Spinoff Creates a Sea Change Opportunity For Growth and Margin Expansion

DIPP Stock Pitch Competition

Fortrea

NASDAQ: FTRE

Current Price - $30.55

Implied Fair Value- $44.54

Implied Upside - 45.8%

January 2024

Logan Colhoun + Linus Guo + Kiyan Phelps

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Investment Thesis

FTRE presents an opportunity to purchase shares in a **high return business** serving a stable and **fast-growing market** at a **cheap price** due to a recent **spin-off** that is **hiding the underlying earnings potential** of the business.

Market View

1.) Unsure about management's ability to deliver operational efficiencies and bring margins in level with industry average.

- This skepticism is shown in the consensus EBITDA margins, with ~20% being the current industry average.
  - CIQ 2024 EBITDA Margin – 9.86%
  - CIQ 2025 EBITDA Margin – 11.28%

2.) Further uncertainty around customer confidence in the new business; new bookings were sluggish during the "spin period".

"We are skeptical that Fortrea will be able to quickly recover from the negative impact of this "spin year".

-Rachel Elfman, Morningstar Analyst

3.) Considerable debt burden from LabCorp following the spinoff gives Fortrea the appearance of an overleveraged and unwanted piece of the Labcorp family.

Variant (Alpha) View

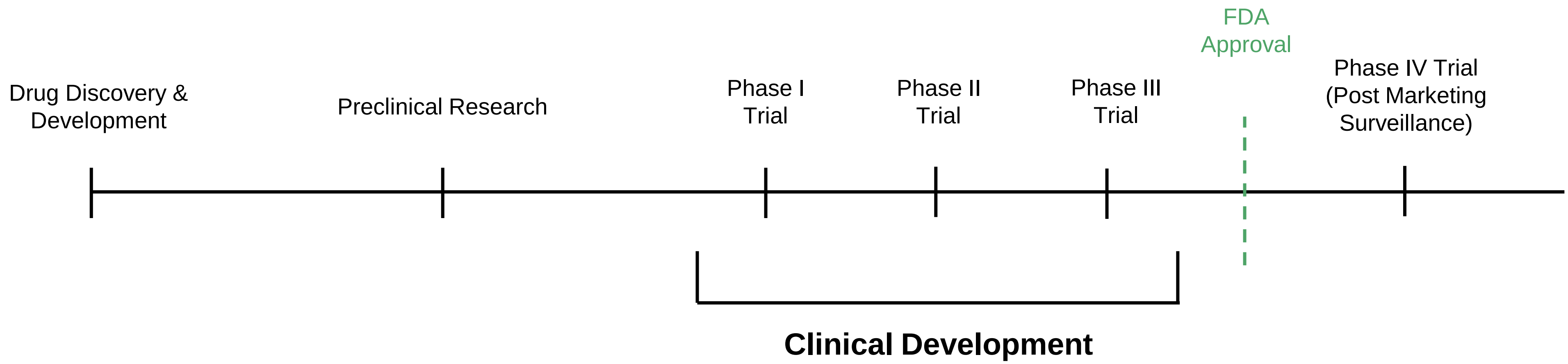
1.) CEO Thomas Pike is the former CEO of Quintiles, which merged with IMS Health in 2016 to form IQVIA, the largest CRO in the world.

- We believe Fortrea has a competitive offering, with no material issues with the product itself. With an effective management team, we believe margins have a good chance of reaching the industry average within a few year.
  - Alpha View 2024 EBITDA Margin – ***11.5% (+165bps)***
  - Alpha View 2025 EBITDA Margin – ***13.5% (+220 bps)***

2.) Following the completion of the spin, backlogs have increased and Fortrea now has a book to bill ratio of >1.2, signaling a return in customer confidence.

3.) Currently sitting at >5x company reported Net Debt / EBITDA. With imminent margin expansion and the ability to delever with >80% FCF conversion, the debt is manageable, and the headline number makes the situation look worse than reality.

What is a Contract Research Organization (CRO)?



Clinical Trial Sponsors

- Clinical Trial Sponsors are the ones developing the drug or medical device.
- Clinical Trial Sponsors include biotech, pharmaceutical, and medical device companies.
- Within clinical development, sponsors oversee the vision, funding, and overall oversight of the process.
- Outside of clinical development, sponsors also do drug discovery & development, preclinical research, and manufacture the drugs once FDA approved.

Contract Research Organizations (CROs)

- Clinical Trial Sponsors outsource the operations and management of clinical trials to CROs.
- CROs are highly experienced in each trial process across different therapeutic verticals.
- Can run higher quality and cheaper trials than a sponsor could.
- Reduces risk for sponsors.

Fortrea Overview

Fortrea

Key Stats

Market Cap: 2.87B	LTM Revenue: 3.10B
Enterprise Value: 4.49B	LTM EBITDA: 262M
Total Debt: 1.69B	2024E EBITDA: 377M
2024E EV/EBITDA: 13.2x	

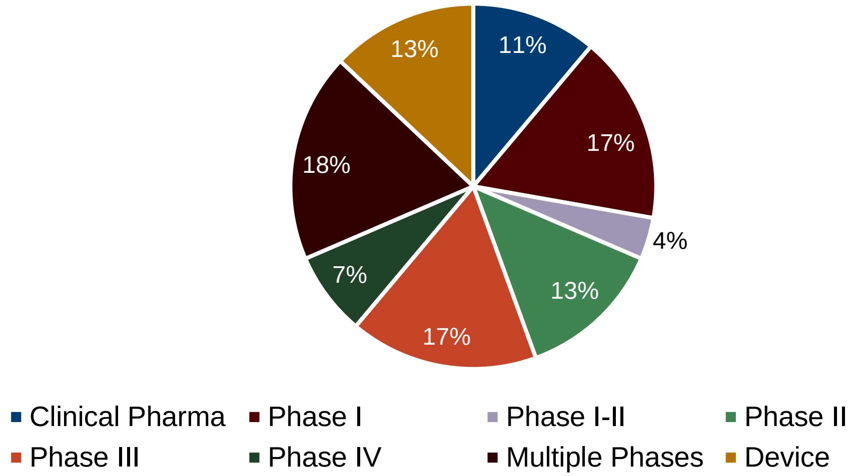
Company Description

- Fortrea is a Contract Research Organization (CRO), which, broadly speaking, does clinical trials for pharmaceutical, biotechnology companies, and medical device industries
- Fortrea primarily specializes in Clinical Trials, specifically in Trials I-IV
- Their primary customer base consists of 50% Big Pharma and 50% biotech, including some medical device customers.
- This will serve Fortrea well, as Fortrea provides a broad range of services, which biotech companies find attractive since they have a hard time differentiating between the services of different CROs, as stated in a McKinsey Report on the CRO industry.

Segment Breakdown

- The company operates in two key segments: Clinical Services and Enabling Services
- Clinical services makes up 97% of total revenue while Enabling Services makes up 3% of total revenue, as of 9 months ending 2023
- Clinical Services Focuses on Clinical Pharmacology (aka Phase I, which is the study of drugs in humans) and Clinical Development (Phase II-IV, where a drug is developed to commercialization)
- Enabling Services help companies find patients for trials and provide various technology services related to helping improve randomization and the overseeing supplies for the trial process

Trial Breakdown



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CapIQ, Proventa International, NIH, pharma-iq, ASCPT, MD Anderson, MED Institute, Earnings Call, McKinsey Report, JPM 42nd Annual Healthcare Conference Transcript

Fortrea Timeline – Spin From Labcorp

Fortrea

1997

Corning Inc. spins off Covance as independent CRO.

Covance operates as independent Contract Research Organization (CRO)

Covance voted as the CRO most likely to succeed in the future by leading CRO consultant.

2015

Labcorp acquires Covance for $6.1B

Operates as Labcorp Drug Development

July 2022

Labcorp announces spin of CRO business

Jan. 2023

Tom Pike announced CEO of Fortrea

July 2023

Spinoff is complete, shares trade on NASDSAQ

1997 – 2014 Financials

Revenue CAGR:	Average EBITDA Margin:	Exit EBITDA Margin:
9.5%	**16.3%**	**17.4%**

"Transaction designed to create value through enhanced strategic and operational focus."

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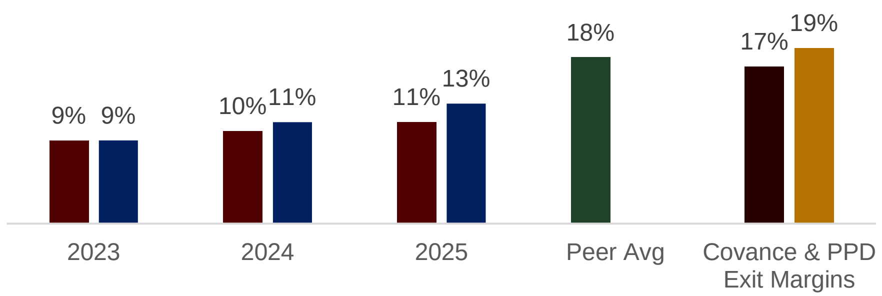
Bearish Consensus By Analyst (Market View)

The market is pessimistic on Fortrea's potential following the spin.

Consensus seems bearish

- Looking at the next three years analyst have margins not reaching above 13% until after FY2025. Compared to managements view that margins should reach 13% by the end of FY24.



Capital IQ Consensus Vs Management FY23-FY25

Consensus View		2023	2024	2025
	Revenue	3110.64	3204.82	3337.73
	EBITDA	269.49	313.05	370.95
	EBITDA Margin	9%	10%	11%

Management's View		2023	2024	2025
	Revenue	3102.5	3204.82	3337.73
	EBITDA	270	352.53	433.90
	EBITDA Margin	9%	11%	13%

Weak Starting Point Compared to Expectations

- "Direct costs increased 8.8% year-on-year, primarily due to higher pass-through costs, the addition of transition services agreement costs and personnel costs" – Jill McConnell, Q3 2023
- "The lower service fee revenues were due to slower than historic ramp-up of a few longer-duration studies" – Jill McConnell, Q3 2023

Unexpected cost in relation to TSAs from Labcorp

- "Our reported results continue to reflect previously disclosed headwinds… cost of the inherited infrastructure" – Jill McConnell, Q3 2023
- "Initial actions were taken towards the end of the third quarter to align our cost structure to our existing revenue profile" – Jill McConnell, Q3 2023

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Capital IQ Estimates

CROs are a High-Quality Business

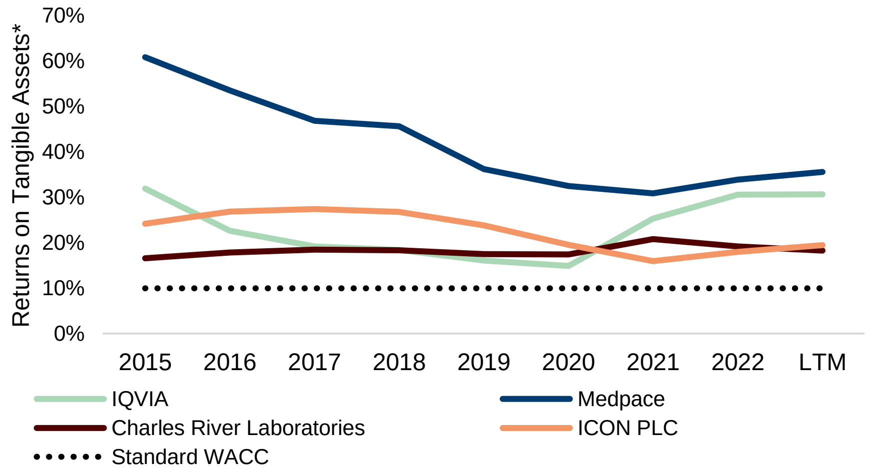
Competitive Moat

- Outsourced clinical trials are **mission-critical**, **high cost of failure** services provided by CROs for biopharma and medical device companies.
  - Any delays in the clinical trial process can lead to a loss of valuable patent-protected profits for clinical sponsors.
- Given the mission-critical nature of clinical trials, CROs benefit from **switching costs**.
  - The clinical trial process can take up to 10 years, and clinical trial sponsors are generally **unwilling to switch their CRO in the middle of a clinical trial.**
  - This is particularly true in later stages (Phase III), when the drug/medical device is on the verge of FDA approval.
- Large CROs benefit from **scale**, as most clinical trials are multinational, particularly in the later stage.
- Maintaining site relationships, regulatory knowledge for different jurisdictions, and nuanced knowledge of clinical trials across different therapeutic verticals likely constitutes an **intangible asset** moat.

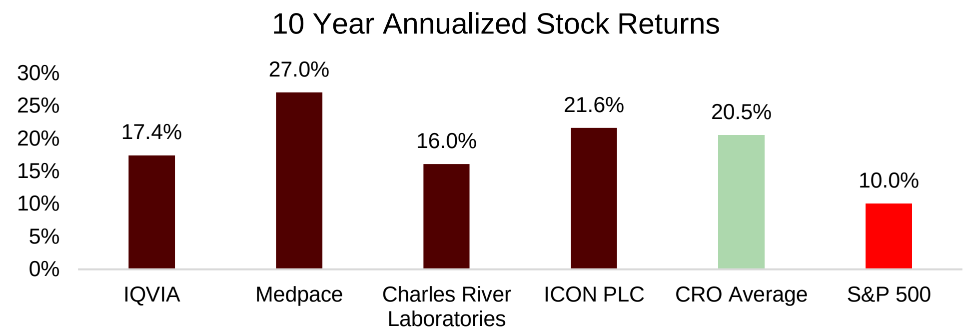
The preceding qualitative "moat" characteristics are supported by **high returns on capital** within the industry, and **outsized stock returns.**

Industry Returns

- Publicly traded CROs have historically generated returns in excess of their cost of capital.
  - We use returns on tangible assets because many CROs are acquisitive. We use this as a proxy for incremental ROIC.



- These outsized returns have shown up in stock returns, with the average CRO outperforming the S&P 500 by ~10% annually over the past 10 years.



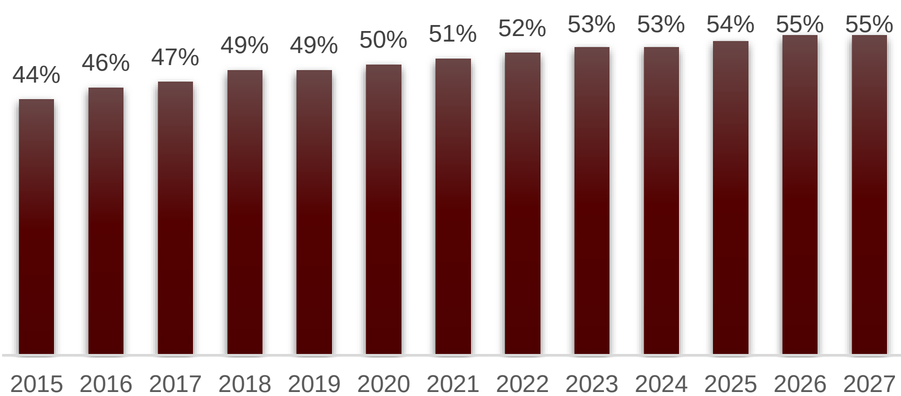
*Measured by dividing NOPAT (Ebit * 1-T) by Tangible Assets, which excludes goodwill and intangible assets from prior acquisitions.

Our View

Benefits from Higher Penetration and Greater R&D Spending

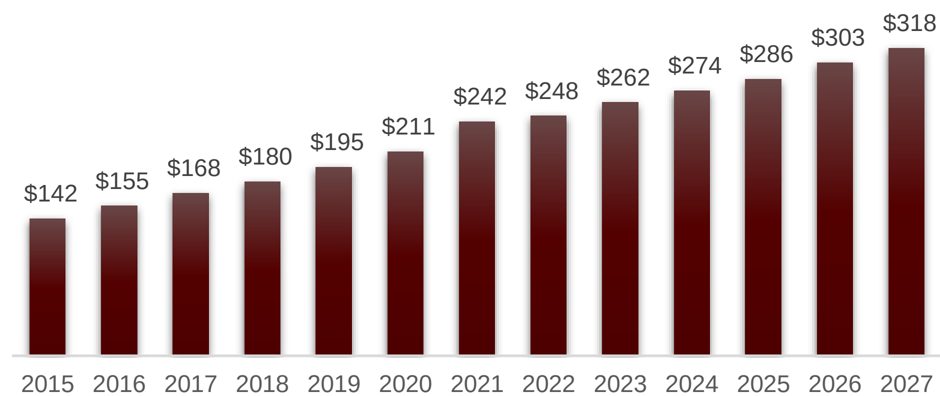
CRO market is expected to grow at 7% CAGR through 2027 as a result of growing *CRO penetration rates* and growing *Biopharma R&D Spending*.

Growing CRO Penetration Rates



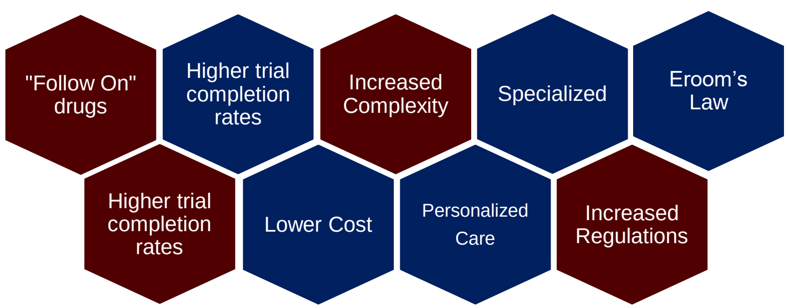
*60bp annual increase from 2022 to 2027

Steady Biopharma Spending in the future



*$ in Billions

Reasons why CROs are growing in prominence



*Follow On drugs are drugs that are manufactured to either be paired with or to combat the symptoms of other drugs
*Erooms Law: increased spending while decrease in the number of drugs made

The CRO market is dependent on the spending of Biopharma research from Biotech and pharma companies. Biopharma R&D spending is expected to grow at a 5% CAGR through 2027.

An Experienced and Capable Management Team

Executive Team

Thomas (Tom) Pike: Chairman & CEO

Mr. Pike has over 30 years of leadership in the contract research organization (CRO) industry. He previously served as the CEO of Quintiles.

Jill McConnell: Chief Financial Officer

Ms. McConnell has more than 25 years of financial leadership in healthcare, driving growth and margin expansion.

Mark Morais: Chief Operating Officer

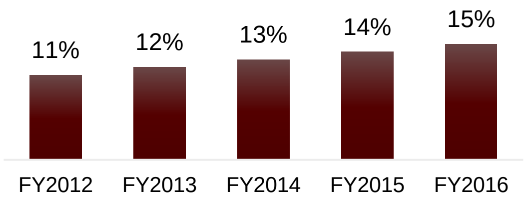
Mr. Morais has over two decades of experience in the CRO industry, including a successful track record in operational optimization.

Strong alignment with shareholders

- Mr. Pike was granted 377,074 RSUs and stock options to purchase 799,272 additional shares at the exercise price of $26.52 per share.

Track record of improving margins

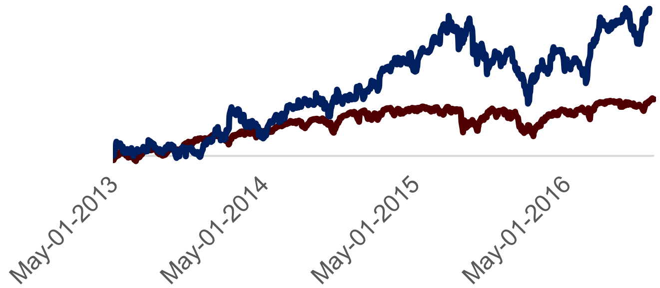
- Mr. Pike has a record of improving margins during his time at Quintiles



*margins increased by 425bps in four years

Track record of success in CRO industry

- Shareholders of Quintiles experienced a 54% outperformance to the market during Mr. Pike's time as CEO.



*Shareholders of IQV returned 92% while the market returned 38%

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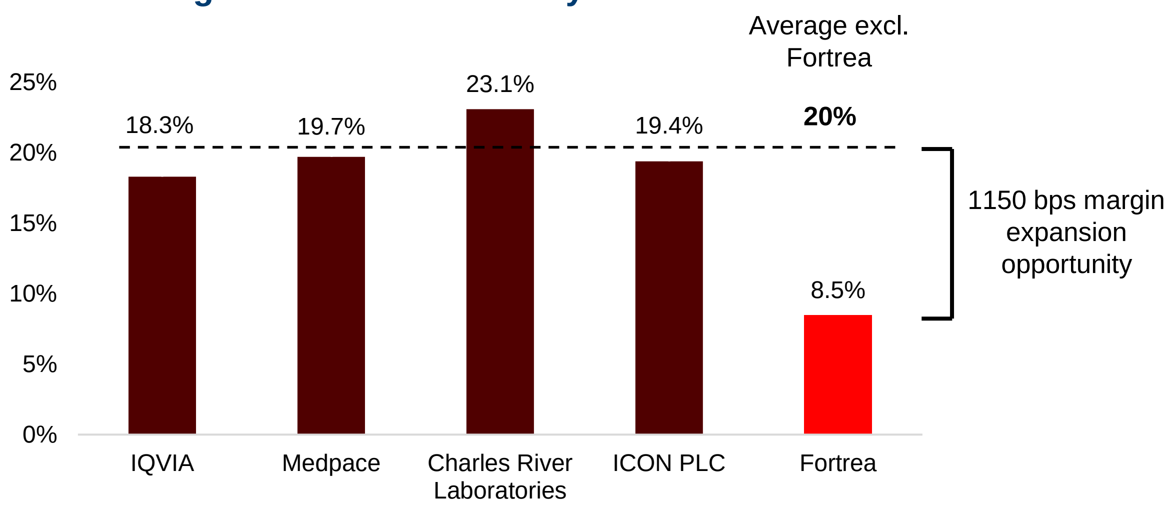
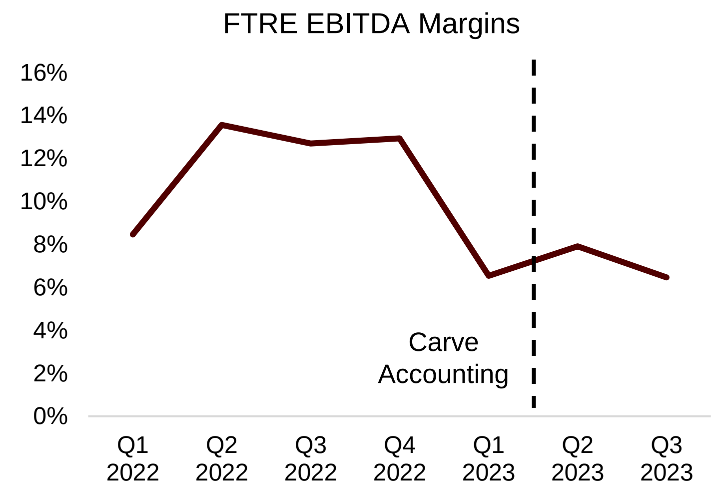
FTRE Investors page

Opportunity to Aggressively Expand Margins

Fortrea margins relative to industry





Where will margin expansion come from?

> "We will get our financial house in order. I have seen other CRO's and there's nothing in pricing or operations-wise, that's unusual or concerning here. This is a disciplined operations organization that can deliver programs with quality."
>
> \- Tom Pike, CEO, Q2 Earnings Report

- SG&A Benchmarking: Following the "lift and shift" spinoff from Labcorp, costs have not been reorganized as they should be for a standalone business.
  - Transaction Service Agreements (TSAs) from Labcorp are creating laborious costs within Fortrea's cost structure. These reside in direct costs (COGS) and SG&A.
    - TSAs will be fully exited by the end of 2024, erasing the additional costs that currently exist within Fortrea's margins.
- Utilization & Productivity: Investments to properly and efficiently utilize 17,000 global employees.
  - Reducing employee count will show up in both gross margins and SG&A margins.
  - Increase throughput in pharmacology (Phase I) business; new cost center that does not have enough volume flowing through.

Growing Pipeline of New Orders and Progress on TSA Exits

Key Components to Expanding Margins

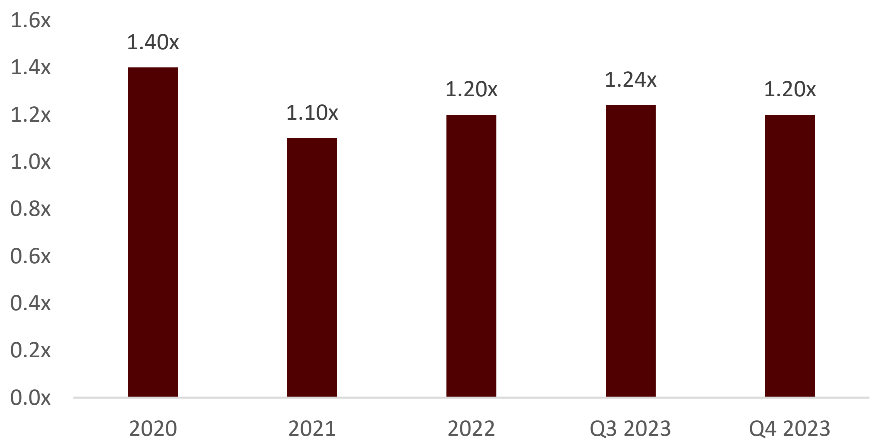
Book to Bill above 1.2x for first 6 Months

- In the company's recent presentation at JPM's 2024 Annual Healthcare Conference, the company stated that they successfully managed a book-to-bill ratio of 1.2x for Q4 2023
- Management stated that this aligned with their goal of having a book-to-bill ratio of above 1.2x for the first 6 months as an independent company
- Even better, this ratio is comparable to ratios from 2020 – 2022 before they spun-off from Labcorp

Progress in TSA Agreements With Parent Company

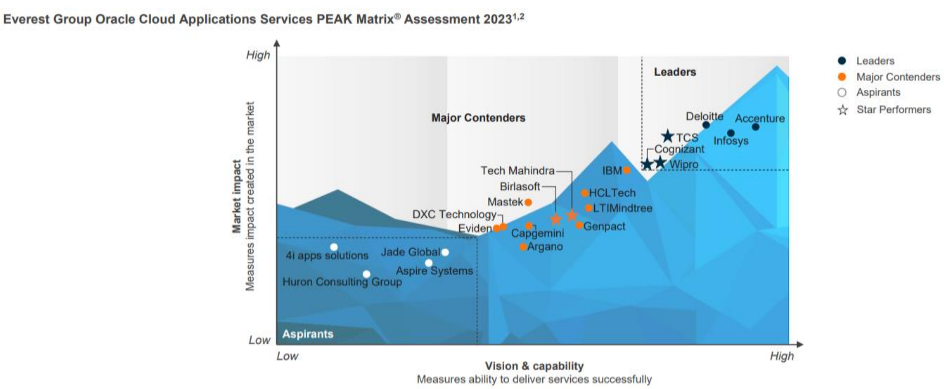
- Management recently commented at JPM's 2024 Annual Healthcare Conference (Jan-10) that the company has already exited 40% of its TSAs with its parent company Labcorp
- Management stated recently that they choose Cognizant to help them exit the last 60% of TSAs involving system tech while also helping Fortrea develop their own IT Infrastructure
- Cognizant has been recognized by Fortune as one of America's most innovative companies in 2023
- Cognizant has also been recognized by research firm Everest Group as a Leader among peers that use "Oracle Cloud Application Services"

Book to Bill Ratio Graph



**Q1 2023 Not Available and Q2 2023 due to changes in backlog calculation

Everest Group PEAK Matrix Assessment 2023 of Cognizant



Reverse DCF

FORTREA REVERSE DCF	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue	3,111	3,202	3,359	3,530	3,710	3,900	4,099	4,308	4,527	4,758	5,001
YoY Growth		*2.9%*	*4.9%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Management EBITDA	271	319	395	441	519	604	676	754	838	880	936
EBITDA Margin	*8.7%*	*10.0%*	*11.8%*	*12.5%*	*14.0%*	*15.5%*	*16.5%*	*17.5%*	*18.5%*	*18.5%*	*18.7%*
EBITA	202	248	321	364	438	519	586	659	738	776	826
EBITA Margin	*6.5%*	*7.8%*	*9.6%*	*10.3%*	*11.8%*	*13.3%*	*14.3%*	*15.3%*	*16.3%*	*16.3%*	*16.5%*
Effective Tax Rate	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%
NOPAT	150	184	238	269	324	384	434	488	546	574	611
FCF Conversion	*86%*	*84%*	*101%*	*90%*	*82%*	*83%*	*84%*	*85%*	*85%*	*85%*	*85%*
Unlevered Free Cash Flow	129	154	241	242	266	319	365	415	464	488	520
Discount Rate	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
Years Away	1	2	3	4	5	6	7	8	9	10	11
PV of UFCF	118	128	183	168	168	184	192	199	203	195	189
EV/EBITDA Multiple	16.4x	14.0x	11.3x	10.1x	8.6x	7.4x	6.6x	5.9x	5.3x	5.1x	4.8x
EV/UFCF Multiple	34.4x	28.8x	18.5x	18.4x	16.7x	13.9x	12.2x	10.7x	9.6x	9.1x	8.6x

Enterprise Value	
Sum of Explicit Period PV of UFCF	1927
PV of Terminal Value	2361
Enterprise Value	4288
Debt	1686
Cash	110
Equity Value	2712
Shares Outstanding	88.8
Implied Value/Share	$30.54
Current Share Price	$30.55
Implied Upside	**0.0%**

Market is underwriting **market share losses** throughout forecast period.

FTRE Revenue Growth = 5.1%

ICON Revenue Growth = 8.0%

Market is underwriting **timid margin expansion,** below industry norms and management expectations.

FTRE Exit Margin= 18.7%

ICON Exit Margin = 25.3%

We believe the market is being **overly pessimistic** on FTRE's **competitive positioning**, and don't believe they'll lose an excessive amount of market share.

We believe the market is **unreasonably afraid** to **give FTRE credit** for their ability to **expand margins** to industry averages in both the near and far future.

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Valuation

Discounted Cash Flow

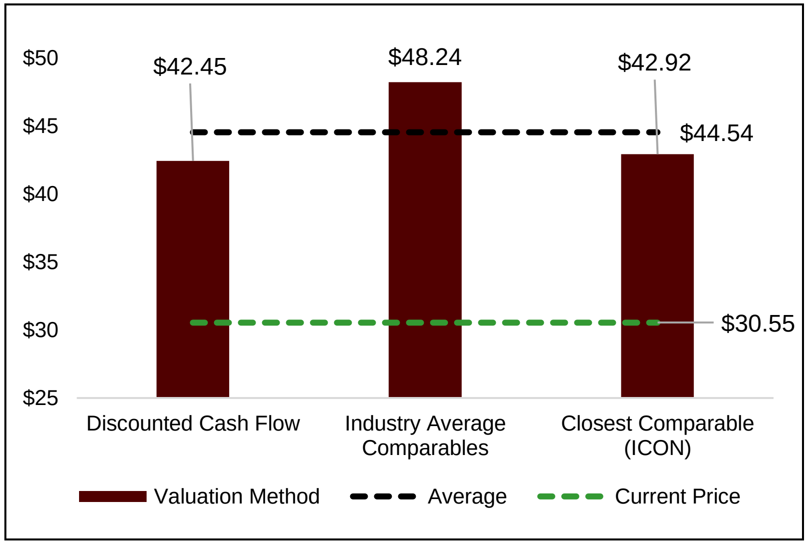
DISCOUNTED CASH FLOW	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue	3103	3279	3465	3662	3869	4089	4321	4566	4825	5099	5388
YoY Growth		*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*
Management EBITDA	270	377	468	586	658	746	843	947	1013	1076	1142
EBITDA Margin	*8.7%*	*11.5%*	*13.5%*	*16.0%*	*17.0%*	*18.3%*	*19.5%*	*20.8%*	*21.0%*	*21.1%*	*21.2%*
EBITA	196	305	392	505	573	656	748	847	907	964	1024
EBITA Margin	*6.3%*	*9.3%*	*11.3%*	*13.8%*	*14.8%*	*16.1%*	*17.3%*	*18.6%*	*18.8%*	*18.9%*	*19.0%*
Effective Tax Rate	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%
NOPAT	145	226	290	374	424	486	553	627	671	713	758
Less: Capital Expenditures	-41	-49	-52	-55	-58	-61	-65	-68	-72	-76	-81
Less: ΔNWC	22	13	56	17	-18	-19	-20	-21	-23	-24	-25
Unlevered FCF	125	189	293	336	348	405	468	537	576	613	651
Free Cash Flow Conversion	*86%*	*84%*	*101%*	*90%*	*82%*	*83%*	*85%*	*86%*	*86%*	*86%*	*86%*
Discount Rate	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
Years Away	1	2	3	4	5	6	7	8	9	10	11
PV of UFCF	114	158	223	233	220	234	246	258	252	245	237

Enterprise Value	
Sum of Explicit Period PV of UFCF	2419
PV of Terminal Value	2927
Enterprise Value	5346
Debt	1686
Cash	110
Equity Value	3770
Shares Outstanding	88.8
Implied Value/Share	$42.45
Current Share Price	$30.55
Implied Upside	**39.0%**

Comparable Valuation

Industry Average Valuation	
Fortrea 2025E EBITDA	468
2025E Industry Multiple	14.4x
Implied 2025 Enterprise Value	6,724
Debt	1,686
Cash	110
2025 Implied Equity Value	5,147
Shares Outstanding	88.8
2025 Implied Price/Share	$57.96
Current Price/Share	$30.55
Implied 2 Year Upside	89.7%
Implied IRR	37.7%
Implied Current Fair Value	$48.24
Implied Upside	**57.9%**

Closest Comparable (ICON) Valuation	
Fortrea 2025E EBITDA	468
2025E ICON Multiple	13.2x
Implied 2025 Enterprise Value	6,156
Debt	1,686
Cash	110
2025 Implied Equity Value	4,580
Shares Outstanding	88.8
2025 Implied Price/Share	$51.58
Current Price/Share	$30.55
Implied 2 Year Upside	68.8%
Implied IRR	29.9%
Implied Current Fair Value	$42.92
Implied Upside	**40.5%**



Downside Risk (How do We Lose Money)

Reputational Risks

- Recently Fortrea got accused by Acelyrin, a biotech firm, of errors in two independent studies caused by the interactive response technology (IRT)
  - Acelyrin said it would no longer work with Fortrea as the result of this error
- Fortrea has responded by hiring an independent auditor to investigate the two independent case to see if Fortrea played a role in causing the errors in the two studies
- The report came back and said Fortrea not responsible for the error
- While Fortrea is innocent, as of now, this case may potentially hurt Fortrea's ability to get new customers in the future

Exiting TSAs and Building New IT Infrastructure

- As stated in previous slides, the company has already exited 40% of its TSAs
- However, since they deal with "system technology" as stated by the company, it may continue to pose a significant challenge for Fortrea
- Fortrea has partnered with Cognizant to help exit its TSAs and develop new IT infrastructure
- Fortrea also has also a joint partnership with Veeva System Inc and Advarra to streamline the tech used in its clinical services
- Nonetheless, there is no guarantee the company can exit all its TSAs by 2024

Impacts of Layoffs on Company Culture

- Fortrea currently ranked highly among employees who work there, earning an average of 3.9 out of 5, which is comparable, if not better, than many of its competitors
- However, the CRO industry is notoriously known for high turnover rates
  - In 2022, a survey done by Clinical Leader showed that 48% of CRO Associates work one to two years before moving on to another job
- This high turnover rate may negatively affect Fortrea's ability to get new business

Drug Development Uncertainties

- Problems with Drug Developments
  - Clinical trial Failures or Issues – A study published in 2016 cited by the NIH demonstrates that out of 640 phase III trials that treated new diseases showed that 54% failed in clinical development with 57% failing in to show the effectiveness of the drug
  - Lengthy Development Timelines – research form phRMA put the number between 10 to 15 years to go through the whole approval and commercialization process
  - Patient Recruitment Issues – two studies cited by the NIH demonstrates that patient recruitment has been a problem for a while

Earnings Calls, firstwordpharama, ET CIO Asia, Fortrea Corporate Announcements, Informa Connect, Biopharma Drive, FierceBiotech, Clinical Leader (https://www.clinicalleader.com/doc/the-supply-demand-for-clinical-trial-staffing-in-beyond-0001), PhRMA (cited by N-Sides), Drug Development Uncertainties, NIH (https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6092479/#bib58) [(82,101) (6,33) links to studies from NIH], JPM 42th Healthcare Conference Transcript, Earnings Call

Summary

1.) CROs are a high-quality business serving with an attractive industry structure and long-term tailwinds to drive growth for years to come.

2.) Prior to Labcorp, Fortrea (then Covance) was arguably the most successful CRO in the world. Now that they're on their own, they have an industry veteran who has "done this before" at the helm.

3.) Fortrea is vastly underearning at the moment, with EBITDA margins ~900 bps below 2015 Covance levels and ~1100 bps below the industry average.

4.) While there are some issues with Fortrea coming from Labcorp, we believe the market is overstating these issues in their underwriting.

5.) We believe Fortrea has the ability to grow with the CRO market (not lose market share) and bring margins near industry norms within the next 3-5 years.

6.) The market is not currently underwriting this scenario and is betting on weak margin expansion and below market growth rates. **We believe our deviation from these expectations creates an opportunity to generate alpha!**

Appendix

Fortrea Reverse DCF

Fortrea

Fortrea REVERSE DCF	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue	3,111	3,202	3,359	3,530	3,710	3,900	4,099	4,308	4,527	4,758	5,001
YoY Growth		*2.9%*	*4.9%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*
Management EBITDA	271	319	395	441	519	604	676	754	838	880	936
EBITDA Margin	*8.7%*	*10.0%*	*11.8%*	*12.5%*	*14.0%*	*15.5%*	*16.5%*	*17.5%*	*18.5%*	*18.5%*	*18.7%*
EBITA	202	248	321	364	438	519	586	659	738	776	826
EBITA Margin	*6.5%*	*7.8%*	*9.6%*	*10.3%*	*11.8%*	*13.3%*	*14.3%*	*15.3%*	*16.3%*	*16.3%*	*16.5%*
Effective Tax Rate	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%
NOPAT	150	184	238	269	324	384	434	488	546	574	611
FCF Conversion	*86%*	*84%*	*101%*	*90%*	*82%*	*83%*	*85%*	*86%*	*86%*	*86%*	*86%*
Unlevered Free Cash Flow	129	154	241	242	266	320	367	418	469	493	525
Discount Rate	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
Years Away	1	2	3	4	5	6	7	8	9	10	11
PV of UFCF	118	128	183	168	168	185	193	200	205	197	191
EV/EBITDA Multiple	16.4x	14.0x	11.3x	10.1x	8.6x	7.4x	6.6x	5.9x	5.3x	5.1x	4.8x
EV/UFCF Multiple	34.4x	28.8x	18.5x	18.4x	16.7x	13.9x	12.1x	10.7x	9.5x	9.0x	8.5x

Enterprise Value	
Sum of Explicit Period PV of UFCF	1936
PV of Terminal Value	2361
Enterprise Value	4297
Debt	1686
Cash	110
Equity Value	2721
Shares Outstanding	88.8
Implied Value/Share	$30.64
Current Share Price	$30.55
Implied Upside	**0.3%**

Weighted Average Cost of Capital (WACC)	
Capital Structure	
% Equity	63.4%
% Debt	36.6%
Cost of Equity	
Risk Free Rate	4.4%
Industry Beta	1.3
Exp. Market Return	10%
Cost of Equity	**11.7%**
Cost of Debt	
Cost of Debt	8.1%
Tax Rate	26%
After Tax Cost of Debt	**6.0%**
WACC	**9.6%**

Terminal Value	
2034 NOPAT	623
Discount Rate	9.6%
Terminal Value	6481
PV of TV	**2361**

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ICON Reverse DCF

ICON REVERSE DCF	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue	8,175	8,693	9,369	10,118	10,927	11,802	12,746	13,765	14,867	16,056	17,341
YoY Growth		*6.3%*	*7.8%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
Management EBITDA	1681	1822	1992	2202	2432	2686	2965	3271	3607	3975	4380
EBITDA Margin	*20.6%*	*21.0%*	*21.3%*	*21.8%*	*22.3%*	*22.8%*	*23.3%*	*23.8%*	*24.3%*	*24.8%*	*25.3%*
EBITA	1546	1679	1837	2035	2252	2491	2754	3044	3361	3711	4094
EBITA Margin	*18.9%*	*19.3%*	*19.6%*	*20.1%*	*20.6%*	*21.1%*	*21.6%*	*22.1%*	*22.6%*	*23.1%*	*23.6%*
Effective Tax Rate	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
NOPAT	1299	1410	1543	1709	1892	2093	2314	2557	2824	3117	3439
FCF Conversion	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*
Unlevered Free Cash Flow	1169	1269	1389	1538	1703	1883	2082	2301	2541	2805	3095
Discount Rate	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
Years Away	1	2	3	4	5	6	7	8	9	10	11
PV of UFCF	1065	1055	1052	1063	1072	1082	1090	1098	1106	1113	1119
EV/EBITDA Multiple	15.6x	14.4x	13.2x	11.9x	10.8x	9.8x	8.8x	8.0x	7.3x	6.6x	6.0x
EV/UFCF Multiple	22.4x	20.7x	18.9x	17.0x	15.4x	13.9x	12.6x	11.4x	10.3x	9.3x	8.5x
Historical Depreciation Margin	1.5%										
Historical SBC Margin	1.0%										
Historical FCF Conversion	85%										

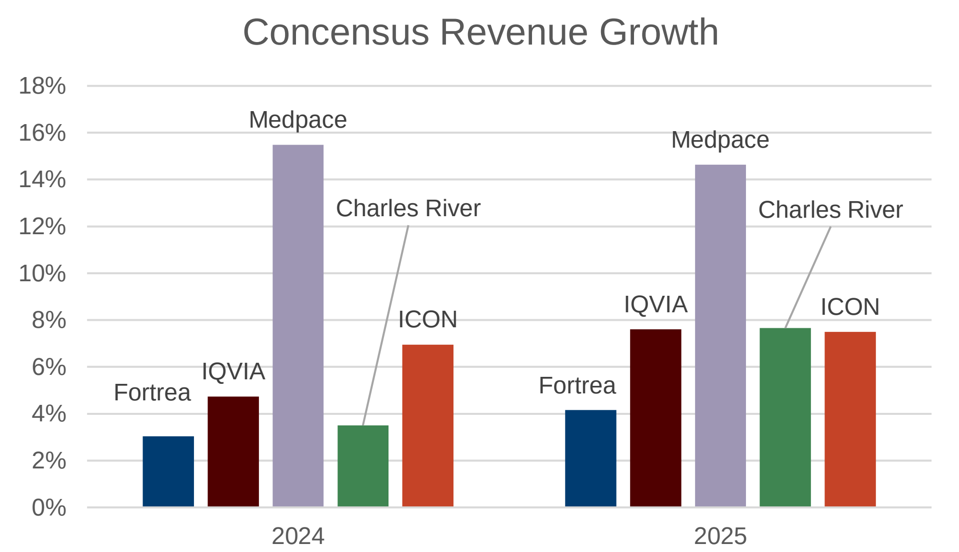
Enterprise Value	
Sum of Explicit Period PV of UFCF	11916
PV of Terminal Value	13097
Enterprise Value	25013
Debt	4197
Cash	315
Equity Value	21131
Shares Outstanding	82.3
Implied Value/Share	$256.76
Current Share Price	$256.98
Implied Upside	**-0.1%**

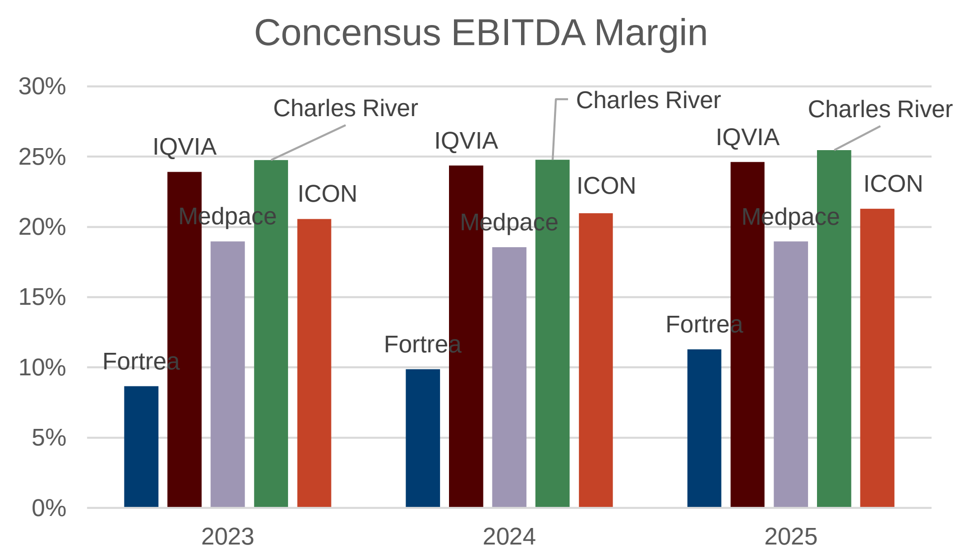
Weighted Average Cost of Capital (WACC)	
Capital Structure	
% Equity	84.2%
% Debt	15.8%
Cost of Equity	
Risk Free Rate	4.4%
ICON Beta	1.1
Exp. Market Return	10%
Cost of Equity	**10.6%**
Cost of Debt	
Cost of Debt	6.0%
Tax Rate	16%
After Tax Cost of Debt	**5.0%**
WACC	**9.7%**

Terminal Value	
2034 NOPAT	3508
Discount Rate	9.7%
Terminal Value	36213
PV of TV	**13097**

Market Consensus on CROs

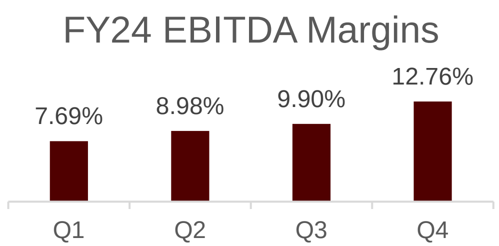
Consensus industry growth appears to be at around 7.5% (IIQVIA, Charles River, and ICON 2025 growth). Underwriting 5.7% for Fortrea; conservative relative to industry underwriting.



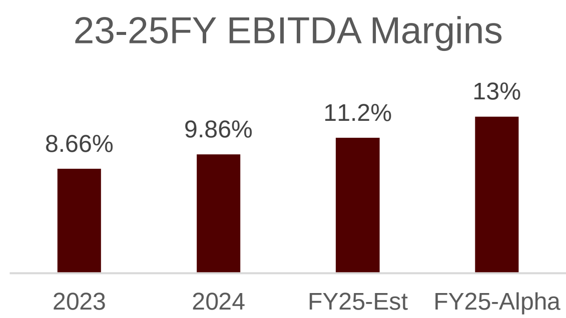


Margins and Peer Multiples

Margin future for *Fortrea*

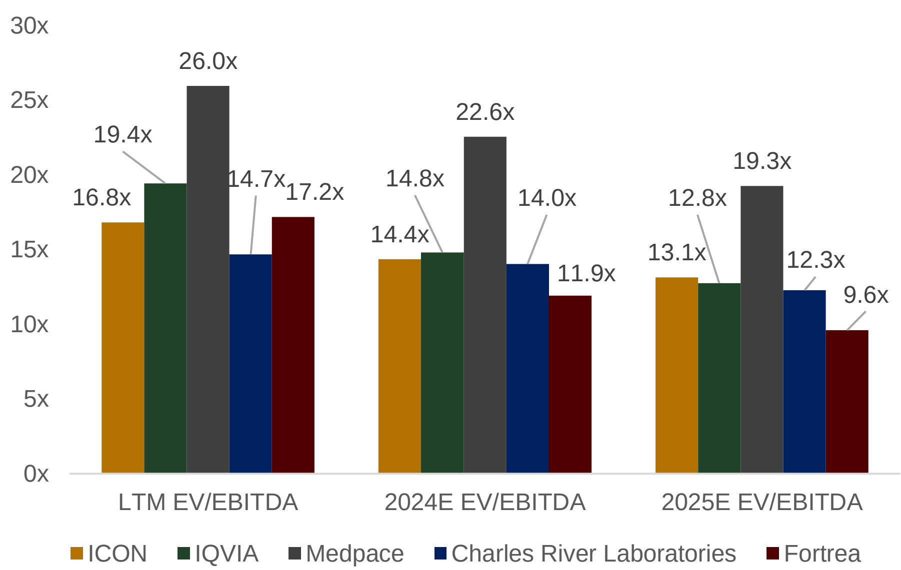


Analyst Consensus sees significant EBITDA Margin improvement throughout 2024. Though management sees exit margins of 13% for 2024, consensus seems to see margins not getting above 13% in FY25.



FY25 EBITDA Margin of 11.2% compared to peer average of 22.6%

Peer Multiples



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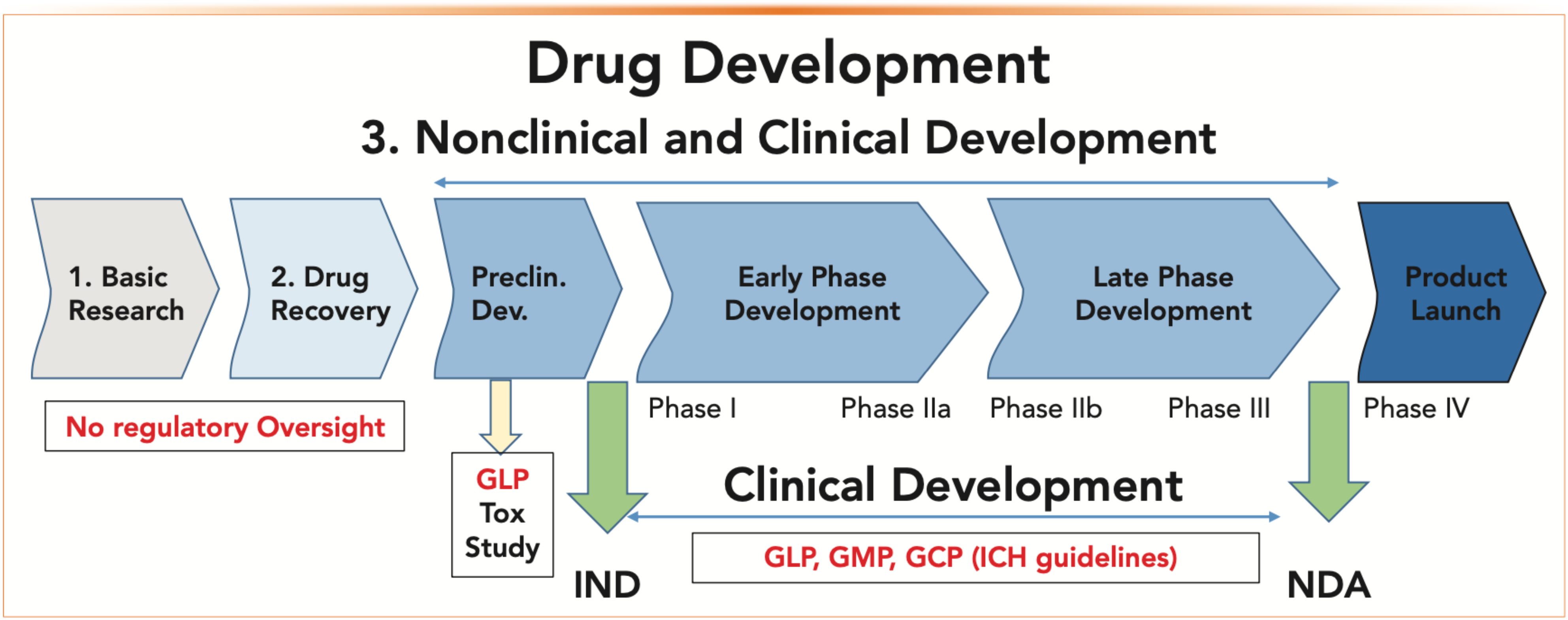
Drug Development Process



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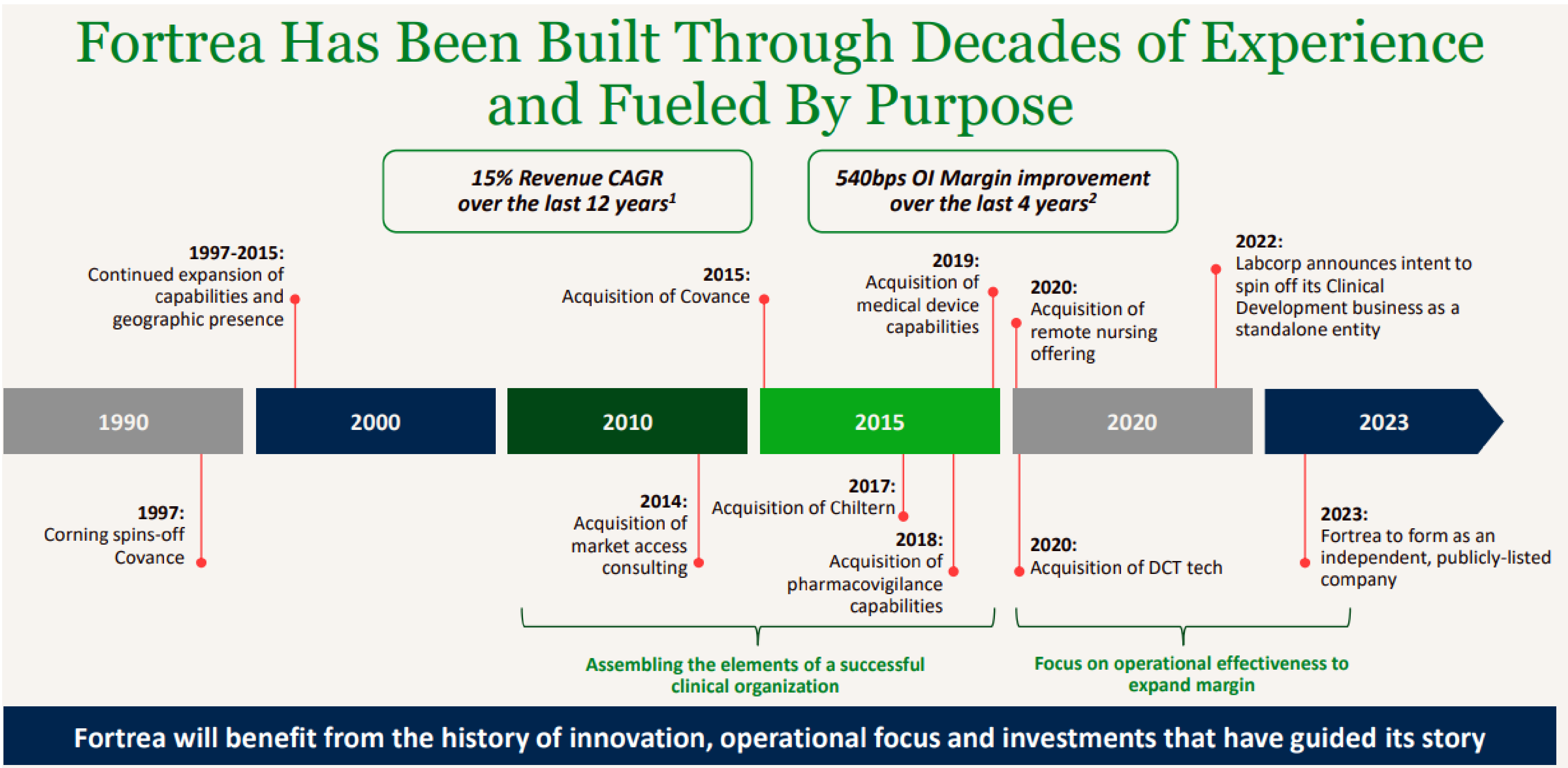
Fortrea Timeline



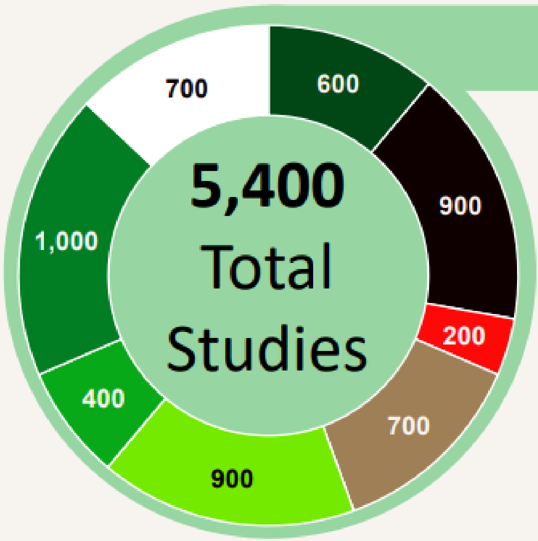
Large Customers Fully Embedded in Fortrea Offerings

Customer #	Global Clinical Solutions			Enabling Services
	Clin Pharm	Full Service	FSP	
1	✓	✓	✓	✓
2	✓	✓	✓	✓
3	✓	✓	✓	-
4	✓	✓	✓	✓
5	✓	✓	✓	✓
6	-	✓	✓	-
7	-	✓	✓	✓
8	-	✓	✓	-
9	-	✓	✓	✓
10	✓	✓	✓	-
11	✓	✓	✓	-
12	-	✓	✓	-
13	✓	✓	✓	✓
14	-	✓	✓	✓
15	✓	✓	✓	✓

Stage of Fortrea Trials

Extensive History Across the Development Continuum

Presence Across Development Continuum – Trials Running between January 2017 – December 2021



	Clin Pharm	PHASE I	PHASE I-II	PHASE II	PHASE III	PHASE IV	MULTIPLE[1]	DEVICE[2]	TOTAL
Studies	600	900	200	700	900	400	1,000	700	5,400
Utilized Sites	-	4,000	3,100	15,900	46,900	9,200	1,000	3,400	83,500
Participants	-	34,700	77,100	69,900	437,200	165,600	5,700	138,900	929,100

Clinical Development Business (Fortrea) Vision @ Time of Announcement

Fortrea

The Clinical Development Business: Leading Global CRO Focused on Supporting Biotechnology and Pharmaceutical Customers and Accelerating Innovation

The Clinical Development business will continue to be a leading global provider of Phase I-IV clinical trial, market access and technology solutions to both large and emerging pharmaceutical and biotechnology organizations. Following the planned spin-off, the business will be positioned to:

- Capitalize on growth opportunities across Phases I-IV clinical trials and extend its leadership in oncology, cell and gene therapy, rare disease, and other emerging therapeutic areas.
- Increase agility with large pharmaceutical and biotechnology clients to better serve customers and advance life-saving therapies.
- Retain access to Labcorp's vast health and clinical data set through an arrangement which will enable it to provide enhanced trial execution and a differentiated value proposition.
- Continue to invest in capabilities, technologies, diverse talent and innovation to enhance trial execution and better serve all of its customers.
- Implement a capital structure that is tailored to support its growth strategy and enhance stakeholder value.

An experienced management team at Fortrea

Thomas (Tom) Pike: Chairman & CEO

Mr. Pike has over 30 years of leadership in the contract research organization (CRO) industry. He previously served as the CEO of Quintiles, leading the company through a merger with IMS Health in 2016 to create IQVIA. Mr. Pike also led the company through its successful IPO and helped lead IQVIA into a Fortune 500 company. Prior to Quintiles, Mr. Pike spent 22 years at Accenture in various roles. Most recently, he served as Chief Risk Officer and Managing Director of North America Health and Product business areas.

Jill McConnell: Chief Financial Officer

Ms. McConnell has more than 25 years of financial leadership in healthcare, driving growth and margin expansion. Prior to joining Fortrea, Ms. McConnell served as Chief Financial Officer of Labcorp Drug Development. She most recently led the project that executed the spinoff of Fortrea from Labcorp (NYSE: LH).

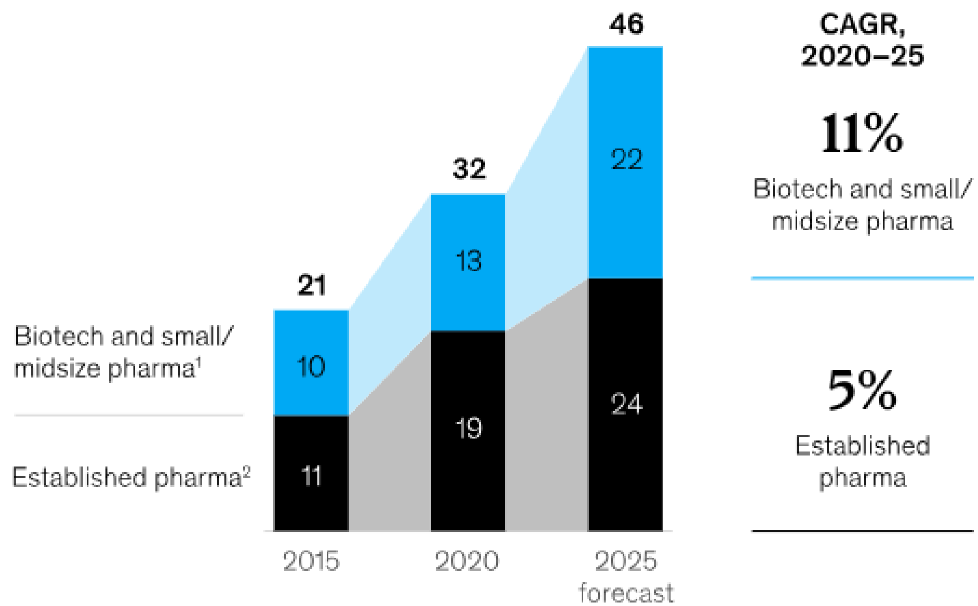
Mark Morais: COO and President, Clinical Development

Mr. Morais has over two decades of experience in the CRO industry, including a successful track record in operational optimization. Prior to working at Fortrea, Morais served as President of Clinical Operations at Labcorp. Before joining Labcorp, Mr. Morais served at Quintiles/IQVIA from 2001 to 2016, where he led Quintiles in various roles in both Commercial Development and Clinical Operations.

Smaller pharma growing spending faster than established.

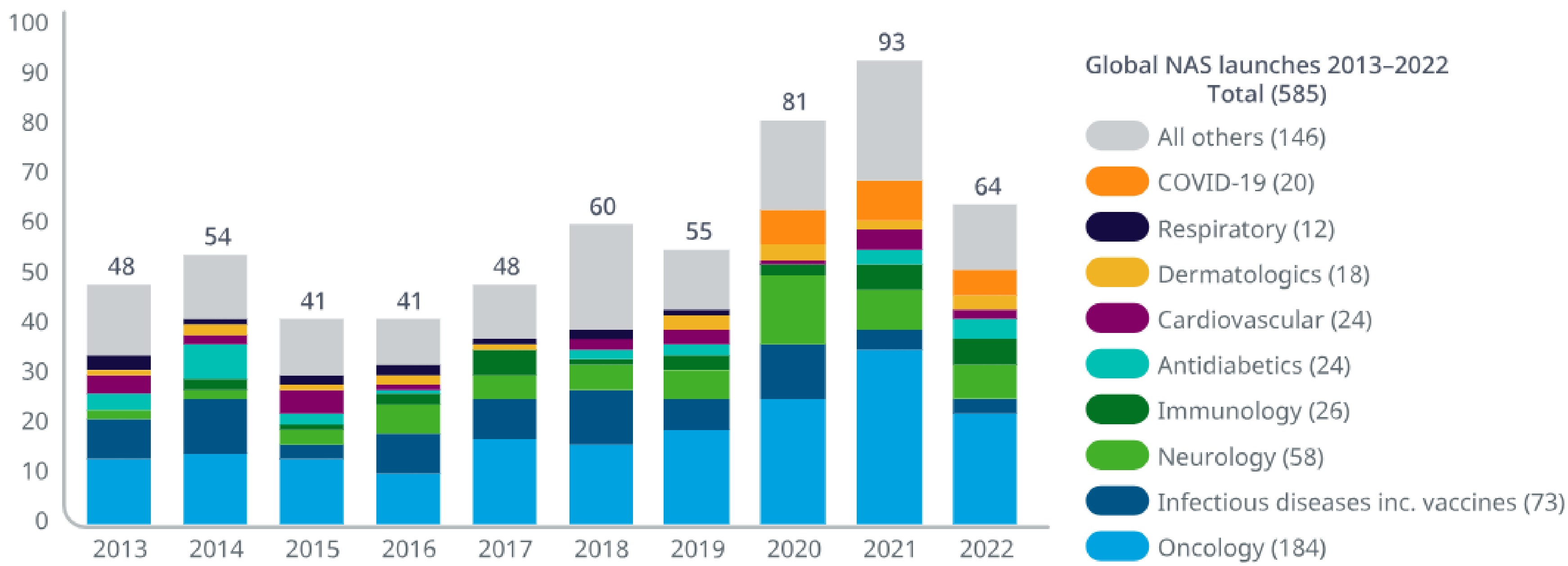
Biotechnology companies are expected to drive the greatest growth in the clinical contract-research-organization market.

Global clinical contract-research-organization market, by segment, $ billion



[1]Biopharmaceutical companies beyond largest top 20 by annual revenue.
[2]Top 20 largest biopharmaceutical companies by annual revenue.
Source: EvaluatePharma; expert interviews; Frost & Sullivan; McKinsey Customer Survey, May 2021 (n = 65); McKinsey analysis

Oncology has the most novel active substances launched annually.

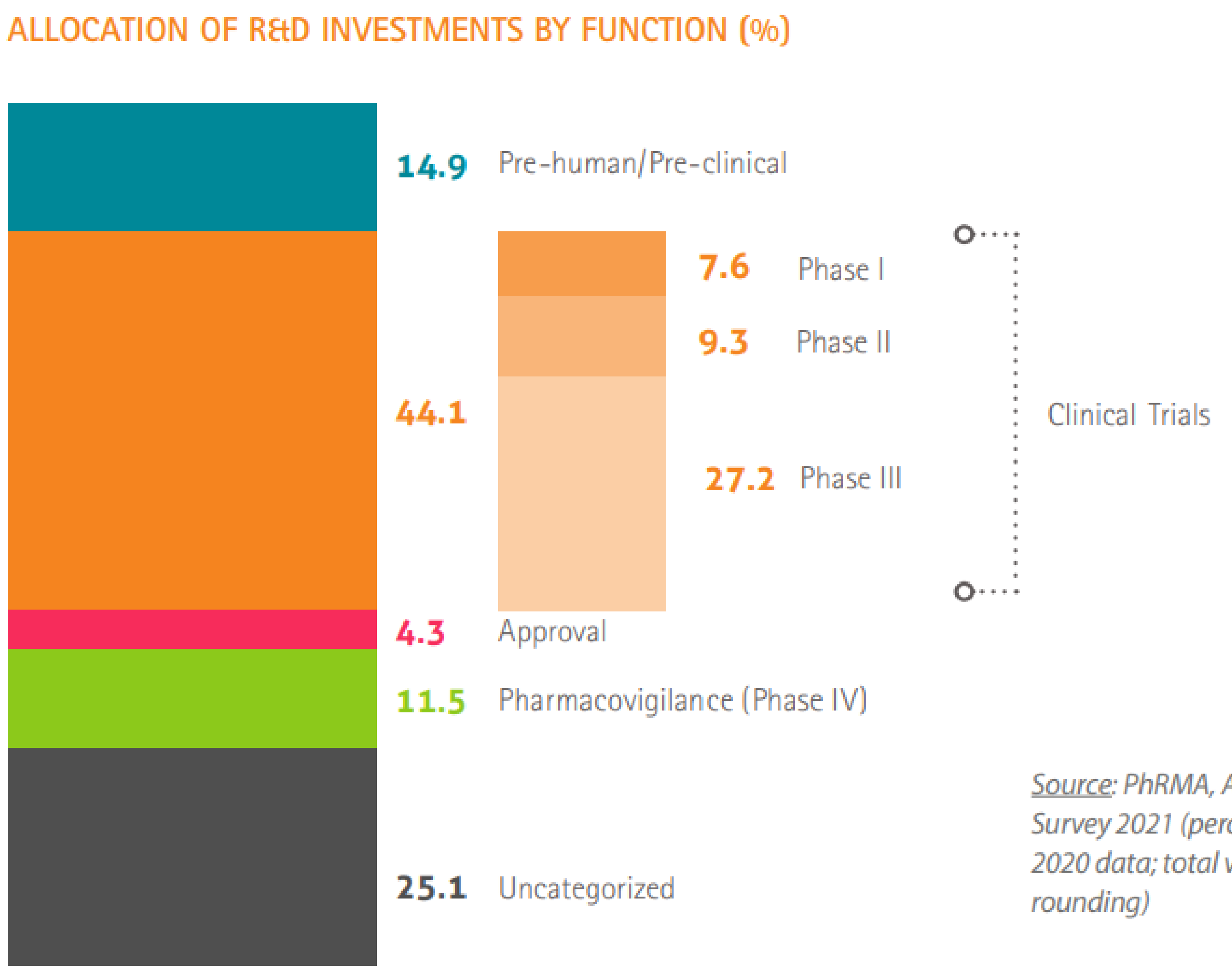


Source: IQVIA Institute, Jan 2023.

Notes: A novel active substance (NAS) is a new molecular or biologic entity or combination where at least one element is new. Includes NASs launched anywhere in the world by year of first global launch. Launch is determined using IQVIA audits of sales activity as well as companies' public statements. Oncology includes supportive care & diagnostics. COVID-19 includes novel medicines only, and does not include previously approved medicines with new approved uses for COVID-19.

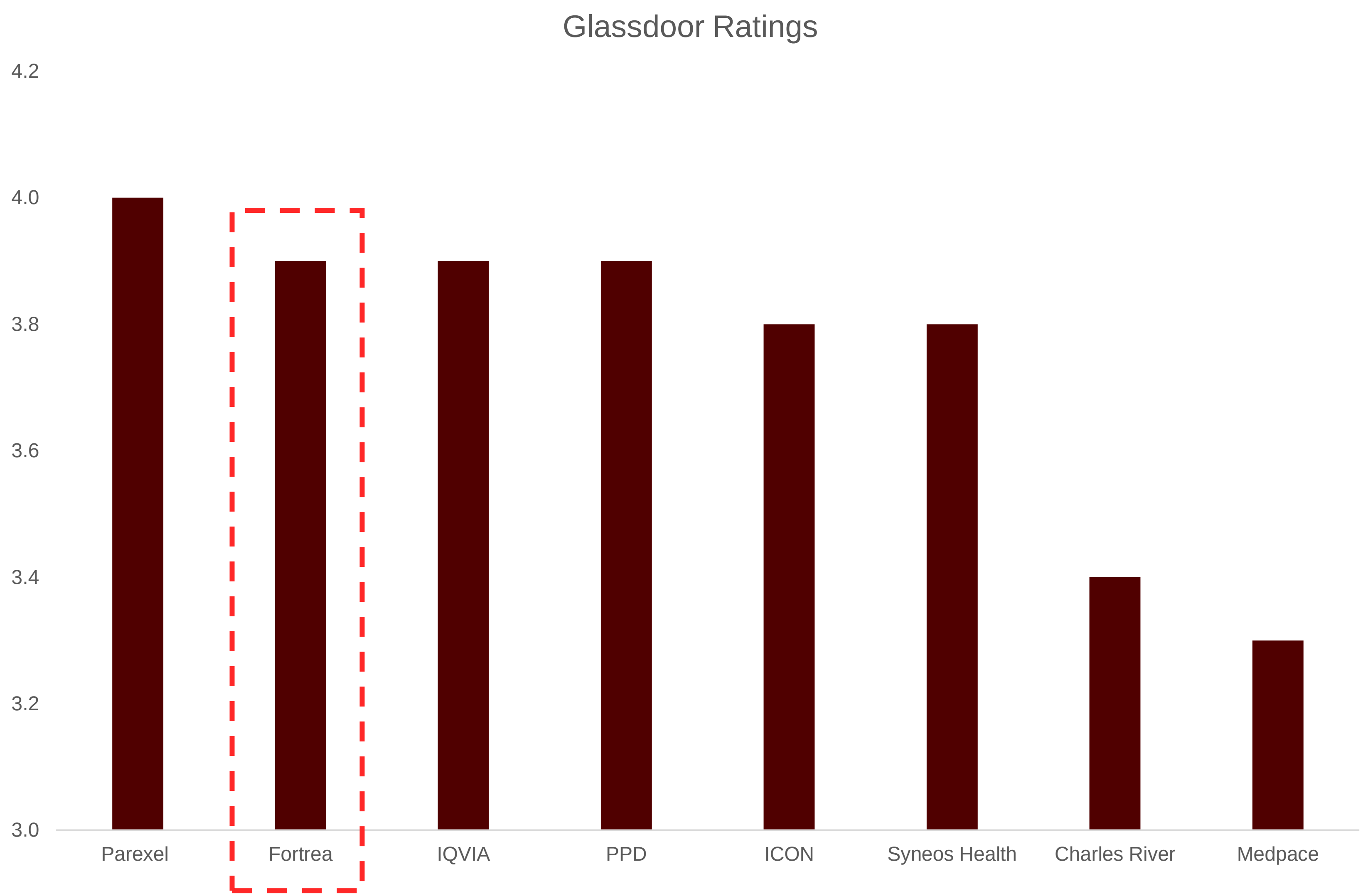
Report: Global Trends in R&D 2023: Activity, Productivity, and Enablers. IQVIA Institute for Human Data Science, February 2023.

44% of biopharma R&D comes from clinical trials.



Source: PhRMA, Annual Membership Survey 2021 (percentages calculated from 2020 data; total values may be affected by rounding)

Strong industry Glassdoor ratings despite spinoff



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