0.68	1.61	2.26	2.54
	5-Year Median	1.72	2.30	2.96	3.00
P/B TTM	Current	1.41	2.29	3.21	3.31
	5-Year High	11.94	4.30	5.05	4.55
	5-Year Low	1.09	2.13	2.90	2.84
	5-Year Median	2.43	3.06	4.30	3.63

As of 04/06/2020

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 253)



Top Peers

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
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral
Medpace Holdings, Inc. (MEDP)	Neutral
PRA Health Sciences, Inc. (PRAH)	Neutral

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	SYNH Neutral	X Industry	S&P 500	CRL Neutral	LH Neutral	PRAH Neutral
VGM Score	B	-	-	B	B	B
Market Cap	4.28 B	197.33 M	18.06 B	6.57 B	12.27 B	5.03 B
# of Analysts	6	4	13	9	8	6
Dividend Yield	0.00%	0.00%	2.34%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	B	C
Cash/Price	0.05	0.07	0.06	0.04	0.03	0.05
EV/EBITDA	14.60	-0.34	11.15	14.74	8.70	12.69
PEG Ratio	1.29	1.66	1.87	1.36	2.43	NA
Price/Book (P/B)	1.41	2.29	2.46	3.97	1.62	4.59
Price/Cash Flow (P/CF)	7.89	11.29	9.59	12.21	6.50	11.38
P/E (F1)	13.57	16.79	15.66	19.08	12.76	15.20
Price/Sales (P/S)	0.91	3.18	1.92	2.51	1.06	1.64
Earnings Yield	7.65%	-1.94%	6.30%	5.24%	7.84%	6.58%
Debt/Equity	0.93	0.06	0.70	1.20	0.86	1.20
Cash Flow (\$/share)	5.20	-0.03	7.01	10.88	19.44	6.95
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	14.08%	14.79%	10.92%	15.35%	10.73%	28.48%
Proj. EPS Growth (F1/F0)	-2.84%	0.61%	0.33%	3.43%	-12.48%	0.71%
Curr. Cash Flow Growth	-1.58%	16.47%	5.93%	16.47%	12.16%	14.92%
Hist. Cash Flow Growth (3-5 yrs)	39.36%	10.83%	8.55%	15.17%	17.70%	23.06%
Current Ratio	1.03	1.40	1.24	1.44	1.12	0.97
Debt/Capital	48.08%	14.92%	42.36%	54.91%	46.20%	54.63%
Net Margin	2.81%	-25.69%	11.64%	9.61%	7.13%	7.93%
Return on Equity	10.12%	-17.63%	16.74%	22.17%	15.37%	28.52%
Sales/Assets	0.63	0.57	0.54	0.59	0.65	0.88
Proj. Sales Growth (F1/F0)	-1.25%	11.25%	1.00%	7.97%	-0.75%	-0.48%
Momentum Score	F	-	-	D	F	B
Daily Price Chg	19.52%	2.89%	7.93%	11.76%	11.56%	8.44%
1 Week Price Chg	-17.50%	-4.64%	-4.40%	-5.85%	-11.96%	-7.07%
4 Week Price Chg	-33.08%	-13.16%	-6.89%	-7.00%	-28.21%	-15.99%
12 Week Price Chg	-31.42%	-22.27%	-24.81%	-16.52%	-29.47%	-23.27%
52 Week Price Chg	-21.75%	-30.57%	-17.63%	-8.29%	-20.38%	-26.20%
20 Day Average Volume	955,638	433,157	4,147,873	654,477	1,396,777	619,174
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-15.08%	0.00%
(F1) EPS Est 4 week change	-16.42%	-1.16%	-4.97%	-7.77%	-17.36%	-15.02%
(F1) EPS Est 12 week change	-16.37%	-8.79%	-6.79%	-5.99%	-17.09%	-18.67%
(Q1) EPS Est Mthly Chg	-20.48%	0.00%	-7.32%	-12.88%	-54.39%	-19.39%

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	A
Momentum Score	F
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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