Syneos Health, Inc. (SYNH)

$60.59 (As of 08/27/20)

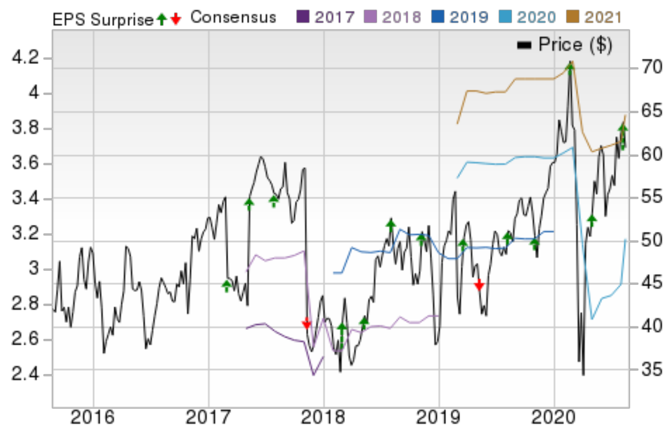
Price Target (6-12 Months): **$64.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/07/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: B	Momentum: B

Summary

Syneos Health exited the second quarter of 2020 with better-than-expected results. A pipeline of additional COVID-19-related opportunities looks impressive. The issuance of guidance instills optimism. Partnerships, Syneos One potential and a strong solvency with moderately leveraged balance sheet raise hope. Strong RFP flow, a diverse portfolio of clinical and commercial initiatives, and sustained customer interest in Syneos Health's integrated offerings are encouraging as well. Syneos Health has outperformed the Medical sector in the past year. Yet, the year-over-year fall in both revenues and earnings was a dampener. Significant sales decline in both of its segments and contraction of both margins are concerning. Tough macroeconomic conditions due to the pandemic, stiff competition and foreign exchange fluctuations are other headwinds.

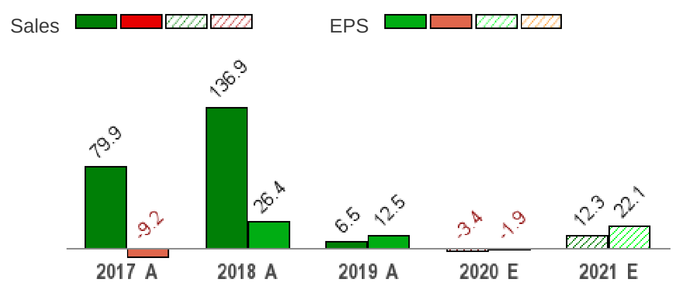
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$74.25 - $30.02**
20 Day Average Volume (sh)	**492,635**
Market Cap	**$6.3 B**
YTD Price Change	**1.9%**
Beta	**1.80**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical Info Systems**
Zacks Industry Rank	**Bottom 24% (191 out of 252)**
Last EPS Surprise	**20.8%**
Last Sales Surprise	**0.9%**
EPS F1 Est- 4 week change	**9.7%**
Expected Report Date	**10/29/2020**
Earnings ESP	**2.9%**
P/E TTM	**19.2**
P/E F1	**19.1**
PEG F1	**1.8**
P/S TTM	**1.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,205 E	1,251 E	1,311 E	1,338 E	5,069 E
2020	1,163 A	1,013 A	1,122 E	1,217 E	4,515 E
2019	1,119 A	1,167 A	1,177 A	1,213 A	4,676 A

EPS Estimates

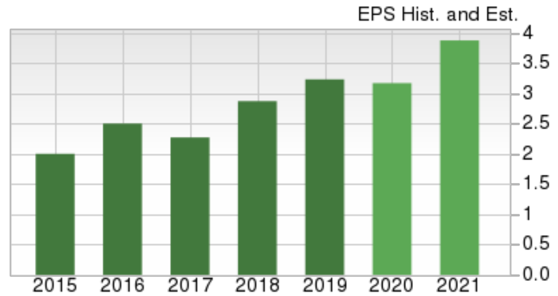
	Q1	Q2	Q3	Q4	Annual*
2021	$0.88 E	$0.96 E	$1.03 E	$1.12 E	$3.87 E
2020	$0.68 A	$0.58 A	$0.88 E	$1.07 E	$3.17 E
2019	$0.59 A	$0.74 A	$0.87 A	$1.03 A	$3.23 A

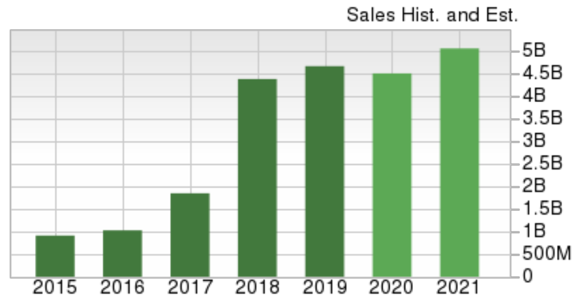
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/27/2020. The reports text is as of 08/28/2020.

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:

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

▲ **Share Price Performance:** Syneos Health has outperformed the Medical sector in the past year. The stock has gained 14.7% compared with the sector's 8.9% rise. The company exited the second quarter of 2020 with better-than-expected numbers. It won 35 COVID-19 related projects through the second quarter and still has a substantial pipeline of additional COVID-related opportunities. The issuance of guidance instills optimism.

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 Syneos Health's integrated offerings inspire optimism. A strong solvency with moderately leveraged balance sheet looks encouraging.

▲ **Strong Long-term Potential:** Despite the near-term COVID-19 challenges, Syneos Health remains confident about the long-term strength of its business given the robust backlog and the unique market position. According to the company, the strong momentum in its business that began to accelerate in 2019 carried over into the first quarter results. The company expects this to continue to build as the impacts of COVID-19 subside.

Meanwhile the company's COVID-19 related response is controlled by Business Continuity Transition Management Office (TMO), which combines the project management discipline of the Trusted Process with well-established transition management leadership.

▲ **Clinical Services Rebounds Post COVID-19:** According to Syneos Health, the full-service portion of its Clinical Solutions segment represents about 60% of its total revenues and over 70% of the clinical businesses comprise of essential therapeutic areas that is experiencing reduced impacts of Coronavirus outbreak. For example, oncology, rare disease, orphan diseases, and other complex disease are the areas where patients have limited treatment options. Although Syneos Health expects the impact of the pandemic to continue for the full year, the company believes it to be temporary.

In the second quarter, the segment delivered robust net awards, growing nearly 11% compared to last year. However, the company also noted that about 10% of sites remain completely inaccessible. This has been mitigated by the company via remote monitoring. Additionally, about 40% of sites now permit physical visits, which have been steadily increasing since late April.

Further, the new patient enrollment has recovered to about 60% of the pre-COVID-19 levels during July after a significant drop in April.

▲ **Partnerships to Add Value:** Syneos Health has been progressing well with its partnership deals. The company, in July, signed a new three-year agreement with Pfizer Inc. to deliver global product development solutions to support Pfizer's portfolio. In May, Syneos Health entered into a strategic agreement with Daiichi Sankyo, Inc. to form a coalition to accomplish the shared goal of providing access to promising cancer therapies to patients as safely, effectively and efficiently as possible.

Another notable partnership of the company was with AiCure (an AI and advanced data analytics company), which was inked in November 2019. In September, Syneos Health collaborated 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.

▲ **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, $43 billion, out of around $88 billion of the total addressable clinical development market, was outsourced to CROs in 2019. 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 6-7% 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.

▲ **Strong Solvency but Moderately Leveraged Balance Sheet:** Syneos Health ended the second quarter of 2020 with cash and cash equivalents of $343 million compared with $336 million at the end of the first quarter of 2020. Meanwhile, total debt came up to $3.02 billion, a slight decrease from the sequentially last figure of $3.19 billion. Although, the quarter's total debt was much higher than the corresponding cash and cash equivalent level, the near-term payable debt is coming at $128 million, lower than the short-term cash level. This is a positive fact in terms of the company's solvency level as, at least during the year of economic downturn, the company is holding sufficient cash for debt repayment.

Debt comparison with the industry is, however, unfavorable as the industry's total debt of $1.25 billion is much lower compared to that of the company.

The second quarter's total debt-to-capital ratio of 0.50 indicates a moderately leveraged balance sheet. However, it represented a sequential decline from 0.52. This, however, compares unfavorably with the total debt-to-capital of the industry, which stands at a lower level of 0.46. The overall data concludes that in terms of the solvency level of the company, the picture is encouraging.
The company's second-quarter interest coverage stands at a very low level of 2.3%, flat compared to the sequentially last-reported quarter.

Reasons To Sell:

- **COVID-19 Impact on Business:** In the reported quarter, Syneos Health's Clinical Solutions segment's revenues were down 12.3% year over year on a reported basis (down 11.6% at constant exchange rate or CER). One of the reasons for this downside was the reduced physical site monitoring visits and out-of-scope work related to COVID-19.

  Commercial Solutions revenues were down 16% year over year (adjusted revenues moved down 15.8% at CER) in the reported quarter. The decline was caused by the impact of COVID-19, including a decline in reimbursable expenses associated with reduced field team travel and lower investigator meeting expenses as well as Deployment Solutions project start-up delays.

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 0.5% in the second quarter of 2020.

- **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 Q2 Earnings Top Estimates, Margins Down

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	0.92%
EPS Surprise	20.83%
Quarterly EPS	0.58
Annual EPS (TTM)	3.16

Syneos Health reported second-quarter 2020 adjusted earnings per share of 58 cents, which beat the Zacks Consensus Estimate by 20.8%. However, the metric dropped 21.6% from the year-ago figure.

Reported earnings per share was 4 cents, marking a huge decline from the year-ago net earnings of 11 cents per share.

The year-over-year decline in adjusted earnings was the result of the impacts of COVID-19 on both Clinical Solutions and Commercial Solutions businesses, partially offset by benefit from cost management strategies, lower reimbursable out-of-pocket expenses, and lower interest expense.

Revenues in Detail

Revenues in the quarter totaled $1.01 billion. The top line declined 13.1% year over year on a reported basis (down 13.3% on an adjusted basis and 12.8% on a constant currency adjusted basis). However, it exceeded the Zacks Consensus Estimate by 0.9%. Adjusted revenues include revenues eliminated as a result of purchase accounting.

Segmental Details

The **Clinical Solutions** segment recorded revenues of $747.2 million in the second quarter; down 12.3% year over year on a reported basis (down 11.6% at CER). The downside resulted from reduced physical site monitoring visits and out-of-scope work related to COVID-19, the associated decline in reimbursable expenses, and the divestiture of the company's lower-margin contingent staffing business as part of its portfolio rationalization.

Commercial Solutions revenues were $266.2 million in the reported quarter, down 16% year over year (adjusted revenues moved down 15.8% at CER). The decline was caused by the impact of COVID-19, including a decline in reimbursable expenses associated with reduced field team travel and lower investigator meeting expenses, as well as Deployment Solutions project start-up delays.

Margin Details

Direct cost (excluding depreciation and amortization) declined 12.2% to $805.9 million in the quarter. Despite that, gross margin contracted 89 basis points (bps) to 20.5%.

Selling, general and administrative expenses were down 5.3% year over year to $104.9 million.

Adjusted operating margin (excluding depreciation, amortization, transaction and integration-related, and restructuring and other expenses) contracted 174 bps from the year-ago quarter to 10.1%.

Financial Details

Syneos Health exited the second quarter of 2020 with cash and cash equivalents, and restricted cash of $343 million, compared with $335.9 million at the end of the first quarter. At the end of the second quarter, cumulative operating cash outflow was $155.2 million compared with $83.5 million a year ago.

Guidance

Following the withdrawal of its 2020 guidance in April, the company issued a fresh guidance this time around.

Full-year revenues are expected in the range of $4,470 million to $4,570 million while adjusted earnings per share is expected in the band of $3.16 to $3.38.

The current Zacks Consensus Estimate for 2020 revenues is pegged at $4.48 billion while the same for adjusted earnings per share stands at $2.97 billion.

Recent News

Syneos Health, Pfizer Signs Agreement: Jul 10, 2020

Syneos Health announced that it has signed a new three-year agreement with Pfizer with the aim of delivering global product development solutions to support Pfizer's portfolio.

Syneos Health, Daiichi Sankyo Signs Agreement: May 28, 2020

Syneos Health announced entering into a strategic agreement with Daiichi Sankyo to collaborate to achieve the shared goal of providing promising cancer therapies to patients as safely, effectively and efficiently as possible.

Valuation

Syneos Health shares are up 1.9% and up 14.7% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 23% while the Zacks Medical sector improved 0.6% in the year-to-date period. Over the past year, the Zacks sub-industry is up 28.7% and sector is up 8.9%.

The S&P 500 index is up 8.2% in the year-to-date period and up 19.5% in the past year.

The stock is currently trading at 16.7X Forward 12-months earnings, which compares to 76.9X for the Zacks sub-industry, 22.3X for the Zacks sector and 23.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25X and as low as 9.9X, with a 5-year median of 18.2X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $64 price target reflects 17.6X 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	16.68	76.99	22.31	23.37
	5-Year High	25.00	86.32	23.21	23.37
	5-Year Low	9.85	24.52	15.89	15.25
	5-Year Median	18.20	32.18	18.97	17.58
P/S F12M	Current	1.30	3.30	2.81	3.82
	5-Year High	2.98	3.30	3.42	3.82
	5-Year Low	0.68	1.61	2.23	2.53
	5-Year Median	1.34	2.30	2.89	3.05
P/B TTM	Current	2.10	4.20	3.85	4.71
	5-Year High	11.94	4.22	5.07	4.71
	5-Year Low	1.09	2.13	2.94	2.83
	5-Year Median	2.04	3.07	4.29	3.76

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (191 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
IQVIA Holdings Inc. **(IQV)**	Outperform	2
Medpace Holdings, Inc. **(MEDP)**	Outperform	1
Charles River Laboratories International, Inc. **(CRL)**	Neutral	3
Cognizant Technology Solutions Corporation **(CTSH)**	Neutral	3
ICON PLC **(ICLR)**	Neutral	3
Laboratory Corporation of America Holdings **(LH)**	Neutral	3
Allscripts Healthcare Solutions, Inc. **(MDRX)**	Neutral	3
PRA Health Sciences, Inc. **(PRAH)**	Neutral	3

Industry Comparison Industry: Medical Info Systems

Industry Peers

	SYNH	X Industry	S&P 500	CRL	LH	PRAH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	A	D
Market Cap	6.32 B	237.02 M	23.67 B	10.79 B	16.97 B	6.65 B
# of Analysts	5	5	14	9	8	6
Dividend Yield	0.00%	0.00%	1.64%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	A	C
Cash/Price	0.05	0.08	0.07	0.04	0.03	0.03
EV/EBITDA	18.70	-1.50	13.33	22.63	10.35	16.09
PEG Ratio	1.84	2.13	3.05	2.15	1.46	1.93
Price/Book (P/B)	2.10	3.31	3.18	6.14	2.31	5.67
Price/Cash Flow (P/CF)	11.65	17.36	12.81	19.97	8.96	14.95
P/E (F1)	19.30	21.40	21.68	30.11	12.59	23.30
Price/Sales (P/S)	1.38	4.03	2.50	3.92	1.48	2.15
Earnings Yield	5.23%	-1.55%	4.43%	3.32%	7.94%	4.29%
Debt/Equity	0.96	0.10	0.74	1.34	0.75	1.08
Cash Flow ($/share)	5.20	-0.06	6.94	10.88	19.44	6.95
Growth Score	B	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	8.45%	7.28%	10.41%	14.73%	8.86%	24.00%
Proj. EPS Growth (F1/F0)	-1.92%	-3.02%	-4.94%	7.16%	22.29%	-13.70%
Curr. Cash Flow Growth	-1.58%	10.02%	5.22%	16.47%	12.16%	14.92%
Hist. Cash Flow Growth (3-5 yrs)	39.36%	10.24%	8.50%	15.17%	17.70%	23.06%
Current Ratio	1.12	1.97	1.35	1.70	1.12	0.98
Debt/Capital	49.06%	20.03%	43.86%	57.52%	42.90%	51.95%
Net Margin	4.10%	-15.18%	10.25%	9.87%	3.16%	6.86%
Return on Equity	9.63%	-18.63%	14.66%	21.58%	14.39%	25.01%
Sales/Assets	0.61	0.53	0.50	0.56	0.65	0.86
Proj. Sales Growth (F1/F0)	-3.43%	0.61%	-1.43%	8.72%	9.87%	1.02%
Momentum Score	B	-	-	A	A	B
Daily Price Chg	0.22%	0.00%	0.43%	-0.66%	-2.81%	0.38%
1 Week Price Chg	-1.50%	0.00%	-1.45%	0.88%	-4.86%	1.13%
4 Week Price Chg	-3.33%	-2.19%	3.75%	7.87%	-10.56%	-2.62%
12 Week Price Chg	-0.64%	2.12%	3.95%	18.38%	-3.53%	-4.45%
52 Week Price Chg	14.69%	-4.96%	2.75%	65.72%	3.82%	6.40%
20 Day Average Volume	492,635	398,466	1,887,168	330,539	794,530	306,172
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	9.72%	0.26%	0.79%	4.81%	5.66%	0.22%
(F1) EPS Est 12 week change	13.60%	0.00%	3.43%	5.24%	44.60%	1.09%
(Q1) EPS Est Mthly Chg	11.08%	6.25%	0.00%	5.46%	15.19%	0.44%

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	B
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.

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