Syneos Health, Inc.
Form 10-Q
November 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number: 001-36730

SYNEOS HEALTH, INC.
(Exact name of registrant as specified in its charter)

Delaware	27-3403111
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3201 Beechleaf Court, Suite 600, Raleigh, North Carolina 27604-1547
(Address of principal executive offices and Zip Code)
(919) 876-9300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of October 29, 2018, there were approximately 103,225,918 shares of the registrant's common stock outstanding.

Table of Contents

SYNEOS HEALTH, INC.
FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
SYNEOS HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Service revenue	$1,114,918	$592,207	$3,244,644	$1,102,372
Reimbursable out-of-pocket expenses	—	230,121	—	493,009
Total revenue	1,114,918	822,328	3,244,644	1,595,381
Costs and operating expenses:				
Direct costs (exclusive of depreciation and amortization)	539,570	405,798	1,619,620	722,643
Reimbursable out-of-pocket expenses	332,644	230,121	940,882	493,009
Selling, general, and administrative	96,943	88,855	296,420	176,320
Restructuring and other costs	19,349	6,670	41,647	12,626
Transaction and integration-related expenses	18,561	84,340	61,804	108,081
Asset impairment charges	—	30,000	—	30,000
Depreciation	17,639	14,049	53,224	26,279
Amortization	50,395	51,383	150,333	70,309
Total operating expenses	1,075,101	911,216	3,163,930	1,639,267
Income (loss) from operations	39,817	(88,888)	80,714	(43,886)
Other expense, net:				
Interest income	1,004	501	3,498	765
Interest expense	(33,097)	(27,432)	(97,727)	(33,818)
Loss on extinguishment of debt	(1,789)	(102)	(3,914)	(102)
Other (expense) income, net	(4,346)	(5,953)	15,101	(16,164)
Total other expense, net	(38,228)	(32,986)	(83,042)	(49,319)
Income (loss) before provision for income taxes	1,589	(121,874)	(2,328)	(93,205)
Income tax expense	(11,983)	(26,124)	(19,058)	(30,217)
Net loss	$(10,394)	$(147,998)	$(21,386)	$(123,422)
Loss per share:				
Basic	$(0.10)	$(1.70)	$(0.21)	$(1.90)
Diluted	$(0.10)	$(1.70)	$(0.21)	$(1.90)
Weighted average common shares outstanding:				
Basic	103,012	87,152	103,453	65,097
Diluted	103,012	87,152	103,453	65,097

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

SYNEOS HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Net loss	$(10,394)	$(147,998)	$(21,386)	$(123,422)
Unrealized gain (loss) on derivative instruments, net of income tax (expense) benefit of ($475), $72, ($475), and $163, respectively	2,624	(115)	1,341	(248)
Foreign currency translation adjustments, net of income tax benefit (expense) of $2,868, ($5,873), $0 and ($5,873), respectively	(1,295)	4,626	(36,541)	16,958
Comprehensive loss	$(9,065)	$(143,487)	$(56,586)	$(106,712)

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

Table of Contents

SYNEOS HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	December 31, 2017
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$132,402	$321,262
Restricted cash	2,202	714
Accounts receivable billed, net	656,682	642,985
Accounts receivable unbilled	347,894	373,003
Contract assets	136,824	—
Prepaid expenses and other current assets	80,418	84,215
Total current assets	1,356,422	1,422,179
Property and equipment, net	175,128	180,412
Goodwill	4,352,825	4,292,571
Intangible assets, net	1,189,665	1,286,050
Deferred income tax assets	32,702	20,159
Other long-term assets	102,951	84,496
Total assets	$7,209,693	$7,285,867
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$82,204	$58,575
Accrued liabilities	527,225	500,303
Contract liabilities	709,027	559,270
Current portion of capital lease obligations	16,603	16,414
Current portion of long-term debt	62,050	25,000
Total current liabilities	1,397,109	1,159,562
Capital lease obligations, non-current	21,568	20,376
Long-term debt, non-current	2,775,631	2,945,934
Deferred income tax liabilities	58,612	37,807
Other long-term liabilities	123,745	99,609
Total liabilities	4,376,665	4,263,288
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Preferred stock, $0.01 par value; 30,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	—	—
Common stock, $0.01 par value; 600,000,000 shares authorized, 103,223,093 and 104,435,501 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,032	1,044
Additional paid-in capital	3,390,734	3,414,389

Accumulated other comprehensive loss, net of tax	(53,735)	(22,385)
Accumulated deficit	(505,003)	(370,469)
Total shareholders' equity	2,833,028	3,022,579
Total liabilities and shareholders' equity	$ 7,209,693	$ 7,285,867

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

Table of Contents

SYNEOS HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(21,386)	$(123,422)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	203,557	96,588
Amortization of capitalized loan fees and original issue discount, net of Senior Notes premium	85	759
Share-based compensation	26,045	50,928
(Recovery of) provision for doubtful accounts	(3,453)	1,477
(Benefit from) provision for deferred income taxes	(721)	12,733
Foreign currency transaction adjustments	(14,927)	6,264
Asset impairment charges	—	30,000
Fair value adjustment of contingent tax-sharing obligation	3,582	—
Loss on extinguishment of debt	3,914	102
Other non-cash items	3,084	1,404
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable, unbilled services, and advanced billings	(48,802)	39,618
Accounts payable and accrued expenses	5,371	(10,132)
Other assets and liabilities	34,651	3,427
Net cash provided by operating activities	191,000	109,746
Cash flows from investing activities:		
Payments associated with business acquisitions, net of cash acquired	(90,890)	(1,678,381)
Purchases of property and equipment	(42,963)	(28,153)
Other, net	—	107
Net cash used in investing activities	(133,853)	(1,706,427)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, net of discount	—	2,598,000
Payments of debt financing costs	(3,062)	(25,476)
Repayments of long-term debt	(354,396)	(475,097)
Proceeds from accounts receivable financing agreement	183,600	—
Proceeds from revolving line of credit	—	15,000
Repayments of revolving line of credit	—	(40,000)
Redemption of Senior Notes and associated breakage fees	—	(290,250)
Payments of capital leases	(12,664)	(3,586)
Payments for repurchase of common stock	(74,985)	—
Proceeds from exercise of stock options	18,042	17,048
Payments related to tax withholding for share-based compensation	(3,212)	(5,391)
Net cash (used in) provided by financing activities	(246,677)	1,790,248
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	2,158	8,883
Net change in cash, cash equivalents, and restricted cash	(187,372)	202,450

Cash, cash equivalents, and restricted cash - beginning of period	321,976	103,078
Cash, cash equivalents, and restricted cash - end of period	$134,604	$305,528
Supplemental disclosures of non-cash investing activities:		
Fair value of shares issued and share-based awards assumed in business combinations	$—	$2,769,471
Fair value of contingent consideration related to business combinations	$4,353	$—
Purchases of property and equipment included in liabilities	$7,589	$706
Vehicles acquired through capital lease agreements	$24,000	$7,101

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

SYNEOS HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Changes in Significant Accounting Policies

Nature of Operations

Syneos Health, Inc. (the “Company”) is a global provider of end-to-end biopharmaceutical outsourcing solutions. The Company operates under two reportable segments, Clinical Solutions and Commercial Solutions, and derives its revenue through a suite of services designed to enhance its customers’ ability to successfully develop, launch, and market their products. The Company offers its solutions on both a standalone and integrated basis with biopharmaceutical development and commercialization services ranging from Phase I-IV clinical trial services to services associated with the commercialization of biopharmaceutical products. The Company’s customers include small, mid-sized, and large companies in the pharmaceutical, biotechnology, and medical device industries.

Merger

On August 1, 2017, the Company completed the merger (the “Merger”) with Double Eagle Parent, Inc. (“inVentiv”), the parent company of inVentiv Health, Inc. Upon closing, inVentiv was merged with and into the Company, with the Company continuing as the surviving corporation. Beginning August 1, 2017, inVentiv’s results of operations are included in the accompanying unaudited condensed consolidated financial statements. For additional information related to the Merger, refer to “Note 3 - Business Combinations.”

Unaudited Interim Financial Information

The Company prepared the accompanying unaudited condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. The significant accounting policies followed by the Company for interim financial reporting are consistent with the accounting policies followed for annual financial reporting.

The unaudited condensed consolidated financial statements, in management’s opinion, include all adjustments of a normal recurring nature necessary for a fair presentation. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on February 28, 2018. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018 or any other future period. The unaudited condensed consolidated balance sheet at December 31, 2017 is derived from the amounts in the audited consolidated balance sheet included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Recently Adopted Accounting Standards

Revenue from Contracts with Customers. The Company adopted Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASC 606”) on January 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for the three and nine months ended September 30, 2018 reflect the application of ASC 606, while the reported results for the three and nine months ended September 30, 2017 were prepared under ASC 605, Revenue Recognition (“ASC 605”). For additional information related to the impact of adopting this standard, refer to “Note 12 - Revenue from Contracts with Customers.”

Table of Contents

Statement of Cash Flows - Restricted Cash. Effective January 1, 2018, the Company adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash using the retrospective transition method, as required by the new standard. The adoption of this ASU had an insignificant impact to the Company's unaudited condensed consolidated statements of cash flows. The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the unaudited condensed consolidated balance sheets at September 30, 2018 and December 31, 2017, which sum to the total of such amounts in the consolidated statements of cash flows (in thousands):

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 132,402	$ 321,262
Restricted cash	2,202	714
Total cash and cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 134,604	$ 321,976

Comprehensive Income - Reclassifications of Certain Tax Effects. Effective January 1, 2018, the Company elected to early adopt ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Under the updated accounting guidance, the Company is allowed to reclassify the stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate resulting from the Tax Cuts and Jobs Act of 2017 ("Tax Act") is recorded. Upon adoption, the Company recorded an increase to other comprehensive income of $3.9 million and a reduction in retained earnings of $3.9 million. There was no impact on prior periods.

Recently Issued Accounting Standards Not Yet Adopted

Leases. In February 2016, the Financial Accounting Standards board ("FASB") issued ASU No. 2016-02, Leases. ASU 2016-02 requires organizations to recognize lease assets and lease liabilities on the balance sheet, including leases that were previously classified as operating leases. The ASU also requires additional disclosures about leasing arrangements related to the amount, timing, and uncertainty of cash flows arising from leases. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments is permitted and the new guidance will be applied using a modified retrospective approach. The Company continues to evaluate the impact of adopting this standard on its accounting policies, financial statements, business processes, systems and internal controls. Additionally, the Company has established a project management and implementation team consisting of internal resources and external advisors. These evaluation and implementation processes are expected to continue through 2018. The Company expects to recognize substantially all of its leases on the balance sheet by recording a right-to-use asset and a corresponding lease liability. The Company plans to adopt the standard on January 1, 2019.

2. Financial Statement Details

Cash and Cash Equivalents

Certain of the Company's subsidiaries participate in a notional cash pooling arrangement to manage global liquidity requirements. The participants combine their cash balances in pooling accounts at the same financial institution with the ability to offset bank overdrafts of one participant against positive cash account balances held by another participant. The net cash balance related to this pooling arrangement is included in the "Cash and cash equivalents" line item in the unaudited condensed consolidated balance sheet. The Company's net cash pool position consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Gross cash position	$ 130,510	$ 195,376
Less: cash borrowings	(105,708)	(88,226)

Net cash position	$ 24,802	$ 107,150

8

Table of Contents

Billed Accounts Receivable, Net

Billed accounts receivable, net consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Accounts receivable billed	$ 662,138	$ 652,061
Allowance for doubtful accounts	(5,456)	(9,076)
Accounts receivable billed, net	$ 656,682	$ 642,985

Accounts Receivable Factoring Arrangement

In May 2017, the Company entered into an accounts receivable factoring agreement to sell certain eligible unsecured trade accounts receivable, without recourse, to an unrelated third-party financial institution for cash. For the nine months ended September 30, 2018, the Company factored $197.4 million of trade accounts receivable on a non-recourse basis and received $196.4 million in cash proceeds from the sale. The fees associated with this transaction were insignificant. The Company did not sell any trade accounts receivables under this agreement during the year ended December 31, 2017.

Goodwill and Intangible Assets

Changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2018 were as follows (in thousands):

	Total	Clinical Solutions	Commercial Solutions
Balance at December 31, 2017:			
Gross carrying amount	$4,308,737	$2,808,975	$1,499,762
Accumulated impairment losses [a]	(16,166)	(8,142)	(8,024)
Goodwill net of accumulated impairment losses	4,292,571	2,800,833	1,491,738
2018 Activity:			
Business combinations [b]	73,901	(5,692)	79,593
Impact of foreign currency translation	(13,647)	(12,950)	(697)
Balance at September 30, 2018:			
Gross carrying amount	4,368,991	2,790,333	1,578,658
Accumulated impairment losses [a]	(16,166)	(8,142)	(8,024)
Goodwill net of accumulated impairment losses	$4,352,825	$2,782,191	$1,570,634

[a] Accumulated impairment losses associated with the Clinical Solutions segment were recorded prior to 2018 and related to the former Phase I Services segment, now a component of the Clinical Solutions segment. Accumulated impairment losses associated with the Commercial Solutions segment were recorded prior to 2018 and related to the former Global Consulting segment, now a component of the Commercial Solutions segment. No impairment of goodwill was recorded for the nine months ended September 30, 2018.

[b] Amount represents measurement period adjustments to goodwill recognized in connection with the Merger and goodwill recognized in connection with an acquisition. Goodwill associated with these transactions is not deductible for income tax purposes. Refer to “Note 3 - Business Combinations” for further information.

Table of Contents

Intangible assets, net consisted of the following (in thousands):

	September 30, 2018			December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets with finite lives:						
Customer relationships	$1,489,824	$ (368,905)	$1,120,919	$1,440,178	$ (266,158)	$1,174,020
Acquired backlog	136,847	(86,329)	50,518	137,442	(42,095)	95,347
Trademarks	31,290	(13,062)	18,228	32,428	(15,745)	16,683
Total	$1,657,961	$ (468,296)	$1,189,665	$1,610,048	$ (323,998)	$1,286,050

The fair value of the intangible assets acquired during the three months ended September 30, 2018 are amortized over an estimated useful life of 5 to 10 years. The future estimated amortization expense for the Company's intangible assets is expected to be as follows (in thousands):

Fiscal Year Ending:	
2018 (remaining 3 months)	$51,280
2019	166,353
2020	149,620
2021	132,261
2022	126,856
2023 and thereafter	563,295
Total	$1,189,665

Accumulated Other Comprehensive Loss, Net of Tax

Accumulated other comprehensive loss, net of tax, consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Foreign currency translation adjustments, net of tax	$ (56,461)	$ (23,514)
Unrealized gains on derivative instruments, net of tax	2,726	1,129
Accumulated other comprehensive loss, net of tax	$ (53,735)	$ (22,385)

Changes in accumulated other comprehensive gain (loss), net of tax for the three months ended September 30, 2018 were as follows (in thousands):

	Unrealized gain on derivative instruments, net of tax	Foreign currency translation adjustments, net of tax	Total
Balance at June 30, 2018	$ 102	$ (55,166)	$(55,064)
Other comprehensive gain (loss) before reclassifications	2,397	(1,295)	1,102
Amount of loss reclassified from accumulated other comprehensive loss into statement of operations	227	—	227
Net current period other comprehensive gain (loss), net of tax	2,624	(1,295)	1,329
Balance at September 30, 2018	$ 2,726	$ (56,461)	$(53,735)

Table of Contents

Changes in accumulated other comprehensive gain (loss), net of tax for the nine months ended September 30, 2018 were as follows (in thousands):

	Unrealized gain on derivative instruments, net of tax	Foreign currency translation adjustments, net of tax	Total
Balance at December 31, 2017	$ 1,129	$ (23,514)	$ (22,385)
Reclassification of income tax benefit due to adoption of ASU 2018-02	256	3,594	3,850
Balance at January 1, 2018	1,385	(19,920)	(18,535)
Other comprehensive gain (loss) before reclassifications	1,712	(36,541)	(34,829)
Amount of gain reclassified from accumulated other comprehensive loss into the statement of operations	(371)	—	(371)
Net current period other comprehensive gain (loss), net of tax	1,341	(36,541)	(35,200)
Balance at September 30, 2018	$ 2,726	$ (56,461)	$ (53,735)

Unrealized gains on derivative instruments represent the effective portion of gains associated with interest rate swaps. Designated as cash flow hedges, the interest rate swaps limit the variable interest rate exposure associated with the Company's term loans. The Company reclassifies amounts into net income (loss) as it makes interest payments on its term loan. Amounts to be reclassified to net income (loss) in the next 12 months are expected to be inconsequential.

The tax effects allocated to each component of other comprehensive loss for the three months ended September 30, 2018 were as follows (in thousands):

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Foreign currency translation adjustments	$ (4,163)	$ 2,868	$ (1,295)
Unrealized gain on derivative instruments:			
Unrealized gain arising during period	2,863	(466)	2,397
Reclassification adjustment for losses realized in net loss	236	(9)	227
Net unrealized gain on derivative instruments	3,099	(475)	2,624
Other comprehensive (loss) income	$ (1,064)	$ 2,393	$ 1,329

The tax effects allocated to each component of other comprehensive loss for the nine months ended September 30, 2018 were as follows (in thousands):

	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Foreign currency translation adjustments	$ (36,541)	$ —	$ (36,541)
Unrealized gain on derivative instruments:			
Unrealized gain arising during period	2,178	(466)	1,712
Reclassification adjustment of realized gains to net loss	(362)	(9)	(371)
Net unrealized gain on derivative instruments	1,816	(475)	1,341
Other comprehensive loss	$ (34,725)	$ (475)	$ (35,200)

Table of Contents

The tax effects allocated to each component of other comprehensive income for the three months ended September 30, 2017 were as follows (in thousands):

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Foreign currency translation adjustments	$ 10,499	$ (5,873)	$ 4,626
Unrealized gain on derivative instruments:			
Unrealized gain arising during period	34	(14)	20
Reclassification adjustment for gains realized in net loss	(221)	86	(135)
Net unrealized loss on derivative instruments	(187)	72	(115)
Other comprehensive income	$ 10,312	$ (5,801)	$ 4,511

The tax effects allocated to each component of other comprehensive income for the nine months ended September 30, 2017 were as follows (in thousands):

	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Foreign currency translation adjustments	$ 22,831	$ (5,873)	$ 16,958
Unrealized gain on derivative instruments:			
Unrealized gain arising during the period	67	(21)	46
Reclassification adjustment of realized gains to net loss	(478)	184	(294)
Net unrealized loss on derivative instruments	(411)	163	(248)
Other comprehensive income	$ 22,420	$ (5,710)	$ 16,710

Other (Expense) Income, Net

Other (expense) income, net consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net realized foreign currency gain (loss)	$ 1,978	$ (5,147)	$ 2,146	$ (9,298)
Net unrealized foreign currency (loss) gain	(4,706)	(381)	14,927	(6,264)
Other, net	(1,618)	(425)	(1,972)	(602)
Total other (expense) income, net	$ (4,346)	$ (5,953)	$ 15,101	$ (16,164)

3. Business Combinations

inVentiv Health Merger

On August 1, 2017 (the “Merger Date”), the Company completed the Merger with inVentiv with the Company surviving as the accounting and legal entity acquirer. The Merger was accounted for as a business combination using the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. The purchase price has been allocated to the tangible assets and identifiable intangible assets acquired and liabilities assumed based upon their fair values. The excess of the purchase price over the tangible and intangible assets acquired and liabilities assumed has been recorded as goodwill. The goodwill in connection with the Merger is primarily attributable to the assembled workforce of inVentiv and the expected synergies of the Merger.

In connection with the Merger, the Company assumed certain contingent tax-sharing obligations of inVentiv. The fair value of the contingent tax-sharing liability is remeasured at the end of each reporting period, with changes in the estimated fair value reflected in earnings until the liability is fully settled. The estimated fair value of the contingent tax-sharing obligation liability was $54.1 million and $50.5 million as

Table of Contents

of September 30, 2018 and December 31, 2017, respectively. The liability is included in the “Accrued liabilities” and “Other long-term liabilities” line items of the accompanying unaudited condensed consolidated balance sheets.
The results of inVentiv’s operations have been included in the Company’s statements of operations since the Merger Date. Computing separate measures of inVentiv’s stand-alone revenue and profitability for the period after the Merger Date is impracticable.

Allocation of Consideration Transferred

The fair value of the consideration transferred on the Merger Date was $4.51 billion. The following table summarizes the allocation of the consideration transferred based on management’s estimates of Merger Date fair values of assets acquired and liabilities assumed, with the excess of the purchase price over the estimated fair values of the identifiable net assets acquired recorded as goodwill (in thousands):

Assets acquired:	
Cash and cash equivalents	$57,338
Restricted cash	433
Accounts receivable	367,595
Unbilled accounts receivable	262,944
Other current assets	97,922
Property and equipment	114,041
Intangible assets	1,334,200
Other assets	50,052
Total assets acquired	2,284,525
Liabilities assumed:	
Accounts payable	38,072
Accrued liabilities	304,341
Contract liabilities	247,474
Capital leases	40,928
Long-term debt, current and non-current	737,872
Deferred income taxes, net	14,751
Other liabilities	119,480
Total liabilities assumed	1,502,918
Total identifiable assets acquired, net	781,607
Goodwill	$3,724,016

The goodwill recognized in connection with the Merger was $3.72 billion, with $2.23 billion of the goodwill assigned to the Clinical Solutions segment and $1.49 billion assigned to the Commercial Solutions segment. Goodwill generated in the Merger is not deductible for income tax purposes. During the nine months ended September 30, 2018, the Company made adjustments to the preliminary fair value of acquired assets and assumed liabilities to reflect additional information obtained in connection with the Merger. The net effect of these adjustments resulted in a $9.5 million decrease in goodwill.

Table of Contents

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information was derived from the historical financial statements of the Company and inVentiv and presents the combined results of operations as if the Merger had occurred on January 1, 2016. The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results that would have actually occurred had the Merger been completed on January 1, 2016. In addition, the unaudited pro forma financial information does not give effect to any anticipated cost savings, operating efficiencies or other synergies that may result from the Merger, or any estimated costs that have been or will be incurred by the Company to integrate the assets and operations of inVentiv. Consequently, actual future results of the Company will differ from the unaudited pro forma financial information presented.

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	(In thousands, except per share data)	
Pro forma total revenue	$1,025,942	$3,145,253
Pro forma net loss	(85,223)	(77,925)
Pro forma loss per share:		
Basic	$(0.82)	$(0.75)
Diluted	$(0.82)	$(0.75)

The unaudited pro forma adjustments primarily relate to the depreciation of acquired property and equipment, amortization of acquired intangible assets and interest expense and amortization of deferred financing costs related to the new financing arrangements. In addition, the unaudited pro forma net loss for the three and nine months ended September 30, 2017 was adjusted to exclude $68.2 million and $90.9 million, respectively, net of tax effects, of nonrecurring merger-related transaction costs.

Kinapse Limited Acquisition

In August 2018, the Company completed its acquisition of Kinapse Topco Limited (“Kinapse”), a provider of advisory and operational solutions to the global life sciences industry. The total purchase consideration was $100.1 million plus assumed debt and includes cash acquired of $4.9 million. The Company recognized $83.4 million of goodwill and $57.3 million of intangible assets, principally customer relationships, as a result of the acquisition. The goodwill is not deductible for income tax purposes. The Company’s assessment of fair value and the purchase price allocation related to this acquisition is preliminary and further adjustments may be necessary as additional information related to the fair values of assets acquired and liabilities assumed is assessed during the measurement period (up to one year from the acquisition date).

The operating results from the Kinapse acquisition have been included in the Company’s Commercial Solutions segment from the date of acquisition. The unaudited pro forma financial information was not updated to include this acquisition as the impact would have been insignificant.

Table of Contents

4. Long-Term Debt Obligations

The Company’s debt obligations consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Secured Debt		
Term Loan A due August 2022	$ 981,250	$ 1,000,000
Term Loan B due August 2024	1,251,000	1,550,000
Revolving credit facility due August 2022	—	—
Accounts receivable financing agreement due June 2020	183,600	—
Total secured debt	2,415,850	2,550,000
Unsecured Debt		
7.5% Senior Unsecured Notes due 2024	403,000	403,000
Total debt obligations	2,818,850	2,953,000
Add: unamortized Senior Notes premium, net of original issue debt discount	33,360	38,656
Less: unamortized deferred issuance costs	(14,529)	(20,722)
Less: current portion of debt	(62,050)	(25,000)
Total debt obligations, non-current portion	$ 2,775,631	$ 2,945,934

During the nine months ended September 30, 2018, the Company voluntarily prepaid $299.0 million towards reducing its outstanding Term Loan B balance, which was applied against the regularly-scheduled quarterly principal payments. As a result, the Company is not required to make a mandatory payment against the Term Loan B principal balance until maturity in August 2024. Additionally, during the nine months ended September 30, 2018, the Company made mandatory principal repayments of $18.8 million towards its Term Loan A and settled $36.6 million of debt upon the closing of an acquisition.

Repricing Amendment to Credit Agreement

On May 4, 2018, the Company entered into Amendment No. 1 (the “Repricing Amendment”) to the Credit Agreement dated August 1, 2017 (the “2017 Credit Agreement”), which, among other things, modified the terms of the 2017 Credit Agreement to: (i) reduce by 0.25% overall the applicable margins for alternate base rate (“Base Rate”) loans and Adjusted Eurocurrency Rate (“Eurocurrency Rate”) loans with respect to both Term Loan A and Term Loan B; and (ii) reset the period in which a prepayment premium with respect to Term Loan B is required for a “Repricing Transaction” (as defined in the Credit Agreement) to six months after the closing date of the Repricing Amendment.

The applicable margins with respect to Base Rate and Eurocurrency Rate borrowings are determined depending on the “First Lien Leverage Ratio” or the "Secured Net Leverage Ratio" (as defined in the Repricing Amendment) and range as follows:

	Base Rate	Eurocurrency Rate
Term Loan A	0.25% - 0.50%	1.25% - 1.50%
Term Loan B	0.75% - 1.00%	1.75% - 2.00%

Accounts Receivable Financing Agreement

On June 29, 2018 the Company entered into an accounts receivable financing agreement (as amended) with a termination date of June 29, 2020, unless terminated earlier pursuant to its terms. Under this agreement, certain of the Company’s consolidated subsidiaries will sell accounts receivable and unbilled services (including contract assets) balances to a wholly-owned, bankruptcy-remote special purpose entity (“SPE”). The SPE can borrow up to $250.0 million from a third-party lender, secured by liens on certain receivables and other assets of the SPE. The Company has guaranteed the performance of the obligations of existing and future subsidiaries that sell and service the accounts receivable under this

15

Table of Contents

agreement. The available borrowing capacity varies monthly according to the levels of the Company's eligible accounts receivable and unbilled receivables. Loans under this agreement will accrue interest at a reserve-adjusted LIBOR rate or a base rate equal to the highest of (i) the applicable lender's prime rate, and (ii) the federal funds rate plus 0.50%. The Company may prepay loans upon one business day prior notice and may terminate or reduce the facility limit of the accounts receivable financing agreement with 15 days' prior notice.

As of September 30, 2018, the Company had $183.6 million of outstanding borrowings under the accounts receivable financing agreement, which is recorded in the "Current portion of long term debt" and "Long term debt, noncurrent" line items on the accompanying unaudited condensed consolidated balance sheet. The remaining maximum capacity available for borrowing under this agreement was $66.4 million as of September 30, 2018.

5. Derivative Financial Instruments

In May 2016, the Company entered into interest rate swaps with a combined notional value of $300.0 million in an effort to limit its exposure to variable interest rates on its Term Loans. Interest began accruing on the swaps on June 30, 2016 and a portion of the interest rate swaps expired on June 30, 2018, with the remainder expiring on May 14, 2020. As of September 30, 2018, the remaining notional value of these interest rate swaps was $100.0 million.

In June 2018, the Company entered into two new interest rate swaps with multiple counterparties in an effort to limit its exposure to variable interest rates on its Term Loans. The first interest rate swap has an aggregate notional value of $1.22 billion, began accruing interest on June 29, 2018, and will expire on December 31, 2018. As of September 30, 2018, the remaining notional value of this interest rate swap was $1.07 billion. The second interest rate swap has an aggregate notional value of $1.01 billion, an effective date of December 31, 2018, and will expire on June 30, 2021. The material terms of these derivatives are substantially the same as those contained within the 2017 Credit Agreement, including monthly settlements with the swap counterparty. Interest rate swaps are designated as hedging instruments. The amounts of hedge ineffectiveness recorded in net loss during the three and nine months ended September 30, 2018 and September 30, 2017 were insignificant and were attributable to inconsistencies in certain terms between the interest rate swaps and the 2017 Credit Agreement.

The Company became a party to certain foreign currency exchange rate forward contracts as a result of an acquisition that have expiration dates through April 2019. During the three and nine months ended September 30, 2018, the amount of loss recognized in other income (expense), net with respect to these contracts was inconsequential.

The fair values of the Company's derivative financial instruments and the line items on the accompanying unaudited condensed consolidated balance sheets to which they were recorded are as follows (in thousands):

	Balance Sheet Classification	September 30, 2018	December 31, 2017
Foreign currency exchange rate swaps - current	Prepaid expenses and other current assets	$ 138	$ —
Interest rate swaps - current	Prepaid expenses and other current assets	$ 1,640	$ 916
Interest rate swaps - non-current	Other long-term assets	$ 3,365	$ 1,263
Interest rate swaps - current	Accrued liabilities	$ (1,028)	$ —

Table of Contents

6. Fair Value Measurements

Assets and Liabilities Carried at Fair Value

As of September 30, 2018 and December 31, 2017, the Company’s financial assets and liabilities carried at fair value included cash and cash equivalents, restricted cash, trading securities, billed and unbilled accounts receivable, contract assets, accounts payable, accrued liabilities, contract liabilities, assumed contingent obligations, capital leases, liabilities under the accounts receivable financing agreement, and derivative instruments.

The fair value of cash and cash equivalents, restricted cash, billed and unbilled accounts receivable, contract assets, accounts payable, accrued liabilities, contract liabilities, and the liabilities under the accounts receivable financing agreement approximates their respective carrying amounts because of the liquidity and short-term nature of these financial instruments.

Financial Instruments Subject to Recurring Fair Value Measurements

As of September 30, 2018, the fair values of the major classes of the Company’s assets and liabilities measured at fair value on a recurring basis were as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities	$17,113	$—	$—	$17,113
Derivative instruments	—	5,143	—	5,143
Total assets	$17,113	$5,143	$—	$22,256
Liabilities:				
Derivative instruments	$—	$1,028	$—	$1,028
Contingent obligations related to business combinations	—	—	58,530	58,530
Total liabilities	$—	$1,028	$58,530	$59,558

Table of Contents

As of December 31, 2017, the fair values of the major classes of the Company's assets and liabilities measured at fair value on a recurring basis were as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Trading securities	$16,318	$—	$—	$16,318
Derivative instruments	—	2,179	—	2,179
Total assets	$16,318	$2,179	$—	$18,497
Liabilities:				
Contingent obligations related to business combinations	$—	$—	$50,480	$50,480
Total liabilities	$—	$—	$50,480	$50,480

The following table presents changes in the carrying amount of obligations classified as Level 3 category within the fair value hierarchy for the nine months ended September 30, 2018 (in thousands):

Balance at December 31, 2017	$50,480