S&P Global
Market Intelligence

Syneos Health, Inc. NasdaqGS:SYNH

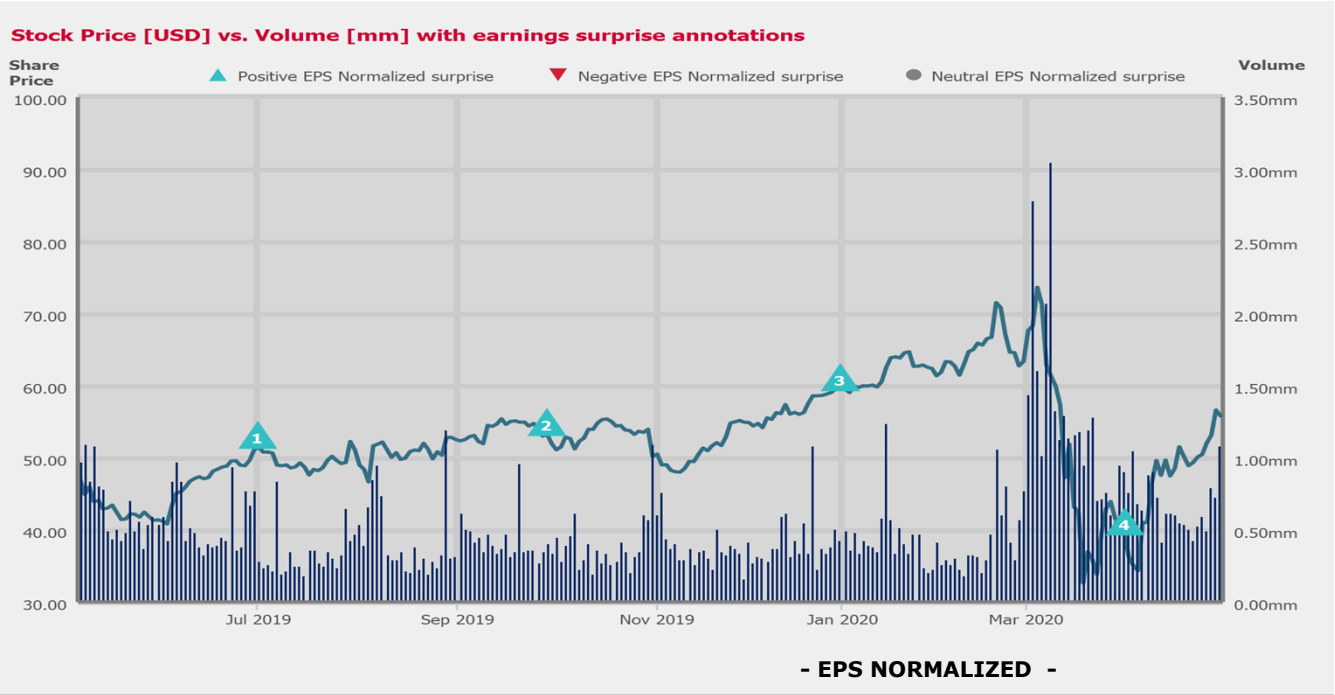
FQ1 2020 Earnings Call Transcripts

Thursday, April 30, 2020 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.64	0.68	▲6.25	0.47	2.84	3.62
Revenue (mm)	1141.74	1163.36	▲1.89	989.69	4449.39	4920.28

Currency: USD
Consensus as of Apr-28-2020 10:56 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	0.70	0.74	1 5.71 %
FQ3 2019	0.82	0.87	2 6.10 %
FQ4 2019	1.01	1.03	3 1.98 %
FQ1 2020	0.64	0.68	4 6.25 %

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Call Participants

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Alistair Macdonald
CEO & Director

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Chief Financial Officer

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Presentation

Operator

Good morning, and welcome to the Syneos Health First Quarter 2020 Earnings Conference Call. [Operator Instructions]

I would like to hand the conference over to Ronnie Speight, Senior Vice President of Investor Relations. Please go ahead, sir.

Ronnie Speight
Senior Vice President of Investor Relations

Good morning, everyone. With me on the call today are Alistair Macdonald, our Chief Executive Officer; Jason Meggs, our Chief Financial Officer; Michelle Keefe, our President of Commercial Solutions; and Paul Colvin, our President of Clinical Solutions.

In addition to the press release, a slide presentation corresponding to our prepared remarks is available on our website at investor.syneoshealth.com. Remarks that we make about future expectations, plans, growth, anticipated financial results and prospects and expected impacts of the COVID-19 pandemic for the company constitute forward-looking statements for purposes of the safe harbor provisions under the Private Securities Litigation Reform Act of 1995, and we disclaim any obligation to update them. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors.

These factors are discussed in the Risk Factors section of our Form 10-K for the year ended December 31, 2019, as updated by our Form 10-Q for the quarter ended March 31, 2020, and our other SEC filings. During this call, we will discuss certain non-GAAP financial measures which exclude the effects of events and transactions we consider to be outside of our core operations. These non-GAAP measures should be considered as supplement to and not a replacement for measures prepared in accordance with GAAP. For a reconciliation of non-GAAP financial measures with the most directly comparable GAAP measures, please refer to the appendix of our presentation.

Finally, in accordance with social distancing protocols, all of the executives participating on this call have dialed in remotely from separate locations. We apologize in advance for any potential technical issues or delays and appreciate your patience.

I would now like to turn the call over to Alistair Macdonald. Alistair?

Alistair Macdonald
CEO & Director

Thanks, Ronnie. Good morning, everyone, and thank you for joining us today. I hope you and your families are in good health and staying safe during these uniquely challenging times. As the impacts of the COVID-19 pandemic continue to evolve, our team remains focused on protecting the health and safety of our colleagues, site staff, customers and the patients we all serve. As part of the global health care community collaborating to fight this pandemic, we are actively working with multiple customers to develop COVID-19 treatment and a vaccine. This battle requires unparalleled speed without compromising safety and regulatory requirements.

Customers are reaching out to us for everything from standing up trials to targeting communications for accelerated enrollment, to crisis communications to help their organizations manage through this challenging time. We also want to thank the frontline health care professionals, including many of our own Syneos Health clinically qualified volunteers who have been ICU bound, boldly fighting the pandemic. Their bravery is incredible, and we are grateful for their work to protect us all.

Lastly, before we get into the first quarter details, I want to thank all of my Syneos Health colleagues for their shared strength during this time. I'm incredibly proud of our team for living our values of challenging

the status quo, collaborating to deliver solutions and exhibiting the passion to change lives, which has kept our culture resilient and strong. We believe our commitment to collaborating with customers, sites and the public health community will sustain and advance our collective efforts during this pandemic and beyond.

Turning now to our financial results. Let me start by saying that despite the near-term challenges, we remain confident in the long-term strength of our business and strategy, given our robust backlog and the unique market position we have created. The momentum in our business that began to accelerate in 2019 carried over into our Q1 2020 results, and we expect it to continue to build as the impacts of COVID-19 subside. After discussing the results for the first quarter, I will take some time today to detail how we are addressing the effects of COVID-19 and the different impacts and trends we are seeing across the business.

But first, let me start with our key highlights from the quarter. First, we closed Q1 with strong net new business awards inclusive of a record first quarter for clinical, resulting in a book-to-bill ratio of 1.4x for Clinical Solutions, 1.07x for Commercial Solutions and 1.32x for our total company. This brings us to $5.7 billion of net awards and an aggregate book-to-bill ratio of 1.21x for the trailing 12-month period.

Second, our clinical business continues to show strong performance with year-over-year growth of 8.5% or 9.2% in constant currency. Third, we remain confident in our overall financial position and liquidity. At the end of the quarter, we had $336 million in cash and $281 million of capacity available on our revolving credit facility. We expect to generate free cash flow for the remainder of 2020 and have taken proactive steps to further preserve capital and provide financial flexibility, which Jason will describe in more detail.

Now going into the details of our results. We had a solid quarter overall, especially considering the rapidly changing macro environment during March. Total adjusted revenue grew 3.8% or 4.4% in constant currency, which was in line with our expectations. In addition to strong revenue growth, Clinical Solutions delivered a record first quarter of net awards, resulting in a total clinical net awards of $4.5 billion and a book-to-bill ratio of 1.27x for the trailing 12-month period. These awards were broad-based as we continue to establish and deepen our presence in top 20 pharma through our new preferred provider relationships.

This consistency of awards flow is one of the strategic benefits of growing our share with top pharma customers. Our year-over-year clinical backlog growth accelerated to 12.3%, and our pipeline of new opportunities remains robust. We did not experience any meaningful cancellations in our clinical segment related to COVID-19, although we have seen some customers slowing award decisions or postponing start dates for awarded programs.

Our Commercial Solutions segment experienced a revenue decline of 8.1% compared to the prior year, primarily due to an unfavorable revenue mix and lower-than-anticipated reimbursable expenses. Although the team finished the quarter with relatively strong awards, the awards were offset somewhat by higher cancellations, the majority of which were unrelated to COVID-19. The majority of these cancellations were contemplated in our full year revenue forecast. However, they did occur earlier in the year than expected, thus impacting book-to-bill. This resulted in $1.3 billion of net awards and a book-to-bill of 1.04x for the trailing 12-month period. Our pipeline of commercial opportunities remains robust given some delays in customer decisions and increased RFP volume.

As we turn to COVID-specific commentary, protecting the health and safety of our employees, customers and industry colleagues is paramount in our response. Our response is led by a Business Continuity Transition Management Office or TMO, which combines the project management discipline of the Trusted Process with our well-established transition management leadership. This group manages and monitors employee safety and our rapid and seamless transition to remote operations, all while ensuring consistent business performance.

The TMO is now planning the next phase in our COVID-19 response, which is the safe return to a more traditional operating model, when appropriate. We anticipate that this will occur in phases over several months, and we will be ready to deploy our field teams and reopen our facilities in this new normal. We have also focused on sourcing personal protective equipment, establishing office cleaning and safety

protocols and staging personnel to return based upon prioritization criteria. In the meantime, we will continue to comply with all appropriate protocols and government mandates.

In addition to the decisive actions we have taken to protect our employees and ensure business continuity, we have also supported the public health response within our local communities. From the onset, we have extended our fight against the pandemic by engaging in public health initiatives to address acute needs in local communities where our talent and expertise can help. Let me share a few examples. Firstly, across collaborative medical and communications team created a public service educational initiative to raise awareness of the use of bi-level positive airway pressure or BiPAP machines to reduce the need for mechanical ventilation for intubated COVID-19 patients.

Our staff in the U.K. answered the call also in collaboration with other ACRO members to participate as volunteers to increase the level of COVID-19 testing. And as mentioned, we also enabled our clinically-qualified medical staff to practice during this time, adding further strength to the global pandemic response. We are very proud of our people and these initiatives. The wave of passion and energy within Syneos Health to help patients has been magnified with our employees and teams that are ready to do whatever they can to be a part of the solution.

With that broader context, I thought it would be helpful to detail some of the impacts we are experiencing and how we are responding. Let's start with the full-service portion of our Clinical Solutions segment, representing about 60% of our total revenues. It is important to note that over 70% of our clinical businesses comprise of essential therapeutic areas that we believe may see reduced impacts, such as oncology, rare disease and orphan diseases, and other complex disease areas where patients have limited treatment options. Our clinical teams have experienced limitations accessing investigative sites, although only about 10% are inaccessible. Of the remainder, 80% to 90% are allowing at least some level of virtual activity, and we have seen these trends continue into April.

Overall, this environment primarily impacts clinical monitoring activities, which comprise about 30% of our full-service revenue. Our clinical teams have done an incredible job of transitioning to remote monitoring, taking a leadership position in partnership with ACRO, along with other virtual activities. During the second quarter, we expect to convert 70% to 80% of our site visits to remote monitoring using a highly tailored approach with additional follow-up requirements dependent upon a site's capability to provide remote access to electronic health record platforms. While site access has certainly been more limited in the heavily impacted regions such as China, Italy and Spain, we have continued to conduct at least some live site visits in these areas. We have also begun to see sites in these areas that were impacted earlier slowly resuming activities.

In addition, our clinical teams have experienced delays in both patient enrollment and the start-up of new clinical trials. New patient enrollment is down significantly thus far in April, driven primarily by some of our customers taking a short-term pause to ensure patient safety and continuity within their trials. Although we are also seeing delays in study start-up, it is primarily in the final stages of site activation. Therefore, we are continuing to make progress on the regulatory, ethics and other work that precedes site activation itself, such that we stand ready to move quickly on the final start-up activities. In an effort to drive further billable activity, our clinical teams are accelerating recruitment in less affected regions, accelerating other billable activities such as trial master file work and reassigning staff.

Our clinical functional service provider, or FSP business, represents about 11% of our total revenues. These teams have seen similar impacts on their ability to access investigative sites, but that only impacts clinical monitoring services, which are about 50% of FSP revenue. It is important to note that most teams within FSP are contracted on an FTE basis, not based upon units of activity. Therefore, shorter-term disruptions are less likely to impact revenue from existing teams, particularly given their embedded knowledge of our customers' processes, studies and systems. The remainder of our FSP business comprises functions like biometrics, data management and safety, which have traditionally performed most of their work remotely.

Our early phase business within clinical, which represents only about 2% of our total revenue, includes the clinics that represent the small portion of our business that requires on-site operational staff. We have temporarily scaled back our clinics because we're unable to host groups of healthy volunteers due

to safety concerns, and we are also seeing customers delay some of their related programs. However, our bioanalytical and translational medicine labs within this business continue to operate.

Moving to our Commercial Solutions segment, where Deployment Solutions represents the largest component at about 17% of our total revenue. In this business, we believe the nature of our customer base, the mix of the products we support and the types of health care provider locations we interact with will position our integrated services to remain an essential component of commercialization for our customers. Note that Deployment Solutions currently drives over 60% of its revenue from top 50 pharma where product portfolios are more diverse and stable. Over 80% of our Deployment Solutions field teams are supporting chronic care therapies, a category where total prescription volume has remained stable. Approximately 90% of our current call activity is in physician offices, or outside of the hospital setting where COVID-19 treatment concentration is not prevalent.

While our Deployment Solutions field teams have faced limitations on their abilities to physically visit their health care providers, or HCPs, they have quickly transitioned to virtual activities enabled by the breadth of our capabilities. Our learning solutions and engagement center teams collaborated during March to train our field reps to effectively manage virtual activities given travel restrictions, while taking into consideration the capacity of each individual office and customer preferred protocols. By mid-March, 90% of our field teams have been successfully transitioned to a virtual work-from-home environment. By mid-April, the weekly volume of our field team's virtual interactions with our HCPs have nearly matched the level of in-person interactions that were occurring prior to COVID-19.

This transition has been enabled by our investments in omni-channel capabilities over the last 2 years. We are also seeing significant customer interest in our engagement center, which is enabled with multichannels to engage customers, including telephony, video and digital tools. This interest, along with increased interest in hybrid representatives, demonstrate our customers' interest in evaluating modified commercial models. It is also important to note that our Deployment Solution field teams are similar to our clinical FSP business, in that they are primarily contracted on an FTE basis. In addition, the majority of these contracts have substantial termination notice periods of up to 120 days. While this also makes them less vulnerable to shorter-term disruptions, like an FSP, we have begun to see customers delaying the start-up of new programs and the backfilling of open positions.

The communications business, which comprises about 8% of our total revenue, is more important now than ever, helping our customers communicate to their key stakeholders. A recent survey we completed of over 250 HCPs confirm their need to continue to stay abreast of new therapies and data as well as their desire for information and materials to support treatment decisions. The majority of our communication business is direct to HCPs rather than consumers or other audiences and does not include meaningful media buying revenue. We are also seeing healthy year-over-year growth in our pipeline of opportunities across communications. Like our Deployment Solutions business, the COVID-related impact has primarily been slower decisions around new business awards.

Lastly, within Commercial Solutions, our consulting business represents about 2% of our overall revenue. This business already operates in a virtual work environment. So it has been largely unaffected by COVID-19. In fact, we saw continued strength across all of our consulting practice areas in the first quarter with a robust backlog of work going into April. Over 85% of our consulting business is in health care, which has proven to be more durable than the broader consulting market. Further, our practice includes commercial and medical affairs strategy, where we help customers reevaluate their launch strategy of new products given the changing environment. It also includes risk evaluation and mitigation strategy and regulatory quality and compliance practices, programs which are largely driven by regulatory requirements.

Finally, we have implemented cost reduction and cash preservation initiatives in all areas and have additional measures planned and ready to implement, if needed, which Jason will outline in more detail. We are balancing these measures with our commitment to maintain excellent delivery, quality and quickly reaccelerate any impacted activities for the benefit of our customers.

Now let me turn it over to Jason for more comments on our financial performance. Jason?

Jason M. Meggs
Chief Financial Officer

Thank you, Alistair, and good morning, everyone. In navigating the unprecedented circumstances of a global pandemic and its impact on our business, I realize and appreciate even more the importance of having a strong, resilient organization with a collaborative culture. To that end, I wanted to take a moment to thank my entire team for their incredible work to support the company and all of our stakeholders during this challenging time. After I take you briefly through our first quarter results, I will spend some time outlining the proactive steps we are taking to manage the impacts of COVID-19.

As shown on Slide 4, our revenue for the first quarter of 2020 was $1.16 billion, up 3.8% and up 4.4% in constant currency compared to the first quarter of 2019 on an adjusted basis. Slide 5 shows that our Clinical Solutions revenue grew 8.5% or 9.2% in constant currency to $874.8 million for the first quarter on an adjusted basis. The growth in Clinical Solutions revenue in the first quarter was primarily driven by higher revenue from net new business awards and higher growth in reimbursable expenses, partially offset by the impact of FX. Revenue growth was somewhat stronger-than-anticipated in our real-world and late phase business as we continue to further penetrate that market.

While clinical outperformed our expectations in January and February, we did begin to see revenue pressure in March related to COVID-19. However, our clinical team continued to focus on driving trial continuity plans and ensuring patient safety. We anticipate that we'll recover revenue for the majority of these COVID-19 related activities in the second half of the year. Moving to Slide 6, as expected, our first quarter Commercial segment revenue declined 8.1% year-over-year to $288.5 million and declined 8% in constant currency. The decline in commercial revenue during the first quarter was driven primarily by unfavorable revenue mix and slower growth in reimbursable expenses.

Adjusted EBITDA for the first quarter was $137.4 million, an increase of 1.8% year-over-year, resulting in an adjusted EBITDA margin of 11.8%, a decrease of 20 basis points compared to the first quarter of 2019. The decline in adjusted EBITDA margin for the first quarter was primarily driven by Commercial Solutions' margin contraction, partially offset by Clinical Solutions' margin growth. Adjusted diluted EPS of $0.68 for the first quarter grew by 15.3% year-over-year, driven by lower interest expense and growth in adjusted EBITDA.

As it relates to guidance, given the uncertainty surrounding both the magnitude and duration of the impacts of COVID-19 on our business and our customers, we will not provide financial guidance at this time. We will continue to monitor the situation, while staying in close contact with our customers and plan to provide an update as soon as possible, taking into account all the facts and circumstances.

To evaluate the expected impacts of COVID-19 on our business, we have prepared and evaluated forecasts under a variety of different scenarios. While we currently expect that the impacts to our revenue will be most significant in the second quarter and persist into at least the third quarter before beginning to recover, we have developed contingency plans for alternate scenarios, should the impacts be more significant or extend further in duration.

Accordingly, as outlined on Slide 8, we have implemented a number of proactive cost savings measures to minimize margin impacts, including: accelerated certain actions in ForwardBound, our margin enhancement initiatives of organizational and operating model efficiencies; delayed hiring of nonbillable headcount; reduced or eliminated third-party costs and nonessential contractors; implemented temporary salary reductions for our Board of Directors, executives and highly compensated individuals; suspended our 401(k) match; executed voluntary furloughs; and rationalized our portfolio of services.

The collective impact of these proactive measures will vary based on required duration of each. We currently anticipate total cost reductions, including reduced reimbursable out-of-pocket expenses, will allow us to maintain a full year adjusted EBITDA margin in the range of 13% to 14%, generally in line with our results for the full year 2019. We are prepared to extend these reductions further and institute additional more aggressive measures as needed.

Further, we have also implemented measures to supplement our cash reserves and preserve liquidity and financial flexibility, including drawing $300 million on our revolving credit facility to supplement our cash reserves, delaying certain capital expenditures, pausing share repurchases, executing interest rate swaps to fixed variable rate debt at lower interest rates and renegotiating key vendor terms.

Now turning to cash flow and the balance sheet as summarized on Slide 9. During the first quarter, our operations used $38.6 million in cash flow. Although cash flow from operations is seasonally lower in the first quarter, the first quarter of 2020 was further pressured by higher vendor payments, including reimbursable out-of-pocket expenses, along with incentive compensation, partially offset by improved collections and lower restructuring and integration costs. DSO for the quarter was 50.9 days.

Given the $300 million draw on our revolving credit facility in March, we ended the quarter with $336 million of unrestricted cash and total debt outstanding of $2.97 billion. Given the minimal associated costs and out of an abundance of caution, we decided to draw down incremental cash on our revolving credit facility during March. It is important to note that we have not yet experienced any meaningful working capital impacts due to COVID-19.

Slide 9 also provides an update on our debt management and capital deployment activities. We continue to focus on a balanced approach to capital deployment to drive shareholder value, which we have always highlighted. However, the uncertainty of the current environment dictates that we focus on capital preservation, while we continue to access the extent and duration of the impacts of COVID-19.

During the first quarter, we executed additional interest rate swaps with a notional value of $549.2 million to reduce the cost of our variable rate debt. The execution of these swaps also increases the portion of our debt that is effectively fixed from 36% at December 31, 2019, to 54% at March 31, 2020. We also repurchased $32 million of our common stock during the first quarter before curtailing these purchases in order to preserve liquidity. While this leaves an additional $136.3 million of repurchase capacity, we currently do not intend to repurchase any additional shares during the second quarter, and we'll continue to evaluate the program on a quarterly basis as market conditions evolve.

Our non-GAAP effective tax rate for the first quarter was 24%, and we expect to maintain that rate for the full year of 2020. Given the benefit of our NOL deductions, we expect our actual net cash outlay for taxes in 2020 to be approximately $20 million.
This completes our prepared remarks, and we'd be happy to answer any questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question or comment comes from the line of Eric Coldwell from Baird.

Eric White Coldwell
Robert W. Baird & Co. Incorporated, Research Division

During a crisis or a downturn, it's historically not been unusual for pre-commercial biotechs to tap the break, sometimes slam on the brakes as they preserve capital. I'm just curious, in the slides you show you made client concentration, which is helpful, but would you be able to parse out that client diversity a bit more maybe out of by number of accounts or specifically what portion of that business is actually pre-commercial biotechs?

Alistair Macdonald
CEO & Director

Yes. Eric, it's Alistair. I hope you're doing well. I think in the accompanying slides, there's -- on Page 7, there's a breakout on the left-hand side that looks a little bit at that pre-revenue biotech exposure for clinical, which is under 10%. And then on the commercial side, we have some pre-commercial biotechs that we do consulting for medcomms and market access strategy, that kind of thing. So it's quite low. And I think that as we've evolved as an organization over the last couple of years, we've moved away from this exposure to that pre-revenue biotechs to a much more established biotechs and the large pharma, which helps in a situation like this to have that balanced portfolio of customers.

Eric White Coldwell
Robert W. Baird & Co. Incorporated, Research Division

Do you -- Alistair, do you share my concerns or views that perhaps that client base in this environment could be a bit riskier than large pharma? I mean, I've heard of both arguments during our channel checks in the last couple of weeks, but...

Alistair Macdonald
CEO & Director

I think you can look at it couple of ways, right? So they're the people whose liquidity is going to be most critical. But they're also the section of customers, if you like, the group of customers where time is their enemy. So any delay to trials, any elongation of the trials, they have a certain amount of capital on the balance sheet that they're deploying into the execution of a trial, these delays don't help them in that. They obviously build in some buffer to hope that they would. But if a trial runs 6 months longer, if this goes through Q2, Q3, creates 6-month additional execution time and they're currently running trials, they've got to find the capital to keep going for another 6 months. So I think that will cause some headwinds there. But what we've seen is, we're very cautious when we take on new customers in that sector to look at their liquidity and their ability to fund the trials all the way through. And I think we feel comfortable about the set that we work with, that we connect with are well capitalized, managing their work well. And we've been able to connect with them, have meaningful conversations with them about how we're trying to keep the trials running either through remote activity or pushing more recruitment into unaffected areas at this time. So yes, I think this -- you can look at that both ways. They are the people who might not place a trial at the moment because of liquidity issues and clarity on how long it's going to last. But again, these are the organizations where time is not their friend, and they've got that push to get back on with it as quickly as they can or continue going as much as they can.

Eric White Coldwell
Robert W. Baird & Co. Incorporated, Research Division

That's really helpful. If I could get one more quick one in to Jason. Jason, I realize in respect that you withdrew your guidance, but some companies have been able to offer either a framework or perhaps

guardrails around the second quarter. Just to help narrow the range of estimates on The Street, perhaps provide some level setting for expectations without pressing you too hard on this, is there any chance we could get you to do the same?

Jason M. Meggs
Chief Financial Officer

Yes. Yes. We're not going to provide the formal guidance as we mentioned there, but can talk a little bit about how we see the sequencing in our internal models. As mentioned in the prepared remarks, the second quarter is where we see the most significant revenue impact. That's also where we will have the highest sort of dollar value of savings. But it's just not -- the savings are taking a little bit of time to get moving here as we responded to the pandemic, so that -- the margin impact for the second quarter will also be the largest impact. And then as we come into quarter 3, the revenue starts to come back, and the savings are fully bedded in, including some of the permanent savings, we anticipate seeing margins tick up and be broadly in line with what we've seen in prior year quarter 3s. And then quarter 4 is always, every year, our largest margin quarter, and we don't expect there to be any different this year from that perspective. So -- and that's where we'll see the highest margin percentage.

Operator

Our next question or comment comes from the line of David Windley from Jefferies.

David Howard Windley
Jefferies LLC, Research Division

Hope everybody is well. One of the things that I think stands out the most to me in some of your statistics here is your quantification of inaccessible sites, and that's a number that is quite a bit lower than your peers. So I wanted to understand more color around that, both in terms of kind of how you're defining access? And then are you using -- do you think you're using sites that are materially different than your peers? I'll stop there.

Alistair Macdonald
CEO & Director

Okay. Dave, good to hear from you. I think there's a few elements at play here. So we moved very quickly early in the whole kind of pandemic starting to move out of China and Asia. We moved very quickly. And I think Paul and his team did a tremendous job of starting to switch to remote monitoring, the fact that we have the capabilities and the technology to do it, the speed that we did it with and also the relationships we have with site. We've banded on about sites being a big part of our model and the relationships with sites for a long time. And I think that helps because we have that relationship. We have a good strong relationship with them. And I also think it's the therapies. So you've referenced the type of sites. I think it's driven by the therapies that we're working. So when we look at kind of the percentages of the essential treatments we work in, and what I mean by that, oncology, rare disease, orphan, the really complex CNS and gen med spaces, inflammation, immunology, et cetera, we have a really big load, really big kind of trial load in those really complicated spaces. And we're seeing those trial sites stay engaged, stay monitoring their patients very closely. Our ability to plug into the electronic health records because we did it early and maybe got ahead of the pack a little bit when we did that because of that early move. I think all those things combined help us stay in context, keep the sites engaged and keep them moving forward. I'll flip you over to Paul for some of the definitions around what we consider accessibility. The 10% is just where we can't get anything out of the site. I will tell you that. But let me pass you over to Paul, and Paul will give you a bit more detail on that site engagement from. So Paul?

Paul D. Colvin
President of Clinical Solutions

Thanks. Dave, yes, I think it's a great question. And I think it comes down to the definition as you think about what accessibility means. And as Alistair said, I do think our TA mix plays a big part in that. But what we're seeing is that the sites are still very active as well in trying to engage in start-up activities. And so if you look at what we've seen to-date, just around regulatory submissions, we continue to work toward

activations, and we're still seeing a high percentage of our submissions compared to prior years. So sites are still wanting to engage in getting ready for the next wave of studies. They're still also engaging in remote monitoring. We've seen a number of sites that -- where we can have access to -- remote access to EHRs and can continue monitoring. We're still seeing sites that are actively helping us to ensure patient continuity and treatment and safety reviews. So we haven't seen much of a drop-off on that part. So I think it's just -- when you think about the definition of inaccessibility, sites, especially in oncology and other areas, they're going to continue treatment of that patient. They want to continue the safety monitoring, and we're able to do that across the sites.

David Howard Windley
Jefferies LLC, Research Division

So to clarify, so 10% is you can't get a CRA on site. You can't get remote access to the technology, EMR. You can't get anything. That's your kind of 10% quantification?

Paul D. Colvin
President of Clinical Solutions

Correct. They're not allowing any site activations. They're not doing anything on regulatory submissions. They just are inundated with the COVID at this point at that level. We're seeing the other 80%, 90% that are still active in some form or fashion around continuing the continuity of those studies.

David Howard Windley
Jefferies LLC, Research Division

Okay. Understood. And then, Jason, probably for you, a follow-up -- kind of a follow-up to Eric's question. I just want to make sure, given that -- maybe I'm being too myopic here, but given that your operational path seems a little clearer because your engagement with sites is higher, and that seems to be where COVID is the most disruptive. So your operational path seems a little clearer than your others -- than your peers, but you're removing guidance and some of them have given 2Q guidance, as Eric commented. I just want to make sure that the -- and your first quarter was quite good. I just want to make sure that the kind of choice to not give guidance is not a reflection of a significant deterioration beyond March that is more precipitous. It doesn't sound like that's the case, but I just want to make sure.

Alistair Macdonald
CEO & Director

Well, can I -- Jason, can I just jump in front, sorry. I think, philosophically, Dave, on the guidance side, I think we're well prepared operationally. We're plugged in remotely right across the businesses and able to come back with sites, and we're already seeing some great optimism, sites starting to reopen in Asia Pac and actually even into Europe and some in the U.S. So we're seeing some optimism there as we come through. We just don't know like pretty much everybody else what the short-term overall kind of reopening plan is going to look like, and it's going to be down to local governments that enable sites to get back to full kind of -- full capability, which enables us to get back to full on-site activities, which obviously drives the revenues, et cetera. So it's -- like you said, it's not because of a precipitous different, overall, that we're seeing compared to anybody else. It's just that we don't feel confident enough to pick that -- what that curve looks like on the other side of this, whether it's a V, whether it's a U, whether it's more like a check mark. I don't think anybody really knows that yet. It's unprecedented. So it's more related to our -- how we feel about that philosophically than anything else. But Jason, I just wanted to kind of add that thought process.

Jason M. Meggs
Chief Financial Officer

Yes. Yes. And Dave, just to add. We don't -- we have not seen anything precipitous in terms of the falloff post quarter 1. I think Alistair hit the remarks about pipeline and things of that nature. And we talked about the operational metrics there that have continued into the second quarter. We do have disruption. I mean, that certainly is what we see. How that stacks up to others and definitions is hard. I think that top line and how that moves through the second quarter and third quarter is the hard part, from our

perspective, given the depth and duration, I think what we focus more on is, hey, we can impact our cost base in a way that is temporary and/or permanent, and we do control that, and we want to do that quickly and go deeply early, so that we can weather this as best we can early on and then tilt that back percentage-wise of the total cost base over the months and quarter. And that's what we plan to do, while we also have more opportunities in front of us if we want to extend the temporary items or we can do more permanent items. So we're focused on what we could control, and that's the cost side of things. And that's what you see coming through with the margin percentage that we wanted to get some guardrails on, as Eric put it.

Operator

Our next question or comment comes from the line of John Kreger from William Blair.

John Charles Kreger
William Blair & Company L.L.C., Research Division

I have 2 questions. Alistair, can you maybe just comment on what sort of operational performance you're seeing? And how it might compare across the U.S., Europe and Asia, particularly, as you mentioned just a few minutes ago, some of the reopenings that you're starting to see? So that's the first question. And the second question is you gave us some good stats about site accessibility. It sounds like that was primarily relating to your ability to do monitoring. How about in terms of patient ability to actually see their physicians? And how is that part of the clinical trial process holding up?

Alistair Macdonald
CEO & Director

Sure. So on the metric side, John, we -- our regular operational metrics that we look at are driven actually from an activity basis sites -- on a site level kind of on-site visits, face-to-face time, phone visits, remote visits, kind of the real-world evidence side of the business as well. So we track them very closely. We track them by therapeutic business unit. As you guys know, we still run therapeutically. We track it by the FSP visits. So the -- whether that's in aggregate across our FSP business or by the actual customer business units that sit within there. And then we've been looking at how those have been ramping up and back down. So what we saw, obviously, is a big drop-off in face-to-face visits. We still have face-to-face visits going on. I think metrics wise about 15% of what we'd normally expect to see is still active.

And that is actually across all regions, so U.S. and Asia, I think, more so than Europe right now. But we continue to track those. We've seen a huge pickup, obviously, in the remote numbers because as we switched, you get that transition in the 2 lines crossed. And we're at good numbers on the remote monitoring visit side. Like we said before, we've got good site engagement still. We're still plugged into the majority of our sites, still supporting them in what they need, talking to them now about how do they return to work successfully and what we can do to help them and that kind of stuff. So there's a constant review of those metrics and how we get -- how we make sure that the team has the tech that it needs, the support that it needs. And obviously, there's a lot of off-site time as well. On-site time is about 30% of the overall. And then you've got TMF, so you've got kind of writing of reports and other associated activities that go along with those visits but actually kind of aren't connected to be in -- actually engage with somebody on the site or actually on the site itself.

Second part of your question, I think, is more difficult for us to see in the metrics about how many patients are going back on site. Obviously, a lot of our sites are engaging with patients directly from their homes. So they're kind of remote to the patient as well because of social distancing protocols. We've been working with sites to make sure medication where applicable and where appropriate can be sent to a patient. We've got -- if you think about the relationship we've put in place with AiCure, we can actually watch the patient take their medication. That's what that system does. So -- and that's not plugged in on all trials, but it's on some of the CNS trials, et cetera. So we can actually make sure that patient is compliant and that kind of thing. For those patient numbers, I don't -- I'm going to ask Paul, but I don't think we have much metric around actual patients returning to sites yet. I know we're seeing it in Asia to a certain degree. And in some locations in the U.S., we've seen it's been a constant. But Paul, I don't know if we track any metric like that. Do we?

Paul D. Colvin
President of Clinical Solutions

I mean I think the easiest metric to look at would be just dropouts, and we have not seen a lot of patient dropouts from studies. I think, again, it goes back to your original comment, Alistair, on the TA mix. Many of the conditions we're treating, patients need to have that continuity of therapy. And so they are going to continue that therapy. But I think the biggest indicator is on dropouts, and we have not seen a spike in patient dropouts from studies. We do monitor that. And we're continuing, obviously, to measure, as you said, the live visits. We actually saw a spike, an increase in the last 2 weeks around live visits. We are, as you said, between the 10% and 15% range on what visits and submissions continue to go up. So I think those are the biggest indicators that those sites are still active, and patients are still active on study.

Operator

Our next question or comment comes from the line of Erin Wright from Crédit Suisse.

Erin Elizabeth Wilson Wright
Crédit Suisse AG, Research Division

Can you speak to some of the opportunities and change orders for you, our extended enrollment time lines, generally speaking, for as a CRO or a solutions provider in this industry? Do you anticipate that being a meaningful offsetting factor for you? And have you -- I assume you're having those conversations as we speak as well with sponsors.

Alistair Macdonald
CEO & Director

Yes. Thanks, Erin. I think it's a natural part of this, right? So the impact of COVID is going to elongate trials, in general terms. You're going to see a reduction. The statistics aren't going to change. The power of these trials is not going to change. So we're still going to need 500 patients for a 500-patient trial, but it's going to take us longer to get to them. So that extends -- let's say, it's a 6-month kind of elongation of trials. That's going to expand project management time duration -- things, units that are driven by durations. And that's going to -- those things are going to get passed through to customers in some regards, which will move -- that revenue doesn't go away. It just moves to the right. Like you say, it will drive change order activity, and it will move that revenue to right effectively. So we think we see that -- those activities moving along now. There's also the shift to remote monitoring. There are some changes to the cost structure for that. And we're not -- the EMA issued guidance on what they think about remote monitoring, the changes around COVID, the day before yesterday. So we are still evaluating those regulatory comments, et cetera, and the impact. So you're going to see a reduction, if you like, in the cost of monitoring visit as it moved from on-site to remote, take out the travel time, there's -- you can't do everything that you could have done on site, so you're probably going to get 70% of the revenue for that. But then that's going to offset, to some degree, by the increase in project duration.

Erin Elizabeth Wilson Wright
Crédit Suisse AG, Research Division

Okay, great. And then a broader question here. Do you think some of this COVID disruption should drive any sort of stepped-up industry consolidation across the CROs? Do you think that there's opportunities there from a consolidation standpoint?

Alistair Macdonald
CEO & Director

It's a good question. It's a question I haven't given much thought to, to be below us. We've been occupied in other ways recently, obviously. I don't know if this will be an individual driver of more consolidation. I think if the CRO, maybe some of the smaller ones without a liquidity it have problems. I don't know, maybe they become targets for consolidation, I don't know. But I don't think of the higher echelons of the business, it will drive consolidation meaningfully from what's out there already.

Operator

Our next question or comment comes from the line of Tycho Peterson from JPMorgan.

Tycho W. Peterson
JP Morgan Chase & Co, Research Division

Alistair, you mentioned recruiting patients from less affected areas. I'm just curious how successful that strategy has been in this environment. And are there other actions you're taking to increase start-up times from like a patient recruitment standpoint?

Alistair Macdonald
CEO & Director

Tycho, I think early before the pandemic spread much wider, yes, we had some good success with diverting recruitment to other locations. We're still having some success with that. We have -- I don't think there's much out there that you can do right now to increase or enhance patient enrollment because you have the other factor, the patient's fear of going into a center if that's required as part of the recruitment. I'll ask Paul if he's got any thoughts. I'll come to Paul in a second if he's got any thoughts on that. But I don't think that we're seeing much that's really accelerating a trial at the moment, unless it's COVID-19 trial, obviously, which we have a few of those going. Paul, any thoughts on that?

Paul D. Colvin
President of Clinical Solutions

Yes, Tycho, it's a good question. We -- I think at this point, it's global enough that there aren't places you really can go to find an offset from that perspective. I do think that, again, the mix of therapeutic areas we have, patients still are going to want to join therapy. I'd also say that some of our larger partners are also looking at action plan to start opening enrollment. Remember, part of enrollment dropoff was a decision by some of the larger client base. But I think they're reevaluating that. And I think that will be helpful as you look at enrollment as well. Sites are still actively wanting to have enrollment in many therapeutic areas. So I think we'll start to see that over time improve just because of the decisions from the client base.

Tycho W. Peterson
JP Morgan Chase & Co, Research Division

And then a follow-up on the question earlier on change order costs. I appreciate you think it will be pushed out to the right. But is your view that you will be able to pass on most of the incremental costs? And then as we think about kind of mid- trial protocol changes, how seamless will those discussions, I guess, be with the sponsors? Or how much friction could there be in terms of going back and having to redo work? And is it generally understood what the FDA is going to require to the extent that work needs to go back and be redone?

Alistair Macdonald
CEO & Director

Well, again, I'll ask Paul for his comment as he's closer to that than me. But I do think that this pandemic posts -- sends all of our customers in the same situation. So we're not going back to customers to try and explain change orders that they don't really understand what happened. It is always a driver for getting into an argument with a customer on a change order. So I think the customers are very clear at the moment. I think we've had more engagement with customers than we even normally do, and we're a heavily engaged organization when it comes to the customer front. So we've had deep discussion -- we've got detailed discussions around the impacts. Like I said before, we're still -- the MA released its guidance on what I expect to see from remote monitoring and this situation only 2 days ago. So we're evaluating that still and how that will guide conversations around change orders. But I think our customers certainly understand, either through the trials they're running themselves or through as in other CROs that this pandemic posts in that change -- in the trial, which will lead to a change order. It's even on fixed-price trials where we have what we would call a material change addendum, this will qualify under that. It's something that's outside, completely outside of our control and expectation for trials that are up and running. So yes, I think those conversations will take place. There are -- we're already laying some of that

out for customers and the expectations around that. But right now, the focus, really, has been on how do we contain -- how do we get the sites moved over to remote, how do we manage the patient loads, how do we manage to keep these trials compliant, keep the patients compliant, et cetera. And now we're moving on to what the financial impacts of moving to a remote stance and the elongation of trials.

And of course, customers will only want to do that once they know the full impact of the change. So how long are we going to be remote, how long are we going to be delayed, et cetera, which -- so you can give them the whole packet in one go. So we're looking at that going through those discussions. Paul idea?

Paul D. Colvin
President of Clinical Solutions

I mean if I can add to that, I think, what we've really also done is the amount of proactive communication that we've put out from our communications team. We've created lens for our clients to view what the actions are that we're taking. And to be very honest, I have a lot of interactions with our clients. I've never been prouder to be a part of this industry because I think every single client that I've spoken to, their first messaging is patient safety, continuity of this trial and the therapy for the patients. So we've been very transparent about that. And I think we're seeing a real partnership with most of our clients where they want to see that patient safety and continuity. And we're all doing the right thing to keep these trials going. So I do think we'll be able, as we work through this together, to find the right solution and make sure we're doing the right things to keep continuity for patients. I don't anticipate that being a huge headwind.

Tycho W. Peterson
JP Morgan Chase & Co, Research Division

Yes. Okay. And if I could ask just one more, just on commercial. How do you think about the recovery there? And obviously, the margin hit was significant on that side. Are there any cost saves biased towards that side of the business, or is that not the right way to think about it?

Alistair Macdonald
CEO & Director

Well, Michelle is on the phone, so we can talk about that with Michelle as well. But the cost savings, we've looked at, Tycho, corporately across the business. I think what we're seeing on the commercial side is, again, a good -- a quick and enabled switch to remote and engagement with HCPs across that business. So Michelle, any comments on that?

Michelle Keefe
President of Commercial Solutions

Sure. So a couple of things. First, as Alistair talked about, our Deployment Solutions business quickly moved to remote engagement with customers and because of the capabilities that we've invested in, in omnichannel. And frankly, our expertise from our engagement center of accessing customers over the phone or over the web or on video as well as our Learning Solutions team. We basically took that learnings and those capabilities and taught them to our field representatives, which sounds like a little thing, but is actually a very big thing, really understanding how to navigate an office with empathy through difficult times. So the field representatives did really, really well and are already back to pre-COVID call activity through virtual channels, right? So I think that, that's really important.

I think the other thing that we've seen in regards to the pipeline, which is encouraging is we're just seeing delays in decisions. We're not seeing any customers pulling our fees back or saying that they're not going to continue to focus on the areas that they've been focusing on. So most of the issue has been pushes in decisions from a pipeline perspective, so that's why the pipeline is looking strong. So in regards to comms and consulting, those businesses work very effectively remotely. We've done multiple virtual pitches. We're winning business virtually. And so that business has been operating pretty successfully in a remote environment as well. So we're ready to go when we can get back into offices and back in to customers, but our interactions remotely have met pre-COVID level. So we're confident we have what we need to be

successful throughout this delay, but then to be able to quickly get back into driving revenue and driving us there.

Jason M. Meggs
Chief Financial Officer

Yes. And then, Tycho, this is Jason here. Just to finish that off. On the margin side, as Michelle and Alistair both hit, Alistair a little bit in the prepared remarks. But we started seeing the delays there at the -- close to the end of the quarter, particularly on our field team side and things of that nature, that did roll the net revenue coming down some, and therefore, the margins did take a hit. I would say, though, when you look at our internal plan, we were only down about 1 point. Because in prior year, we had some favorable revenue mix items that pumped the margin up. So that's historically one of the lower -- this is our lower-margin quarter. So just to give a little color there in terms of the mix and then how that compares to our internal plan.

Operator

Our next question or comment comes from the line of Sandy Draper from SunTrust.

Alexander Yearley Draper
SunTrust Robinson Humphrey, Inc., Research Division

A lot of my questions have been asked and answered. Maybe, and this is probably more for Jason. You're operating very differently today when you -- as the CFO, start to look across the operations, are there areas where you say, yes, we want to get back to normal, clearly, but these are things we actually are realizing we don't have to do any more. These are expenses we don't have to spend. And I'm thinking, obviously, you guys were doing a bunch of cost savings plans and getting synergies and had ongoing initiatives. But are there material new areas you are uncovering from this unfortunate circumstance that you're saying, "Hey, going forward over the long term, these are identifiable cost savings areas that we had not necessarily considered or contemplated before?"

Alistair Macdonald
CEO & Director

Sandy, it's Alistair. Just -- I think this whole environment, this whole issue, really, is a driver for us to evaluate more than just cost savings. We're looking at -- we have a strategic plan -- a strategic planning cycle that we run on a 3-year basis that we're in the middle of right now. And we're looking at what are we learning from this activity, people working from home. I mean, the efficiency of people working from home has been astounding, right? People have -- everybody is at home, everybody is doing it, so that works. What does that mean for us strategically from an office footprint, location footprint perspective? We've invested wisely over the last few years, I think, to make sure everybody in the organization, I mean, everybody has a laptop. So they're mobile, they're able to go remote, et cetera. We invested in the infrastructure to enable that as well. So we're learning a lot of things from this experience, that we're using as imports to challenge current strategy, what it will mean to our strategy in the future, what it will mean in terms of customer changes. We're lobbying and questioning customers about their thoughts on it. So I think it's a bigger issue than just cost savings. They're captured in that, but also it's really strategically, how do you think about this? What other activities will this drive? How will it change the business that we work in and the way that the business operates on top of that. So we're really using this challenge as an opportunity to think harder about where we go in the future, in general terms. But Jason, questions on the cost side, what do you -- any difference in the way that we think on that?

Jason M. Meggs
Chief Financial Officer

I would just -- I mean, yes, I think Alistair is right, obviously. I would add, we are accelerating some of the things that we already saw, Sandy, and forward-bound, pulling that forward, and those are permanent-type items. And then the other thing that we hit on that we haven't talked about, and it's nothing huge, but we did take the opportunity to look at the portfolio of services right across the business, what might

not be as core as perhaps it once was or things of that nature that we think will obviously help us, longer term, as we focus on the business and help us margin-wise, too, as we come out on the other side.

Operator

Our next question or comment comes from the line of Elizabeth Anderson from Evercore.

Elizabeth Hammell Anderson
Evercore ISI Institutional Equities, Research Division

I just have a question in terms of how you're thinking, or how your conversations have been going with sponsors around virtual trials. Are people sort of receptive to that idea? Or I mean is that more of like a receptive in principle versus willing to implement now? Are there certain segments of your client base that have been more interested? Any details you could provide there would be helpful.

Alistair Macdonald
CEO & Director

Okay. So I want to make sure that definitionally, we're all talking about the same thing because what we are seeing at the moment is a shift from on-site monitoring to remote as we get through this, which has always been an element of monitoring -- well certainly, over the last few years, risk-based monitoring or efficiency based monitoring, however you want to look at it. Virtual trials are something completely different, right? Where there's a virtual trial is where there is no investigator. We refer to them as decentralized trials. So they're a different kind of subset of trials. So decentralized, kind of easier to administer the medicine, easier to do it but through telehealth, really suits kind of more chronic diseases where the patient's self -- doing their own medication at their own set of home and maybe in a real-world setting. So we already run virtual trials in that sense. Now the remote side is we're not going on to site, but the patient is still being treated by an investigative site. And I think there's been a little bit of confusion around those to the interchangeability, if you like, of the words virtual and decentralized and remote. So we're seeing receptibility at the moment from customers to go to remote trials, to remote monitoring trials during this pandemic. And the guidance coming out from regulators is kind of working around that as well what they expect to see on the virtual trials, and we already have that capability. We deliver those in more real-world settings and less complex medicines. So it's not really a customer by customer. I think all customers are interested in virtual trials and what they can bring to them. It's more about the applicability of them by therapy and by phase of the therapy rather than customers themselves. So it's kind of a definitional thing, and I think people will interchange virtual and get virtual and remote mixed together where they are actually separate things.

Elizabeth Hammell Anderson
Evercore ISI Institutional Equities, Research Division

Yes, that's helpful. And so just to absolutely clarify, so you haven't seen like -- and none of your trials are converting from either in-person or remote to something on the virtual because that would just sort of be, from your -- the way you're positioning it is like a whole separate construct that would require a different protocol and so.

Alistair Macdonald
CEO & Director

Yes. Essentially, yes. I mean, Paul, any additional thoughts on that? What -- you can do the remote and the on-site together, virtual is, like you say, something different in terms of its overall construct.

Paul D. Colvin
President of Clinical Solutions

No, I mean the only thing I would add, Alistair, I think you're spot on, which is every trial is really a customized solution. It really depends on the TA you're working in. We are doing telemedicine on a number of trials. We have -- we are using clients' systems in some instances. We have multiple models that we're putting in place. But when you think about telemedicine in a lot of the TAs we work in, you're not doing a CT scan or an infusion, typically, that way. So I think we're customizing those fits for the

specific client need, but we are working across all of the above and have partners that are helping us from a telemedicine perspective to do that.

Operator

Our next question or comment comes from the line of Dan Brennan from UBS.

Daniel Gregory Brennan
UBS Investment Bank, Research Division

So I just wanted to ask one kind of clarification. It's come up a few times even in the last question. So in terms of the percentage of CRAs that can get to sites, I think, Alistair, Jason, you mentioned 15%. Was that correct? In terms -- I'm just trying to level set kind of -- back to a few questions, kind of what some of your peers have talked about, which is how I think they're defining it, but I'm just trying to clarify. So 15% of -- so basically, 85% of sites are inaccessible for CRAs physically being there?

Alistair Macdonald
CEO & Director

Yes.

Daniel Gregory Brennan
UBS Investment Bank, Research Division

Got it. And any sense of how that changes if you look out over the course of the year, given your various planning strategies? You've got probably a good plan and a bad plan. But when you think about the middle plan, like what would that look like as you get to Q3, Q4?

Alistair Macdonald
CEO & Director

Well, I think what we expect, as we said earlier, is the biggest impact throughout Q2. I think it's going to depend on local government protocols. And as they peel back the social distancing requirements, what that looks like in Q3, but we expect it to be a big increase and then big improvement as we go through Q3. Not only as kind of COVID, hopefully blows itself out or the social distancing measures take effect. But as we learn what the best routine is for a site to protect themselves and the staff, what the cleaning protocols are, et cetera, we're helping sites with that. And then by Q4, I'm hoping that we'll see a heavily reduced impact and be back to a majority of on-site work. I think some of the trials may stay as a mix of on-site and remote as well. So you can cut the number of visits down, and they can cut their exposure down by continuing to do remote a little bit longer. So I really don't have a crystal ball that tells us when we're going to be out of it and what that's going to do to overall visits. We have trend lines, like you say, we have a good scenario and a downside scenario or -- and it all relates on how quickly it peels back. But one of the reasons we're not giving guidance is we don't know that. So that's kind of the pattern we're expecting to see, which I think is the same as everybody else's. But in terms of local site's ability to allow monitors back on site, that's going to be a case-by-case, side-by-side basis.

Daniel Gregory Brennan
UBS Investment Bank, Research Division

Great. And then you made some comments in the prepared remarks and then in subsequent Q&A, it's come up. But in terms of the ability to recapture what is lost here early on in the year, is the idea that it does just get pushed out? Or is there slack in the system? Obviously, patients and sites and people, it's hard to kind of accelerate things. But I'm just wondering, how do we think about, over the course of this year and then even in the next year, is there the ability to kind of accelerate some of the shift here kind a get to a point where you've caught up?

Alistair Macdonald
CEO & Director

I think the catch-up will take several quarters. I don't think it's -- I think if Q2 and Q3 are down, you don't get the change orders all in place and you don't recoup all that, you don't get rid of the backlogs at site and things like that in Q4. So I think it will overall be an impact to the whole of 2020 from an operational and then revenue perspective. And then as we go through 2021, if there's no second wave, if there's no kind of reverberation of this around the world as the second wave, then I think we'll largely be caught up with trials through some point in 2021, whether that be the middle to the end, I don't know. But it doesn't all come back in the first week that we get back to work. It's a much more phased and gradual piece of that. Because sites only have a certain capacity for patients even if there is a big backlog of patients. When those sites reopen, there's going to be a prioritization of which monitors can go back out in site. Because we all -- a lot of us use similar sites. So they're not going to want 10 DRAs showing up on day 1, it's going to be a phasing. So it'll take a while to catch back up.

Operator

Our next question or comment comes from the line of Robert Jones from Goldman Sachs.

Jack Rogoff
Goldman Sachs Group Inc., Research Division

This is Jack Rogoff on for Bob. So I'm trying to understand the range of outcomes embedded in the 13% to 14% margin range. I guess, we've made meaningful progress in regaining physical access to sites by the fourth quarter. And if commercial decisions were still delayed in the fourth quarter, would you still be able to maintain the range?

Jason M. Meggs
Chief Financial Officer

Yes. Jack, it's Jason here. Yes. So we -- as I mentioned a little bit earlier, Jack, we've gone on the cost side, heavier on the front end with temporary and permanent items. And we have a certain percentage of the cost base that we're targeting in quarter 3 and quarter 4. And -- I'm sorry, quarter 2, quarter 3 and quarter 4. And then on top of that, we've got about 50% more identified that we could pull in if we need to by extending items or adding more permanent items. So with that level of visibility and what's in front of us, the range -- we feel confident in getting in that range based on the range of outcomes we've looked at in our internal models via those items.

Jack Rogoff
Goldman Sachs Group Inc., Research Division

Got it. That's helpful. And then just following up on the complex disease area that you talked about having high exposure to. I'm curious what the split is for you between hospital-based sites and outpatient sites for the trials that you're running.

Alistair Macdonald
CEO & Director

That's a good question, Paul. I don't know if I've got the stats at hand. We can see [indiscernible].

Paul D. Colvin
President of Clinical Solutions

But I think given our pipeline and what we have therapeutically, I would say likely that it will have a lot more hospital based. But I have to go back and cut it. I haven't cut it that way.

I'll catch up with that.

Operator

Our next question or comment comes from the line of Stephen Baxter from Wolfe Research.

Stephen C. Baxter
Wolfe Research, LLC

So first, I wanted to ask about your efforts to add incremental preferred provider relationships with large pharma. Obviously, we're all working remote right now. It's hard to say how quickly things will sort of get back to normal. So for the companies that you would have expected to be able to pitch this year, I guess, how are they handling their process? Are they pushing out their own decision-making? Or are they extending their current providers on a short-term basis, extending them for something more like a full contract pool? I'd love to get a better sense of what you're hearing on this. And then just as my second question, just thinking about headcount. I guess, how do you think your year-end headcount will compare to where it would have been if we never had the outbreak?

Alistair Macdonald
CEO & Director

Okay. So I think some of those large pharma processors, we've seen them continue to run, and we are actively engaged with them. It's a bit different, obviously, not being able to press the flesh, but we're doing the virtual pressing of flesh and continuing to move those processes forward. I think it will take a bit longer. They might have done it if we were able to get face-to-face, but we're not. We don't have any concerns that those things are not progressing as we expected them to. So -- and then in overall headcount, we've got hiring freeze on at the moment, same as everybody else. That really looks at billable -- sorry, nonbillable, and then looks at -- on the billable side, we're always going to be interested in talent. We're always going to be looking for talent. We have been building a significant backlog. We've had great growth. We're going to need to continue fueling that with talent as we move forward. But we are obviously being very cautious and making sure that we keep the cost side of the business under control, while revenue's suppress a little bit. So I think we'll probably come out of the year with roughly what we've got now, but it depends on how quickly it all comes back. I mean if we see a strong, solid, resilient rebound in Q3 and we need to get the staff in for Q4, we'll be doing that, and we'll be at a higher number. So -- but it just again depends on that -- the shape of that curve.

Operator

Our next question or comment comes from the line of Donald Hooker from KeyBanc.

Donald Houghton Hooker
KeyBanc Capital Markets Inc., Research Division

Great. Obviously, this has gone on for a while, so a lot of my questions have been asked and answered. One area, maybe sort of as a side question or half the floor. I had been interested in the past in your -- you had a medication adherence data business, which I think would be a pretty timely asset right now of being able to sort of digitally connect with pharmacies and whatnot. I think, you picked that up as part of inVentiv Health. There have been some hiccups in that business a few quarters back. Have those hiccups, the revenue headwinds there, kind of reversed? And maybe just in a -- briefly, what is the state of that particular business unit?

Alistair Macdonald
CEO & Director

Yes. I'll pass it over to Michelle for the detail. I mean, some of those historic hiccups were on the customer side, where I think they had a data breach or something like that, which shut one of the big programs down. So we're kind of on the receiving end of that one. But like you say, I think there's a lot of effort going into tracking and tracing and data at the moment. So it is an interesting business right now. Michelle?

Michelle Keefe
President of Commercial Solutions

Sure. And I'll let Jason chime in if I miss anything. So it was a headwind in 2019, as you recall, for a variety of reasons, many of which Alistair already discussed. Back on track this year versus budget. And we are actually finding a lot of interest, as you can imagine, if you look at the data around TRXs on chronic care medications, oral medications. Through the end of March, we see that, actually, those are the prescriptions that are holding up pretty well. And we're getting a lot of data from those pharmacies

around the importance of keeping people on medications right now, right? I mean, when you think about telehealth and the fact that a lot of patients are choosing to communicate with their customers over video versus in-person in certain geographies, the importance of keeping patients on medications right now, especially in chronic diseases, is critically important. And we are seeing a lot of interest from our customers in discussions around how do we continue to do that. Because you don't want the next wave of health crisis to be that. Once we get beyond COVID-19, patients who were chronically -- taken chronic medications are now -- well, we lost their medications, and then we have new issues, right, based on them not being compliant. So absolutely been very valuable through this time. And Jason, I don't know if you want to add anything on the financials.

Jason M. Meggs
Chief Financial Officer

Just to say, year-over-year, it's still, as we outlined, it's still a drag in terms of performance year-over-year. But as Michelle alluded to, we were quite pleased with how we performings in quarter 1 relative to our budget.

Operator

Our next question or comment comes from the line of Patrick Donnelly from Citi.

Patrick Bernard Donnelly
Citigroup Inc, Research Division

Alistair, maybe one, just on the virtual trial side, you've talked about a decent amount on the call here. In your conversations with customers, do you feel like there could be an inflection point here where you see a bigger shift towards the virtual trial model on the other side of COVID? And then if so, what's your guys' positioning there relative to peers to capture some share?

Alistair Macdonald
CEO & Director

Yes. Yes, I think it's a really good question. I think that goes back to what have we learned from COVID. So we've been stuck in this gradual move over to risk-based monitoring and the parts of that, that require remote monitoring instead of face-to-face. The real kind of handbrake on that has been the clarity from the regulators. I'm Chairman of ACRO this year as well and with Cyndi Verst and Steve Collins' help and the rest of the team, what we've been trying to do is make sure that there's a linkage between what the regulator asks for and our ability to execute it operationally, across the industry. So pharma, CRO and regulator working together on an operational solution that's doable. The handbrake on it has been a little bit, more than anything else, is the lack of clarity. When the regulator says adequate monitoring, what does adequate mean? How does that relate to remote versus on site, et cetera, et cetera? So as we get better clarity and experience with these models as a regulator, I think customers are more open to the suggestions and the solutions that we roll out, which could be remote or virtual trials, et cetera. And I think that's the push. This is part of the push that, that process is needed. So I'm optimistic that we'll see more of a shift to more remote monitoring. I think the quality is just as good. I think it helps drive the cost down a little bit. You get higher throughput from people because they're just not on planes traveling, you get that utilization of.

In terms of where we sit for remote, I think Paul's comments speak for themselves in the fact that we were able to shift to remote pretty quickly. And then on the virtual side, we use our dynamic assembly model for that. We're able to plug any data into any system. We've run several virtual trials with different systems, different platforms. They don't all fit exactly what you'd -- each platform in and of itself is not the solution to every problem that comes through or every challenge the customer comes with, which is why we like to have optionality around the different systems and the different platforms we deploy. So I think we're very well positioned. We'll be at the front of that. If we're not in the front of it already, we'll be very much at the front of it in terms of partnering with those organizations. And there are several of them out there. It's like 15 years ago when EDC took off, right? You had 1,000 different options and about 3 of them worked. That's the virtual trial space at the moment as well.

Patrick Bernard Donnelly
Citigroup Inc, Research Division

Okay, that's helpful. And then a quick one for Jason. I know you've talked about the commercial side a decent amount here on the margins. I tend to think of that as a lot heavier on the variable cost side. Can you just talk through the cost structure? If revenues do pull back significantly, how nimble can you be specifically in that segment on the cost side?

Jason M. Meggs
Chief Financial Officer

Yes, Patrick. Yes. So the businesses are similar in terms of the variable versus fixed on the cost of sales. Commercial is probably 95%, and the cost of sales is variable. And on the SG&A side, given the profile of that with the reps, and most of the headcount being out and some on customer systems and SOPs among ours, the SG&A load there is pretty favorable, too, from that perspective. So I feel pretty good, and the business does a good job of adjusting that as needed.

Operator

I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to management for any closing remarks.

Alistair Macdonald
CEO & Director

Thank you. Well, thanks, everybody, and a sincere thanks also go to the entire Syneos Health team for all they've done and all they are doing in the face of these unprecedented conditions. In all, we're very pleased with our overall performance in the first quarter and with how our organization has responded to this to serve our customers and our communities throughout this time. We remain very confident in our long-term momentum and market position and our focus on protecting the health and safety of our colleagues and mitigating the impacts of COVID-19 on the business. We look forward to continuing to build on the momentum of the last several quarters as the environment normalizes. So thank you very much. Thanks, ladies and gents, for your attendance today and for your interest and investment in our company. Please be safe. Take care of yourselves. Have a great day and be good. Thank you.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.