

Syneos Health, Inc. (SYNH)

\$62.50 (As of 01/15/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

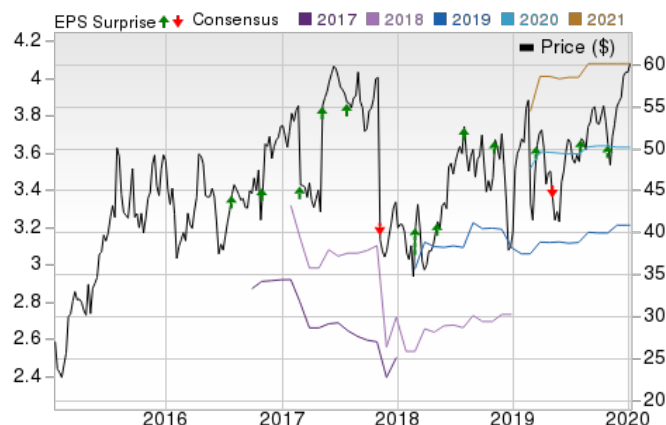
Growth: B

Momentum: A

Summary

Over the past six months, Syneos Health's shares have outperformed the industry it belongs to. We are upbeat about strong year-over-year revenue growth across its operating segments. It has been strengthening its end-to-end market position by steadily innovating and expanding the Syneos One product. Also, it seems to be upbeat about solid prospects within CRO and CCO markets. Strong RFP flow, a diverse portfolio of clinical and commercial initiatives and sustained customer interest in Syneos Health's integrated offerings buoy optimism. The raised 2019 earnings per share guidance also indicates that the company's bullish performance will continue. The company put up a solid show in the third quarter of 2019. However, contraction in adjusted operating margin, strict regulatory environment and tough competitive landscape are concerning.

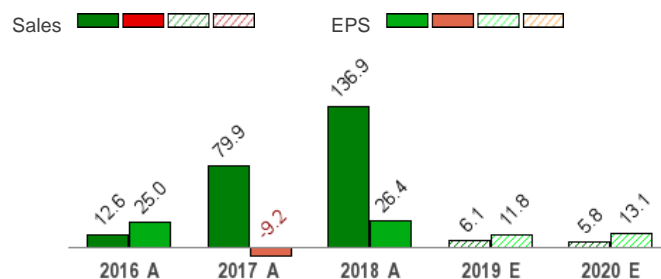
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$64.73 - \$36.72 |
| 20 Day Average Volume (sh) | 441,851 |
| Market Cap | \$6.5 B |
| YTD Price Change | 5.1% |
| Beta | 1.52 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Medical Info Systems |
| Zacks Industry Rank | Top 40% (102 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 4.8% |
| Last Sales Surprise | -0.4% |
| EPS F1 Est- 4 week change | 0.0% |
| Expected Report Date | 03/16/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 19.8 |
| P/E F1 | 17.2 |
| PEG F1 | 1.6 |
| P/S TTM | 1.4 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2020 | 1,186 E | 1,224 E | 1,241 E | 1,265 E | 4,926 E |
| 2019 | 1,119 A | 1,167 A | 1,177 A | 1,192 E | 4,657 E |
| 2018 | 1,057 A | 1,073 A | 1,115 A | 1,145 A | 4,390 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.76 E | \$0.86 E | \$0.95 E | \$1.07 E | \$3.63 E |
| 2019 | \$0.59 A | \$0.74 A | \$0.87 A | \$1.01 E | \$3.21 E |
| 2018 | \$0.55 A | \$0.62 A | \$0.75 A | \$0.95 A | \$2.87 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 01/15/2020. The reports text is as of 01/16/2020.

Overview

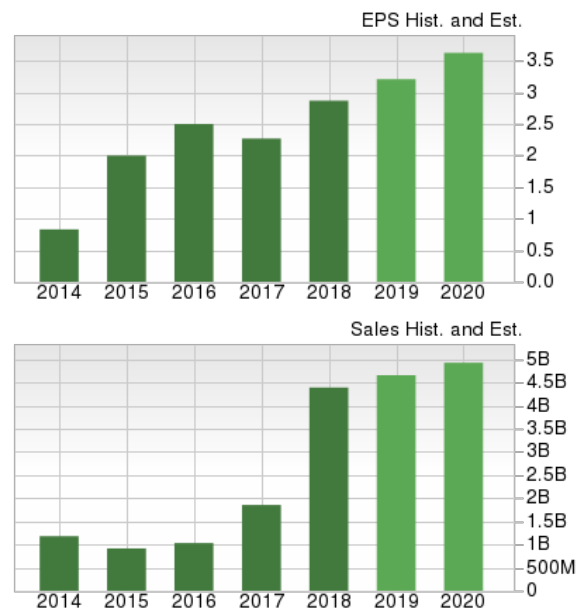
Headquartered in Morrisville, NC, Syneos Health, Inc. is a key global biopharmaceutical solutions company offering a broad range of clinical and commercial facilities. The company majorly provides these services to customers in the biopharmaceutical, biotechnology and medical device industries. Through 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 2018; underlying growth rate was 6.02% from 2017): 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%; down 0.3%): 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:

▲ **Share Price Performance:** Syneos Health has outperformed its industry in the past six months. The stock has gained 31.2% compared with the industry's 5% rise. Syneos Health exited the third quarter of 2019 on a solid note. We are upbeat about the strong year-over-year revenue growth across both operating segments. The company has been strengthening its unique 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 the company's integrated offerings buoy optimism. Expansion in the gross margin is impressive as well. The raised 2019 guidance for adjusted earnings per share is indicative of this bullish performance trend to be maintained by the company.

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 third quarter. The Clinical Solutions segment service revenue growth was 5.9% year over year. Despite adverse currency movements and slower growth in reimbursable expenses, the upside was led by net new business growth and favorable revenues.

Commercial Solutions service revenues rose 4.7% year over year in the reported quarter. Net new business growth and the higher rise in reimbursable expenses in the third quarter of 2019 drove Commercial Solutions service revenues in the quarter under review.

▲ **Upbeat Guidance:** For 2019, the company increased adjusted earnings per share guidance to \$3.17-3.27 from earlier mentioned \$3.08-3.26. The Zacks Consensus Estimate for the same is pegged at \$3.17, well within the guided range. The raised 2019 guidance for adjusted earnings per share indicates that the company will maintain the bullish performance trend.

▲ **Strong Balance Sheet:** Effective capital deployment has been one of the key contributors to earnings per share growth. Syneos Health exited the third quarter of 2019 with cash, cash equivalents, and restricted cash of \$129.2 million compared with \$107.3 million at the end of the second quarter. Year to date, net cash provided by operating activities was \$157.9 million compared with \$191 million a year ago.

Reasons To Sell:

▼ **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 to the tune of \$9.6 million in the third quarter of 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.

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

Last Earnings Report

Syneos Health Tops Q3 Earnings Estimates, Ups Earnings View

Syneos Health reported third-quarter 2019 adjusted earnings per share of 87 cents, which beat the Zacks Consensus Estimate by 4.8%. The metric also improved 16% from the year-ago figure.

On a GAAP basis, earnings per share were 56 cents, marking a significant improvement from the year-ago loss of 10 cents per share.

Revenues in Detail

Service revenues in the quarter totaled \$1.18 billion. The topline grew 5.6% year over year, almost in line with the Zacks Consensus Estimate. Per management, revenue growth across key segments and strong customer adoption drove the top line.

Segmental Details

The **Clinical Solutions** segment delivered service revenues of \$867.4 million in the third quarter, up 5.9% year over year (adjusted revenues were up 6.7% at constant exchange rate or CER). The upside resulted from net new business growth and favorable revenue mix. However, slower growth in reimbursable expenses and an adverse impact of foreign currency fluctuation offset revenue growth.

Commercial Solutions revenues were \$309.6 million in the reported quarter, up 4.7% year over year (adjusted revenues moved up 5.1% at CER). Net new business growth and the higher rise in reimbursable expenses in the third quarter of 2019 drove Commercial Solutions revenues in the quarter under review. However, the segment was adversely impacted by an unfavorable revenue mix and fluctuations in foreign currency exchange rates.

Margin Details

Direct costs (excluding depreciation and amortization) rose 4.8% to \$913.7 million in the quarter. Gross margin expanded 61 basis points (bps) to 22.4%.

Selling, general and administrative expenses rose 13.3% year over year to \$109.9 million.

However, adjusted operating margin (excluding depreciation, amortization, transaction and integration-related, and restructuring and other expenses) contracted 3 bps from the year-ago quarter to 13%.

Financial Details

Syneos Health exited the third quarter of 2019 with cash and cash equivalents, and restricted cash of \$129.2 million compared with \$107.3 million at the end of the second quarter. Year to date, the company has recorded net cash provided by operating activities of \$157.9 million compared with \$191 million a year ago.

Guidance Updated

For 2019, it lowered the adjusted service revenue guidance to \$4.63-4.69 billion from \$4.64-4.75 billion mentioned earlier. The Zacks Consensus Estimate for the same is pegged at \$4.69 billion, which is in the upper end of the company's guided range.

For 2019, Syneos Health raised adjusted earnings per share guidance to \$3.17-3.27 from \$3.08-3.26 mentioned earlier. The Zacks Consensus Estimate for the same is pegged at \$3.17, which falls near the lower end of the company's guided range.

Quarter Ending **09/2019**

| Report Date | Oct 31, 2019 |
|------------------|--------------|
| Sales Surprise | -0.44% |
| EPS Surprise | 4.82% |
| Quarterly EPS | 0.87 |
| Annual EPS (TTM) | 3.15 |

Recent News

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.

On **Nov 21, 2019**, Syneos Health released a report identifying payer barriers to use of Real World Evidence (RWE) and opportunities to advance understanding and engagement. The report includes firsthand feedback from participants, exploring the acceptability of RWE on payer decisions for rare therapies and perspectives on how their stance is likely to evolve over time.

On **Nov 12, 2019**, Syneos Health announced the collaboration with AI and advanced data analytics company AiCure to drive faster and smarter trials to optimize patient engagement. The partnership augments a pre-existing relationship, thus responding to rising demand for digital solutions that change behavior and improve patients' lives.

Valuation

Syneos Health shares are up 31.3% and up 28.6% in the past six-month period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 5% while the Zacks Medical sector is up 7.1% in the past six-month period. Over the past year, the Zacks sub-industry is up 20.3% and sector is up 4.3%.

The S&P 500 index is up 10.6% in the past six-month period and up 23.6% in the past year.

The stock is currently trading at 19.3X Forward 12-months earnings, which compares to 52.5X for the Zacks sub-industry, 21.6X for the Zacks sector and 18.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.9X and as low as 12.4X, with a 5-year median of 18.3.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$66 price target reflects 20.3X 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 | 19.33 | 52.51 | 21.58 | 18.95 |
| | 5-Year High | 28.90 | 52.51 | 21.58 | 19.34 |
| | 5-Year Low | 12.42 | 24.52 | 15.88 | 15.17 |
| | 5-Year Median | 18.32 | 32.16 | 18.95 | 17.44 |
| P/S F12M | Current | 1.31 | 2.21 | 2.84 | 3.52 |
| | 5-Year High | 2.98 | 3.15 | 3.81 | 3.52 |
| | 5-Year Low | 0.81 | 1.61 | 2.42 | 2.54 |
| | 5-Year Median | 1.79 | 2.31 | 2.93 | 3.00 |
| P/B TTM | Current | 2.26 | 3.03 | 4.54 | 4.49 |
| | 5-Year High | 11.94 | 4.47 | 5.02 | 4.49 |
| | 5-Year Low | 1.09 | 2.13 | 3.42 | 2.85 |
| | 5-Year Median | 3.97 | 3.08 | 4.28 | 3.61 |

As of 1/15/2020

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 254)



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 | A | - | - | B | A | B |
| Market Cap | 6.49 B | 254.22 M | 24.22 B | 7.76 B | 17.31 B | 6.66 B |
| # of Analysts | 6 | 4 | 13 | 8 | 9 | 6 |
| Dividend Yield | 0.00% | 0.00% | 1.75% | 0.00% | 0.00% | 0.00% |
| Value Score | B | - | - | C | A | B |
| Cash/Price | 0.02 | 0.09 | 0.04 | 0.02 | 0.02 | 0.03 |
| EV/EBITDA | 20.14 | -1.69 | 14.11 | 18.91 | 11.46 | 20.06 |
| PEG Ratio | 1.68 | 1.88 | 2.06 | 1.79 | 1.75 | 1.28 |
| Price/Book (P/B) | 2.26 | 2.92 | 3.34 | 5.05 | 2.39 | 7.03 |
| Price/Cash Flow (P/CF) | 11.76 | 14.11 | 13.57 | 16.76 | 10.68 | 17.88 |
| P/E (F1) | 17.60 | 22.25 | 18.90 | 21.45 | 14.91 | 17.98 |
| Price/Sales (P/S) | 1.41 | 4.17 | 2.65 | 3.06 | 1.52 | 2.22 |
| Earnings Yield | 5.81% | -1.27% | 5.29% | 4.67% | 6.70% | 5.57% |
| Debt/Equity | 1.02 | 0.10 | 0.72 | 1.30 | 0.93 | 1.65 |
| Cash Flow (\$/share) | 5.31 | -0.04 | 6.94 | 9.48 | 16.68 | 5.89 |
| Growth Score | B | - | - | A | B | C |
| Hist. EPS Growth (3-5 yrs) | 19.04% | 13.24% | 10.56% | 15.26% | 11.29% | 30.28% |
| Proj. EPS Growth (F1/F0) | 13.03% | 18.65% | 7.59% | 13.03% | 6.19% | 14.47% |
| Curr. Cash Flow Growth | 39.29% | 33.26% | 14.73% | 18.09% | 9.98% | 28.56% |
| Hist. Cash Flow Growth (3-5 yrs) | 87.75% | 13.08% | 9.00% | 12.97% | 14.10% | 117.31% |
| Current Ratio | 1.03 | 1.75 | 1.24 | 1.43 | 1.17 | 1.10 |
| Debt/Capital | 50.62% | 16.57% | 42.99% | 56.89% | 48.26% | 62.20% |
| Net Margin | 1.86% | -21.53% | 11.14% | 9.14% | 6.63% | 8.00% |
| Return on Equity | 10.13% | -19.61% | 17.16% | 21.52% | 15.33% | 27.73% |
| Sales/Assets | 0.63 | 0.61 | 0.55 | 0.60 | 0.66 | 0.88 |
| Proj. Sales Growth (F1/F0) | 5.77% | 22.09% | 4.23% | 10.57% | 3.42% | 7.99% |
| Momentum Score | A | - | - | D | B | A |
| Daily Price Chg | 3.24% | 0.41% | 0.27% | -0.48% | -1.20% | 0.49% |
| 1 Week Price Chg | 1.74% | 4.12% | 0.39% | 3.40% | 6.19% | -4.36% |
| 4 Week Price Chg | 11.09% | 5.81% | 2.17% | 7.51% | 6.16% | -1.82% |
| 12 Week Price Chg | 16.06% | 10.22% | 6.65% | 26.01% | 5.43% | 9.69% |
| 52 Week Price Chg | 30.62% | -17.14% | 22.43% | 35.73% | 34.99% | 5.91% |
| 20 Day Average Volume | 441,851 | 233,617 | 1,545,017 | 273,779 | 561,617 | 553,377 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.01% | 0.00% |
| (F1) EPS Est 4 week change | 0.00% | 0.00% | 0.00% | -0.03% | -0.02% | 0.00% |
| (F1) EPS Est 12 week change | 1.07% | -0.44% | -0.41% | -0.17% | -1.11% | 0.22% |
| (Q1) EPS Est Mthly Chg | 0.00% | 0.00% | 0.00% | 0.65% | 0.18% | 0.00% |

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 | B |
| Growth Score | B |
| Momentum Score | A |
| VGM Score | A |

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.

Disclosures

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