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IQVIA Holdings Inc. (IQV) CEO Ari Bousbib on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.6 beats by $0.03 | Revenue of $2.77B (6.75% Y/Y) beats by $6.74M

Earning Call Audio

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IQVIA Holdings Inc. (NYSE:IQV) Q3 2019 Earnings Conference Call October 30, 2019 9:00 AM ET

Company Participants

Andrew Markwick - Senior Vice President, Investor Relations & Treasury

Ari Bousbib - Chairman & Chief Executive Officer

Michael McDonnell - Executive Vice President & Chief Financial Officer

Conference Call Participants

Eric Coldwell - Baird

Erin Wright - Crédit Suisse

Dan Brennan - UBS

Ricky Goldwasser - Morgan Stanley

Tycho Peterson - JPMorgan

Jack Meehan - Barclays

Shlomo Rosenbaum - Stifel

David Windley - Jefferies

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the IQVIA Third Quarter 2019 Earnings Conference Call. During the presentation, all participants will be in a listen-only mode. As a reminder this conference is being recorded, Wednesday, October 30th, 2019.

I would now like to turn the conference over to Andrew Markwick, Senior Vice President, Investor Relations and Treasury. Please go ahead.

Andrew Markwick

Thank you. Good morning everyone. Thank you for joining our third quarter 2019 earnings call. With me today are Ari Bousbib, Chairman and Chief Executive Officer; Michael McDonnell, Executive Vice President and Chief Financial Officer; Eric Sherbet, Executive Vice President and General Counsel; Nick Charles, Senior Vice President, Financial Planning and Analysis; and Jen Halchak, Senior Director, Investor Relations.

Today, we will be referencing a presentation that will be visible during this call for those of you on our website. This presentation will also be available following this call on the Events and Presentations section of our IQVIA Investor Relations website at ir.iqvia.com.

Before we begin, I would like to caution listeners that certain information discussed by management during this conference call will include forward-looking statements. Actual results could differ materially from those stated or implied by forward-looking statements due to risks and uncertainties associated with the company's business which are discussed in the company's filings with the Securities and Exchange Commission, including our annual report on Form 10-K and subsequent SEC filings.

In addition, we will discuss certain non-GAAP financial measures on this call which should be considered a supplement to, and not a substitute for, financial measures prepared in accordance with GAAP. A reconciliation of these non-GAAP measures to the comparable GAAP measures is included in the press release and conference call presentation.

I would now like to turn the call over to our Chairman and CEO, Ari Bousbib.

Ari Bousbib

Thank you, Andrew and good morning everyone. Thanks for joining our first [ph] quarter 2019 earnings call. I'm pleased to report that the first [ph] quarter is a continuation of the solid momentum we've had since the beginning of the year. Once again revenue, adjusted EBITDA, and earnings all came in at the high end or above our guidance ranges even after the currency impact.

Third quarter revenue of $2.769 billion came in $14 million above the midpoint of our guidance range and $34 million above the midpoint of our guidance range when you adjust for the foreign currency impact.

Revenue growth was 7.9% on a constant currency basis. Actually, when you adjust for acquisitions and pass-throughs for the total company, organic constant currency revenue growth is already in the 7% range.

From a second segment perspective, Technology Analytics Solutions revenue grew 10% at constant currency. During the quarter, we marked the anniversary of several tech businesses we had acquired in 2018 and therefore, the contribution to growth from M&A was about 200 basis points which is half of what it was last quarters.

The acceleration of the TAS organic constant currency revenue growth which came in at almost 8% this quarter was driven by the timing of our real-world client engagement deliverables as well as accelerated technology deployments.

R&D solutions revenue grew 6.8% at constant currency. This growth rate included an impact from pass-throughs of approximately 200 basis points which was roughly offset by the contribution from M&A.

Contract sales and medical solutions continues to demonstrate that it has turned a corner growing about 5% on a constant currency basis. This is a result of our strategy to integrate the business with our commercial operations. We expect the CSMS business to deliver the flat year-over-year growth we projected for the year and to sustain modest growth in 2020 maybe in the low single-digits.

Third quarter adjusted EBITDA of $593 million was towards the high end of our guidance range. As I mentioned, our technology deployments are driving our topline acceleration, but we also incur upfront costs with these deployments which are included in our margins. So, in this context, our adjusted EBITDA performance in the quarter was quite strong.

Adjusted EPS of $1.60 was above the high end of our guidance range and grew 12.7%. The $0.04 beat versus the midpoint of our guidance was driven by $0.02 of strong organic operational performance and $0.02 of below the line efficiency.

Let me give you some color on the businesses and our progress. In technology, I am pleased to report that we now have over 70 OCE wins since launch. In the third quarter alone, we signed 20 new OCE deals including a win with the top 15 pharma clients to deploy OCE sales and marketing in the U.S. and another win with a top 15 pharma client to deploy OCE in Asia. Both of these deals with large pharmas have the potential for geographic as well as therapeutic area expansion. Of the 20 new wins in the quarter, 15 were head-to-head competitions against the leading dominant incumbent in the CRM space, and the two top 15 pharma wins were outright displacements.

Turning to real world. We've spoken to you before about our success in supporting single-arm studies using real-world evidence. Our clients are increasingly looking to us for innovation in this space. In fact in just the last 12 months, the number of projects we are working on that use an external comparator arm has quadrupled.

For example, we had a recent win with a top 10 pharma client in Europe to conduct a hematology/oncology external comparator project. Critical to the success of the project was a QGS proprietary oncology network infrastructure, which was utilized to access a very difficult to find comparator patient population.

Our global infrastructure allows us to provide our clients a faster and more predictable path to deep clinical insights on niche patient populations and enables this kind of novel research. During the quarter, the real-world team was also awarded a preferred provider partnership with a top 10 pharma company for our ECOA or electronic clinical outcome assessment technology platform.

Our newly launched cloud-based technology platform uses a simple interface to collect direct from patients critical data. This allows sponsors to better understand and improve the patient experience, resulting in reduced timelines, improved transparency and real-time insights about patients.

Moving to R&D. The team continued their strong momentum with another quarter of excellent bookings. For the quarter, on a contracted basis and excluding pass-throughs, our book-to-bill was 1.31 and including pass-throughs the R&D as book-to-bill was 1.24. We are reporting this metric for transparency. But as we've said many times before we think it is much less meaningful than services bookings as the estimates and timing of pass-throughs can vary greatly quarter-to-quarter.

For the last 12 months ended September 30, the contracted book-to-bill ratio was 1.40, excluding reimbursed expenses and 1.36 including reimbursed expenses. RMBS backlog of $18.3 billion grew over 11% compared to the third quarter of 2018. And importantly, our next 12 months revenue from backlog increased by a further $200 million to $5.1 billion, growing 10.6% year-over-year or 13.3% if you exclude pass-throughs.

This important forward indicator metric supports our expectations of continued RMBS revenue growth acceleration into 2020. Demand for our core power capabilities continues to be strong. We now have 13 large pharma clients using our differentiated solution.

Further, during the quarter we were very excited to secure a new preferred provider agreement with a top 10 pharma client. This was previously a locked out account, and our achievement resulted in the displacement of two competitors, let's call them particularly prominent competitors.

The environment for R&D and outsourcing remains very healthy. Our pipeline of RMBS opportunities whether you look at dollars, for a number of RFPs continues to be at the same strong pace as 2018, and that was a record year for us. Our pipeline is growing high teens year-to-date compared with last year.

The EVP segment which I know is often a subject of questions remains very healthy. As you know, 2018 was a blockbuster year in terms of funding, but year-to-date 2019 funding is tracking similar to 2017, which was also a very strong year. The pipeline of late-stage molecules continues to expand growing 8% since the end of last year and interestingly 11% in oncology. Once again, another strong quarter across all of our businesses.

And I'm going to now turn it to Mike, who will review the financials in more detail.

Michael McDonnell

Thank you Ari and good morning everyone. As you've seen, we've had a more solid quarter. Let's turn first to revenue. Third quarter revenue of $2.769 billion grew 6.7% reported and 7.9% at constant currency. Revenue for the first nine months of the year was $8.193 billion and grew 6.1% reported and 7.9% at constant currency.

Technology & Analytics Solutions revenue of $1.095 billion grew 8% reported and 10% at constant currency. Tech & Analytics Solutions year-to-date revenue of $3.272 billion grew 8.7% reported and 11.4% at constant currency. R&D Solutions third quarter revenue of $1.466 billion grew 6.1% at actual FX rates and 6.8% at constant currency. Year-to-date R&D Solutions revenue of $4.317 billion grew 5.4% at actual FX rates and 6.5% at constant currency.

Third quarter Contract Sales & Medical Solutions revenue of $208 million grew 5.1% on both a reported and constant currency basis. Contract Sales & Medical Solutions year-to-date revenue of $604 million declined 2.1% at actual FX rates and 0.5% at constant currency.

Let's turn now to profit. Adjusted EBITDA was $593 million for the third quarter and $1.758 billion for the first nine months of 2019. Third quarter GAAP net income was $57 million and GAAP diluted earnings per share was $0.29. Year-to-date, GAAP net income was

$175 million and GAAP diluted earnings per share was $0.87.

Adjusted net income was $318 million for the third quarter and $933 million year-to-date. Third quarter adjusted diluted earnings per share grew 12.7% year-over-year to $1.60. Year-to-date adjusted diluted earnings per share of $4.65 grew 14.8%.

Let's now turn to R&D Solutions backlog. Closing backlog at September 30, 2019 was $18.3 billion and the amount of backlog that we expect to convert to revenue over the next 12 months grew by about $200 million to $5.1 billion. As Ari mentioned, we are well positioned for further acceleration in RMBS revenue growth in 2020.

Let's now review the balance sheet. At September 30, cash and cash equivalents totaled $863 million and debt was $11.542 billion which resulted in net debt of $10.679 billion. Our net leverage ratio was 4.6 times our trailing 12-month adjusted EBITDA.

Cash flow from operating activities was $330 million in the third quarter, CapEx was $149 million and free cash flow was $181 million. We repurchased $313 million of our stock during the third quarter, including $157 million from certain of our remaining private equity sponsors. Our private equity ownership now represents approximately 5% of our shares outstanding.

Before we turn to guidance, a few words on FX. As Ari mentioned earlier, the Q3 revenue number we just reported includes an impact from FX of about $20 million versus the last time we reported. Our full year revenue guidance previously included a 110 basis point impact from FX. This has now increased to 160 basis points.

As a result of our strong year-to-date organic performance, we are reaffirming our constant currency full year revenue growth guidance at the midpoint and tightening our range. As you know, we raised our full year guidance last quarter, largely to reflect our stronger organic performance. There is no change here and we still see good momentum on the top line.

On a constant currency basis, we now expect revenue to grow 7.3% to 7.7%. On a reported basis, revenue growth is expected to be 5.6% to 6.1%, which reflects the additional 50 basis point impact from FX that I just discussed. Therefore, our full year revenue guidance is now expected to be between $11 billion and $11.050 billion.

Adjusted EBITDA guidance has been narrowed and reaffirmed at the midpoint. We now expect full year adjusted EBITDA to be between $2.393 billion and $2.407 billion, representing year-over-year growth of 7.6% to 8.2%.

Adjusted diluted EPS guidance has also been narrowed and reaffirmed at the midpoint. We now expect full year adjusted diluted EPS to be between $6.30 and $6.40, which represents year-over-year growth of 13.5% to 15.3%.

As expected, our adjusted book tax rate was more favorable than normal in the third quarter, but we do expect this to revert back in the fourth quarter and we are still estimating about 22% for the year. This guidance assumes that foreign currency rates at September 30 remain in effect for the rest of the year.

Now turning to our resulting fourth quarter 2019 guidance. For the fourth quarter, revenue is expected to be between $2,807 million and $2,857 million, representing growth of 4.4% to 6.3% at actual FX rates, assuming a 100 basis point impact from foreign currency year-over-year.

From a segment perspective, we expect fourth quarter growth in Technology and Analytics Solutions to moderate sequentially, reflecting the strong Q3 organic performance, a lower contribution from M&A, as well as a tougher expected comp year-over-year.

In R&DS, we expect year-over-year services growth to be somewhat stronger than what you have seen in prior quarters. And in CSMS, we expect the trend to remain positive and consistent with our expectation for flattish revenue growth for the year. For profit, we expect adjusted EBITDA to be between $635 million and $649 million, representing year-over-year growth of 8.9% to 11.3%. Adjusted diluted EPS is expected to be between $1.65 and $1.75, which represents year-over-year growth of 10% to 16.7%.

So in summary, we delivered third quarter results at the high end or above our guidance ranges. Revenue came in at the high end of our guidance range notwithstanding an approximate $20 million impact from foreign currency. Technology and Analytics Solutions and R&D Solutions sustained their strong momentum. OCE now has almost 70 wins since launch, including two important wins with top 15 pharma clients in the quarter. The R&D team secured another strong quarter of net new business with backlog and next 12 months revenue from backlog, both growing double digits year-over-year. And lastly, CSMS continues to improve.

With that, let me hand it back to the operator for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question is from the line of Eric Coldwell with Baird. Please proceed with your question.

Eric Coldwell

Thanks, very much. Good morning. First off, just two questions. The new large pharma win, I know it was a TAS client. Was it also a commercial client prior to the R&D win? Was any of your existing sales to that pharma kind of a driver of this new opportunity, number one? Number two; could you give us a sense on maybe a framework of how to think about sizing it either in terms of bookings contribution this quarter or over the next year or maybe long-term revenue growth? And then I have maybe a quick follow-up. Thanks.

Ari Bousbib

Yes. Thanks Eric. Look, we're very excited. It took some time. As we've said many many times, unlocking previously locked out accounts, as they were known in the industry was a major goal for us. We've done a few by now. This one was a very important win that we had been working on literally for the past couple of years. We did win a couple of small studies, where they wanted to test out our new capabilities and see whether there was really real value there and that prompted them. So again, the main trigger and driver for the displacement here was our new set of smarter trial capabilities. And they decided to essentially replace their existing providers with us.

I can't say much more. Bookings in the quarter, I can't -- I think we can get to that follow-up. But I don't think it was very significant. The preferred provider arrangement was executed in the quarter. That's why we are reporting it. But there was nothing much there. The pipeline for that particular client is very strong. And we do expect that this is going to result in significant bookings going forward.

Eric Coldwell

And just quickly, my follow-up here. The -- that client, I know you displaced two. I believe you also had another public CRO that was -- that participated in that win. So there are two of you in that new arrangement. Is that correct?

Ari Bousbib

Yes.

Eric Coldwell

Thanks, guys.

Ari Bousbib

Thank you.

Operator

Thank you. Our next question is from the line of Erin Wright with Crédit Suisse. Please proceed with your question.

Erin Wright

In terms of the new business wins in the quarter I mean it sounds like you're still seeing the traction across large pharma. But can you speak to some of the traction across the smaller emerging biopharma segment? That was an area of focus during the Investor Day. And how should we be thinking about just the traction overall across that cohort? Thanks.

Ari Bousbib

Yes. I mean look Erin, you're specifically asking about core power and smarter trials correct?

Erin Wright

Yes. And traction across the emerging biopharma segment the smaller biotech.

Ari Bousbib

Yes. So look we – obviously, we want to be balanced and we are balanced. The early days of the new solutions are -- probably more than 2/3 of our awards were with EBP clients. And I've said before it was a lot easier because single decision-making points, factor decision cycle in general less silos to go through. But along the way large pharma has been adopting the solution. And to date I think we have almost $6 billion of awards...?

Michael McDonnell

5 20.

Ari Bousbib

5 20 exactly that's right. On smart trials and on the dollar value almost 2/3 of that is with large pharma but it's quite significant. But in the quarter it continued that kind of a breakdown. We gave about 2/3 almost 2/3 of pharma and the balance EVP. And as I mentioned in my structural remarks, a very strong, continued strong EVP funding environment year-to-date at the level of 2017.

Erin Wright

Okay, great. And then on OCE you've made considerable headway there with 20 new deals you mentioned. I guess can you quantify how much that's lifting the Tech segment or the TAS segment? And can you speak to what's driving some of those business wins? And do you expect that momentum to continue here? Thanks.

Ari Bousbib

Yes. So as you know, we've been in the market with OCE for -- I think we announced the launch at the end of 2017 and we really took it to market at the beginning of 2018 so it's not even two years. It's one year and three quarters and we've had over 70 wins to date. It's a market that is occupied largely by one company.

And we believe and the feedback from our customers is that our products and solutions are superior in terms of functionality, cost to deploy and efficiency and a number of other aspects. So we again won over 17 new customers for this new product.

The sales cycle is fairly long. That's why people like technology. It's once you're in you're in for a long time. So it's hard to displace existing solutions. These are enterprise-wide solutions often and they -- switching costs are very high. But we're very pleased to have won so many new engagements.

It takes time to deploy. If it's a global deployment, it could take one year or more or potentially two years if it's in a lot of countries. And the deployment phase does not contribute much. It's not so profitable, it's more labor-intensive in the initial phases. And of course the upside is when the solution is being used by the client and they pay size licenses which are -- which is really when we recoup our investments and contribute significantly to both revenue and profits.

So I think in the quarter there wasn't much from the wins. No of course not. And there will be some contribution from implementation over the next 12 months but -- from these new wins but really not much to profits.

Erin Wright

Okay, thank you.

Operator

Thank you. Our next question comes from the line of Dan Brennan with UBS. Please proceed with your question.

Dan Brennan

Great. Thanks. All right. Michael I was just hoping just on R&D solutions. Could you just walk through -- I know you had the pass-through kind of headwind this quarter. But in terms of getting to the organic growth -- I know you discussed M&A as well. Could you just give us kind of what was your organic growth this quarter? And when we think about what's expected kind of going forward I know the expectation is that continues to accelerate as the burn rate. You basically burned that very large backlog. So can you just walk us through a little bit about organic growth in the quarter and kind of what the outlook is?

Michael McDonnell

Sure. So I say for the total company we are -- we were in the quarter at -- or once you when you peel out the acquisition's contribution and the pass-throughs for the quarter total company grew at 7%. For the Technology Analytics Solutions, we were at almost 8%. And for the R&D Solutions was 6.8%.

Ari Bousbib

Yes. M&A and pass-through were roughly offset.

Michael McDonnell

Right, offset each other.

Dan Brennan

Got it. And then maybe could you just speak a little bit more to the large backlog and in terms of the burn rate and kind of how we think about that kind of going forward? I know the expectation was as you move through some of the older quintiles backlog and into the Next Gen backlog that you would begin to see that really convert. So I know, we're just guiding for Q4 right now. But just kind of walk us through a little bit about how to think about that large backlog burning going forward.

Ari Bousbib

You want to – yeah.

Michael McDonnell

Yes. So Dan, it's Mike. I'd say that you've seen -- if you calculate backlog burn just based on revenue over starting quarter backlog obviously, we've been adding backlog at a very advanced rate and so that percentage naturally decreases. And we're not -- it's not one that we're overly focused on. I think that the takeaway here as we mentioned in our prepared remarks is that we feel like we're very well-positioned. The bookings continue to be strong. We had a very good complement of core clinical bookings during the quarter in particular. And we do see the growth accelerating in R&DS as we head into 2020 as we said in our prepared remarks.

Dan Brennan

Great. Okay. I’ll leave it there. Thank you.

Operator

Thank you. Our next question is from the line of Ricky Goldwasser with Morgan Stanley. Please proceed with your question.

Ricky Goldwasser

Yeah, hi. Good morning. So when we think about the fourth quarter guide and the conversion from revenue to EBITDA in terms of growth EBITDA growth is around 2 times to 1.8 times both sides of the range in terms of growth in more significant conversion that you guided to on your Analyst Day. So if we think about kind of like the mix of business for the fourth quarter how should we think about it in terms of where we are in the trial conversion and in any other things that are impacting fourth quarter guide? And then how should we think about this within the context of the mid-term guide? Should we think about this is a sign that there is upside opportunity to that EBITDA growth guidance that you've provided back in Investor Day?

Andrew Markwick

Hey, Ricky, it's Andrew. Sorry, can I clarify your question? You're asking about EBITDA ramp going into the fourth quarter and mid-term outlook for the quarter?

Ricky Goldwasser

Yes. So EBITDA growth rate for the fourth quarter. Do we think kind of like nice acceleration versus kind of like the revenue growth? So how should we think about it within the context of the midterm guide that you provided on the Analyst Day?

Andrew Markwick

Yes. Looking at the fourth quarter in particular, I think, if you look back to last year we see a sequential ramp Q3 to Q4 for EBITDA. I think we had about 10% growth for EBITDA in the fourth quarter last year. And I'll guide this year and probably something very similar. The fourth quarter ramp is standard for our business. I mean, as a reminder we usually see our Technology and Analytics Solutions business ramp in the fourth quarter. That revenue is higher margin revenue and drives on a more sequential margin improvement during the year.

And for the last few years, I think, Q4 EBITDA has come in around that same kind of proportion of full year EBITDA. I think as you think about the medium-term and EBITDA for us we've said that we're kind of delivering top-line acceleration. And we've always said that we don't want to give up on a point of revenue growth for margin expansion and that can deliver a lot more value over time.

Now I think you're very familiar with our history and our commitment to margin expansion. And we've also said that we -- as well as delivering revenue acceleration we also want to deliver margin expansion as we go forward. Now it's not going to be to the same rate as you've seen in the past. But we're committed to that but we need to face the we're -- this acceleration is coming from technology deployments, which creates pressure to margins. We're investing -- we're still investing in data assets whether that be in the emerging markets or specialty areas.

We've got to bring employees in and new recruits to deliver on the clinical trial side as we've won. So we've got a large backlog to deliver on. And we've also got to bring people in to deliver on the deployments from Roche and Novo as well as the other two top 15 pharma clients that we secured this quarter. So there's a lot going on in the base. We're committed to expansion. I think, the Q4 ramp is normal on a sequential basis and we've kind of laid out what to expect for the next few years.

Ricky Goldwasser

Okay. And just one follow-up. When you think about -- you said that in the quarter M&A and pass-through offset each other. So how should we think about the M&A pipeline and acquisitions of interest and just capital deployment for remainder of this year and into next year?

Andrew Markwick

Yes I think we've always said that we look to deploy between $1 billion and $1.5 billion every year towards M&A and share repurchase. The size of share repurchase will obviously depend on M&A opportunities. But if you look at history on average we spend about $500 million a year on M&A. So that stepped down a little bit. I think so far this year we've deployed about $1 billion and the bulk of that has really gone toward share repurchase as we see the stock as a good investment.

Ricky Goldwasser

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Tycho Peterson with JPMorgan. Please proceed with your question.

Tycho Peterson

Thanks. First if you could talk about the impact to backlog and revenue going forward both for the Biogen Alzheimer's decision. Did you add back the $390 million that you had previously pulled out? And then also on the new preferred provider wins what does that do to the revenue ramp going forward?

Ari Bousbib

The good news with us is that no one client has an impact one way or the other. We have I want to remind you over 8,000 clients globally. And this is precisely the reason why when that particular client – we have a great relationship with Biogen obviously and we are committed to our strong partnership, because they advance the science. But when they decided to put that trial on hold and we took that out – made that adjustment out of our backlog we didn't change our revenue expectation. You will recall that. So just as – on the downside, it didn't affect us so too on the upside, there's not one client that is going to change our overall guidance for the year or in the years ahead. We did at our Investor Day indicate to all of you that our expectation for growth over the next three-year period 2020 to 2022 was higher growth rate as a company overall and for the R&D and the TAS segments in particular. And that includes – that included the expectation that we were going to win and we still expect to win more preferred provider.

My reporting to you that we did sign that this preferred provider agreement with this other company is simply to support those growth – expected growth expectations. Those accelerated growth expectations. With respect to Biogen again so far obviously there is just a decision to re-apply. The particular work associated with it hasn't been yet signed or totally formalized, and therefore it's not in the backlog. I remind you that we changed three years ago our practice and only we – on back of that for which we are contracted for. And so that's not yet there.

Tycho Peterson

And then on OCE, it's great to see the momentum. Can you just spend a minute on what in your offering is particularly resonating relative to the competition as we think about some of these head to heads? What is really the differentiating factor?

Ari Bousbib

Yeah. We've spoken about that -- this before. Andrew?

Andrew Markwick

Hi, Tycho. This is Andrew. I mean, OCE I think we've spent a long time in 2017 building it the new offering there. One of the key moves forward for us with the partnership with Salesforce we're obviously platforming OCE on a best-in-breed technology platform there and it helps with us in terms of the functionality. OCE for us also embeds multiple different functions so it's not just a CRM tool for sales reps. It also brings into the mix marketing campaign management, brings it into the next home office operation. So, I think when you look at the likes of the large pharma countries and many of the 70-plus wins we've had to date the clients like the fact that they can put this tool in the hands of more than one person within their organization. So both the sales rep and the marketing team have the same tool, they have the same version of the truth. The sales rep becomes aware that the marketing team is sending out email campaigns. They know what a doctor has done with that. They know, if the doctor has opened it, if they requested more information have they logged on to social media and commented about it. They just become a lot more informed.

The tool also then uses artificial intelligence and machine learning to help streamline the tasks. So, a sales rep will get suggestions for meeting invites. It will help place those calls in the sales rep's calendar. If a sales rep gets to the stage where they've got one last visit they can make in day it will use artificial intelligence to make next best doctor recommendations and look at rankings of doctors who their next best visit could be and where they can have the most success.

So really we're bringing a very intuitive tool to market that brings together multiple functions within an organization and utilizes AI and machine learning within the application as well. And I think platforming on Salesforce is key as they've got a great technology there. They can focus on the platforming capabilities and it gives us the ability to really focus on building best-in-breed end user applications.

Tycho Peterson

Okay. And if I could ask one last quick one? Are there any offsets on organic growth that you're factoring in you're leaving it unchanged despite the top line momentum? So as we think about the fourth quarter are there any kind of headwinds that left full year guidance unchanged on organic?

Ari Bousbib

Well, yeah, I think the – I mean Mike gave a commentary in his prepared remarks regarding the fourth quarter. I think TAS we obviously saw an acceleration this quarter. I think as you go into Q4 we see continued strength. There is – obviously a tough comp that's where we started to see the acceleration in Q4 2018. R&D continued to strengthen and on a services basis we expect an improvement. Don't forget we see lumpiness from pass-throughs. In this quarter, it was about 200 basis points headwind.

Michael McDonnell

And that's kind of flattish for the year as we've said.

Tycho Peterson

Okay. Thank you.

Operator

Thank you. Our next question is from the line of Jack Meehan with Barclays. Please proceed with your question.

Jack Meehan

Thank you. Good morning. I want to go back to the two new OCE wins you talked about. Could you maybe just walk through the framework for why they're starting in one geography in the U.S. and Asia and what the timeline would be to expand from there? What are they doing in other regions?

Ari Bousbib

Okay. Well I said before it's very hard to displace incumbents' technology providers by definition. We've said a long time ago that that was our goal. These are large companies, multiple therapeutic areas, other geographies. We're very pleased that for each one of them in a very large geography; U.S. and Asia respectively and for one of them even one particular therapy area we were able to do the displacement. Now it's natural that that's the way it works. We are working hard to expand our relationships with all our customers and we hope to expand from there.

Jack Meehan

Great. And maybe just on the investment side. If I look at the overall company level, gross margins were down year-over-year and I think down sequentially. So clearly there's a lot of investment going behind that. When do you think you hit the tipping point where the level of growth from these projects begins to accelerate to match the level of investments? So you had -- gross profit line that becomes more neutral?

Ari Bousbib

Yes. Look we are more impatient than you are about margins. Trust me we're working very hard on trying to even sustain those margins. I think it's a very, very good level of performance given the amount of the investment and work that's going on. The first point I'd like to highlight is margin expansion can be lumpy between quarters and even years, okay?

When we talk about margin expansion, we look at it in terms of trend line for multiple years. Now we've always said, we are not going to sacrifice top line growth or margins. You can do the math. One extra point of revenue growth is always -- delivers always more value to shareholders than one extra point of margin.

Having said that, you know our history and our stated mission and that is that we're not going to compromise on margins. We've committed to an expanding margin trend line even though as you just pointed out there are quarters where that might not be the case.

We explained during our recent investor conference and every time we interact with you guys that we have been investing for this growth acceleration and that can cause additional lumpiness in margin expansion. We get the large OCE deployments. We won Roche and Novo deployments globally. We are bringing a new suite of products to market the OCT, Orchestrated Clinical Trial, a suite of applications.

We've been investing since the merger three years ago on the smarter trial automation techniques and we continue to do that. Virtual trials we continue doing very expensive data scientists and software experts. They are expensive. We compete in the marketplace. This is a view unemployment economy. So all of that has -- if we did nothing else certainly our margins would contract. That's not the case on the trend line.

And of course there's also a mix impact. Our data business which is very high margin is essentially flat and the other businesses are growing. These are businesses that won't have as attractive margins. We've acquired some businesses. Most of the time these businesses are small, low profit or no profit margin contributors and that also adds to the problem in the mix.

And finally the good news is the CSMS business is improving, but it cost us lower margins. So it will affect our margins. So we are dealing with a growth horizon that's very attractive with topline acceleration.

In order to generate that we've got to invest, that's obviously headwinds to our margins. We're dealing with a change in the mix and that also is a headwind to our margins. So we expect to see margin expansion resume in the fourth quarter. That's what I expect.

Now that's in line with normal seasonality in the business and look we are the highest margin performer in certainly in the industry and certainly if you compare to our publicly traded peers on the clinical trial side on the CRO side by several points.

And so we continue to face pressure from competition. We're squeezing them. We've been gaining share over these competitors. There's one place they can go to and we're trying very hard to hold the line. So this is the context we're facing. Now in this context to come in with our profits above our midpoint guidance, I think is very good and we're very pleased with that.

I know you're impatient. You'd like to see further margin acceleration and we too and we expect that to happen over the mid-term as we signaled at our investor conference.

Jack Meehan

Appreciate it. Thanks, Ari.

Ari Bousbib

Thank you.

Operator

Thank you. Our next question comes from the line of Shlomo Rosenbaum with Stifel. Please proceed with your question.

Shlomo Rosenbaum

Hi, thank you very much. I just -- the book-to-bill metric is one that investors focus on a little bit. And if you just compare sequentially from Q2 to Q3, it looks like I think from the reported number 1.35 to 1.31. Can you just comment a little bit on, is this just the vagaries of the lumpiness of how contracts fall out? Or is this quarter have any particular -- anything different about it in terms of contract signings versus what we've seen from prior quarters. It looks like Q2 is a particularly strong contract signing quarter?

Ari Bousbib

There's nothing unique about quarters. This is exactly as you said some of this is lumpiness in quarters when the contracts get signed. I remind you that we are on a contracted basis. So the contract gets signed by the end of the quarter it's in the quarter. If it's not it's going to be next quarter. So I don't -- I wouldn't read too much. The environment remains very healthy.

Our pipeline of qualified leads is growing high-teens versus prior year. It's really very, very strong across the board, particularly strong bookings I might add to give you a bit more color on the full clinical side of the house. Really, really strong. I mean, I don't normally want to give those numbers.

But in the full clinical side, which is the more attractive segment of what we do it's actually over 1.5 in the quarter on a services basis, which is really what matters frankly. I don't know why people pay any attention, whatsoever, on book-to-bill ratios on a 606 basis. They are absolutely meaningless. The lumpiness and difficulty to approximate pass-through payments.

As you know when you look at our numbers on an LTM basis, we had that big adjustment in the first quarter, which we were just reminded of a moment ago by one of your colleagues. And that was disproportionately weighted towards pass-throughs. So really to

-- first of all we got to focus on LTM numbers. And I strongly encourage you to ask from our peers that they give you the number on a services revenue-only because these pass-throughs are extremely lumpy, they can vary a lot by mix of business and there is a high degree of estimation -- probability estimation judgment involved. And we want -- we tend to be extremely conservative.

So that's all I'll say on that. But again I won't derive any significant conclusions one quarter versus the other. This is a -- it's very strong. We're gaining share. We continue to have a very strong momentum on our bookings. The team is executing superbly and it frankly is exceeding our expectations.

Shlomo Rosenbaum

Okay, if you don't mind one follow-up. Just on the OCE. There's been a lot of wins. Number one, do you have the manpower to really deploy all these different wins in a timely basis? And then over how many years of the 20 that you won, I mean how many years does it take to deploy them before they're at a steady state where you can grow them from there?

Ari Bousbib

Okay, I'll take the last part of your question. Most of those wins, it's about -- they are with mid-sized or EBT segment and those will take no more than a year to deploy. The large pharma deals again if it's one country, one geography it's also about a year, at the most six months to a year.

When you've got large deployments like the Roche win, which is in over 100 countries then that could take a couple of years, year and half to a couple of years. And then that's when you start seeing the ramp and the revenue and profit contribution, which we are starting to see from the wins last year.

So that should come in. And at that time in the -- if you want to quantify it, I would say towards the middle to end part of 2020, we should start seeing significant contribution from all those wins accumulated to date.

And as to the manpower, you are absolutely correct. This is to someone else's question earlier, this is what's causing some pressure on our margin is we've got to hire the people. We've got to -- and they are expensive. They are a scarce commodity and strong economy. Thank God.

So we are facing the costly manpower deployments in the initial stages. But look we're here for the long-term. We will deliver much higher margin otherwise we compromise longer term growth prospects and we don't want to do that.

Michael McDonnell

I think we've got lots of question in the queue, but I think we're coming up on the hour. So let's try and squeeze in one more. And then I think that will be our last question for today.

Operator

Thank you. Our next question will come from the line of David Windley with Jefferies. Please proceed with your question.

David Windley

Thanks very much. Thanks for squeezing me in. So, with the -- I want to focus on TAS. With the growth in OCE in particular, you've talked in the past about kind of the three pieces of TAS being about one-third, one-third, one-third.

I wondered if you could update us on, the relative contributions of those. I figured that may have migrated a little bit. Second, if you could talk about -- Ari you mentioned, OCT clinical trials.

And its progress, maybe more specifically, where is it, in its go-to-market commercial availability? Have you won any clients there, yet? And then lastly, you talked about -- you have talked about in the past, kind of 500 trials on the smart trial platform and maybe 200 of those, having completed patient recruitment I believe, if you could update us on, any perspective around that. So, I sneaked in three. Hopefully, you'll take them. Thank you.

Ari Bousbib

That's a nice try. Three highly granular specific strong questions, I know we would spend an hour on these. Okay. Let's quickly take -- you want to talk about quickly the breakdown of TAS...?

Andrew Markwick

The TAS segment, yeah, I mean, I think, we told you before that segment is roughly about 4.5 billion. I think you're right David it kind of breaks out roughly into one-third, one-third, one-third of that segment is the legacy IMS data offering which is kind of script and wholesaler data which you pretty much sell to everyone.

But in order to grow in other areas, we maintain that business flat. So you should expect kind of flattish growth in that area. The two growth drivers in the segment are really real-world and technology. They're growing nice double digits.

Real-world obviously, a little bit of acceleration this quarter as well driving organic growth for the segment up to the 8%, mark and tech continues to be strong as well. And then you're left with kind of analytics and services based businesses which are kind of in that mid-single-digit range.

They could be a little bit lumpy, maybe high single, low single, but kind of mid-single growth on average I think, so that, gets you to that kind of the growth rate we're seeing now of the segment inching towards high single-digit organic growth.

And then the acceleration going forward will come from those, kind of, the areas that are higher quality, higher margin, for the future which is real-world and technology.

Ari Bousbib

Second question?

Andrew Markwick

What was your second question again Dave can you just remind me of that?

David Windley

OCT, OCT and where it is in its commercial traction?

Andrew Markwick

Yeah. The traction there, yeah, I think the branded offering we've said before, we're looking to deploy that in the end of 2020, and coming up to the end of this year. So the full suite isn't in market yet. We've had success with different parts we're offering.

So if you look at our regulatory compliance, tech platforms vigilance and so on they're around in the market. We've had good success there. Mobile CRA, we've actually got the bulk of our CRAs in the organization actually using mobile CRA. And we're trying to sell that to our clients as well.

eTMF which is one that's in the market as well and we've had some good success. I'd note that, the Roche deal that we announced previously was for the OCE contract. eTMF is one thing they bought, but they bought it on the commercial side.

We made a kind of a horizontal play there, and built that platform out for commercial content management capabilities, as well. So we've already got large Pharma kind of coming to the table and interested in these offerings.

I think, the 70-plus OCE deals, we've had so far this year, plus -- and the fact that we've had Roche and Novo sign up and two more top 15 large pharma clients this quarter goes to show further that we're building ourselves to become an increasingly larger technology-based company. And I think, that's where we want our growth to come from in the future.

Ari Bousbib

And the third -- the third question.

Andrew Markwick

And your third question Dave, I think was around...

David Windley

Was just kind of the 200 to 500 trials that have progressed on smart trial?

Ari Bousbib

Smart trials, yeah.

Andrew Markwick

Yeah. And we've seen a lot of success with the trials. And you're right we said at our Analyst Day that we had roughly 200 trials that were kind of deep into the mix where we were able to monitor and look at the success, we're having versus trials we've had in the past.

We said then that the speed and in terms of reduction -- in site, I think, comes versus historical benchmarks, we were thinking about a 40% improvement. And predictability, which would be the reduction in non-enrolling terms versus historical benchmarks was around 60%, and productivity improvements in terms of faster recruitment rates versus historical benchmarks was around 30% at actual...

Ari Bousbib

So David was asking how many more, I mean, we solely can give some stats on what we sold.

Andrew Markwick

In terms of what we've sold, we've got 5.8 billion in terms of customer -- awards for the core pilot smart trials.

Ari Bousbib

This quarter it was down to 700, what was the number?

Andrew Markwick

In terms of...?

Ari Bousbib

The next day.

Andrew Markwick

I was just looking it was something like $700 million this quarter in terms of the bookings. And as Ari said that, kind of from launch to the offering to date about two-thirds of those are with large pharma. So everything large pharma increasing...

Ari Bousbib

13 in that line.

David Windley

Okay. Great, thanks very much.

Andrew Markwick

Okay. Thanks very much Dave. And thanks everyone for taking the time to join us today. And we look forward to speaking with everyone again on our fourth quarter 2019 earnings call. There are still a lot of questions in the queue. So Jen and I will be available to take any follow-ups for the rest of the day.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation. And ask that you please disconnect your lines. Thank you. And have a great day.