Fortrea Reports Third Quarter 2024 Results

November 8, 2024 6:30 AM EST

For the three months ended September 30, 2024, from continuing operations:

- Revenues of $674.9 million
- GAAP net loss of $(18.5) million
- Adjusted EBITDA of $64.2 million
- GAAP and adjusted net income (loss) per diluted share of $(0.21) and $0.23, respectively
- Book-to-bill ratio of 1.23x, resulting in 1.15x book-to-bill for the trailing 12 months

DURHAM, N.C., Nov. 08, 2024 (GLOBE NEWSWIRE) -- Fortrea (Nasdaq: FTRE) (the "Company"), a leading global contract research organization ("CRO"), today reported financial results for the third quarter ended September 30, 2024.

"We had a solid quarter of execution" said Tom Pike, chairman and CEO of Fortrea. "Our book-to-bill ratio for the quarter, as expected, is a nice mix of both large pharma and biotech awards. We have continued to make strong progress in the post-spin separation from our former parent. On the technology front for instance, we have migrated more than 90 percent of our IT applications and servers to the Fortrea environment."

All commentary in this press release relates to continuing operations unless otherwise noted.

Third Quarter 2024 Financial Results

Revenue for the third quarter was $674.9 million, compared to $713.8 million in the third quarter of 2023.

Third quarter GAAP net loss was $(18.5) million and diluted loss per share was $(0.21) compared to third quarter of 2023 GAAP net loss of $(16.1) million and diluted loss per share of $(0.18). Third quarter adjusted EBITDA was $64.2 million, compared to third quarter of 2023 adjusted EBITDA of $68.2 million. Adjusted EBITDA increased sequentially by 16.3% in the quarter.

Backlog as of September 30, 2024, increased to $7,571 million, and the book-to-bill ratio for the quarter was 1.23x.

Year-To-Date 2024 Financial Results

Year-to-Date Revenue was $1,999.4 million, compared to $2,132.8 million in 2023.

Year-to-Date GAAP net loss was $(197.6) million and diluted loss per share was $(2.21) compared to 2023 GAAP net income of $16.9 million and diluted earnings per share of $0.19. Year-to-Date adjusted EBITDA was $146.5 million, compared to 2023 adjusted EBITDA of $186.9 million.

The Company's cash and cash equivalents were $105.3 million, and gross debt was $1,142.0 million on September 30, 2024. Operating cash flow for the nine months ended September 30, 2024, was $245.7 million, and free cash flow was $217 million.

Full-year 2024 revenue guidance has been updated to $2,700 million to $2,725 million. Full-year 2024 adjusted EBITDA guidance remains unchanged at a range of $220 million to $240 million.

Earnings Call and Replay

Fortrea will host its quarterly conference call on Friday, November 8, 2024, at 8:00 am ET to review its third quarter performance. The conference can be accessed through the Fortrea Investor Relations website or the earnings webcast link. To avoid potential delays, please join at least 10 minutes prior to the start of the call. A replay of the live conference call will be available shortly after the conclusion of the event and accessible on the events and presentations section of the Fortrea website. A supplemental slide presentation will also be available on the Fortrea Investor Relations website prior to the start of the call.

About Fortrea

Fortrea (Nasdaq: FTRE) is a leading global provider of clinical development solutions to the life sciences industry. We partner with emerging and large biopharmaceutical, biotechnology, medical device and diagnostic companies to drive healthcare innovation that accelerates life changing therapies to patients. Fortrea provides phase I-IV clinical trial management, clinical pharmacology and consulting services. Fortrea's solutions leverage three decades of experience spanning more than 20 therapeutic areas, a passion for scientific rigor, exceptional insights and a strong investigator site network. Our talented and diverse team working in about 100 countries is scaled to deliver focused and agile solutions to customers globally. Learn more about how Fortrea is becoming a transformative force from pipeline to patient at Fortrea.com and follow us on LinkedIn and X (formerly Twitter).

Cautionary Statement Regarding Forward-Looking Statements

This press release contains “forward-looking statements” within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, the Company’s 2024 financial guidance, and continued progression towards exiting the remainder of the Transition Services Agreements. In this context, forward-looking statements often address expected future business and financial performance and financial condition, and often contain words such as “guidance,” “expect,” “assume,” “anticipate,” “intend,” “plan,” “forecast,” “believe,” “seek,” “see,” “will,” “would,” “target,” similar expressions, and variations or negatives of these words that are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Actual results may differ materially from the Company’s expectations due to a number of factors, including, but not limited to, the following: if the Company does not realize some or all of the benefits expected to result from the spin-off of the Company (the “Spin”) from Laboratory Corporation of America Holdings (“Labcorp”), or if such benefits are delayed; risks and consequences that are a result of the Spin; the impacts of becoming an independent public company; the Company’s reliance on Labcorp to provide financial reporting and other financial and accounting information for periods prior to the Spin through the end of the relevant transition agreements, as well as IT, accounting, finance, legal, human resources, and other services critical to the Company’s businesses; the Company’s dependence on third parties generally to provide services critical to the Company’s businesses throughout the transition period and beyond; the establishment of the Company’s accounting, enterprise resource planning, and other management systems post the transition period, which could cost more or take longer than anticipated; the impact of the rebranding of the Company; the Company’s ability to successfully implement the Company’s business strategies and execute the Company’s long-term value creation strategy; risks and expenses associated with the Company’s international operations and currency fluctuations; the Company’s customer or therapeutic area concentrations; any further deterioration in the macroeconomic environment, which could lead to defaults or cancellations by the Company’s customers; the risk that the Company’s backlog and net new business may not be indicative of the Company’s future revenues and that the Company might not realize all of the anticipated future revenue reflected in the Company’s backlog; the Company’s ability to generate sufficient net new business awards, or if net new business awards are delayed, terminated, reduced in scope, or fail to go to contract; if the Company underprices its contracts, overruns its cost estimates, or fails to receive approval for, or experiences delays in documentation of change orders; the Company’s ability to realize the full benefits from the divestiture of Endpoint Clinical and Fortrea Patient Access businesses; and other factors described from time to time in documents that the Company files with the SEC. For a further discussion of the risks relating to the Company’s business, see the “Risk Factors” Section of the Company’s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (the "SEC"), as such factors may be amended or updated from time to time in the Company’s subsequent periodic and other filings with the SEC, which are accessible on the SEC’s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this release and in the Company’s filings with the SEC. Comparisons of results for current and any prior periods are not intended to express any future, or indications of future performance, unless expressed as such, and should only be viewed as historical data. All forward-looking statements are made only as of the date of this release and the Company does not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect future events or developments.

Note on Non-GAAP Financial Measures

This release includes information based on financial measures that are not recognized under generally accepted accounting principles in the United States ("GAAP"), such as Adjusted EBITDA, Adjusted Net Income, Adjusted Basic and Diluted EPS, and Free Cash Flow. Non-GAAP financial measures are presented only as a supplement to the Company’s financial statements based on GAAP. Non-GAAP financial information is provided to enhance understanding of the Company’s financial performance, but none of these non-GAAP financial measures are recognized terms under GAAP, and non-GAAP measures should not be considered in isolation from, or as a substitute analysis for, the Company’s results of operations as determined in accordance with GAAP.

The Company uses non-GAAP measures in its operational and financial decision making and believes that it is useful to exclude certain items in order to focus on what it regards to be a more meaningful indicator of the underlying operating performance of the business. For example, in calculating Adjusted EBITDA, the Company excludes all the amortization of intangible assets associated with acquired customer relationships and backlog, databases, non-compete agreements and trademarks, trade names and other from non-GAAP expense and income measures as such amounts can be significantly impacted by the timing and size of acquisitions. Although the Company excludes amortization of acquired intangible assets from the Company’s non-GAAP expenses, the Company believes that it is important for investors to understand that revenue generated from such intangibles is included within revenue in determining net income attributable to the Company. As a result, internal management reports feature non-GAAP measures which are also used to prepare strategic plans and annual budgets and review management compensation. The Company also believes that investors may find non-GAAP financial measures useful for the same reasons, although investors are cautioned that non-GAAP financial measures are not a substitute for GAAP disclosures.

The non-GAAP financial measures are not presented in accordance with GAAP. Please refer to the schedules attached to this release for relevant definitions and reconciliations of non-GAAP financial measures contained herein to the most directly comparable GAAP measures. The Company’s full-year 2024 guidance measures (other than revenue) are provided on a non-GAAP basis without a reconciliation to the most directly comparable GAAP measure because the Company is unable to predict with a reasonable degree of certainty certain items contained in the GAAP measures without unreasonable efforts. Such items include, but are not limited to, acquisition-related expenses, restructuring and related expenses, stock-based compensation and other items not reflective of the Company's ongoing operations.

Non-GAAP measures are frequently used by securities analysts, investors and other interested parties in their evaluation of companies comparable to the Company, many of which present non-GAAP measures when reporting their results. Non-GAAP measures have limitations as an analytical tool. They are not presentations made in accordance with GAAP, are not measures of financial condition or liquidity and should not be considered as an alternative to profit or loss for the period determined in accordance with GAAP or operating cash flows determined in accordance with GAAP. Non-GAAP measures are not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider such performance measures in isolation from, or as a substitute analysis for, the Company's results of operations as determined in accordance with GAAP.

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FORTREA HOLDINGS INC.
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Revenues	$ 674.9	$ 713.8	$ 1,999.4	$ 2,132.8
Costs and expenses:				
Direct costs, exclusive of depreciation and amortization (including costs incurred from related parties of $48.8 during the nine months ended September 30, 2023)	526.6	563.8	1,606.1	1,674.0
Selling, general and administrative expenses, exclusive of depreciation and amortization	136.3	106.8	412.6	321.4
Depreciation and amortization	21.2	22.8	64.5	67.1
Restructuring and other charges	8.8	10.1	22.5	14.3
Total costs and expenses	692.9	703.5	2,105.7	2,076.8
Operating income (loss)	(18.0)	10.3	(106.3)	56.0
Other income (expense):				
Interest expense	(22.4)	(34.6)	(101.9)	(35.2)
Foreign exchange loss	(0.2)	(1.2)	(7.0)	(1.2)
Other, net	4.8	3.6	15.1	4.6
Income (loss) from continuing operations before income taxes	(35.8)	(21.9)	(200.1)	24.2
Income tax (benefit) expense	(17.3)	(5.8)	(2.5)	7.3
Income (loss) from continuing operations	(18.5)	(16.1)	(197.6)	16.9
Income (loss) from discontinued operations, net of tax	(9.4)	2.1	(69.7)	12.4
Net income (loss)	$ (27.9)	$ (14.0)	$ (267.3)	$ 29.3
Earnings (loss) per common share				
Basic earnings (loss) per share from continuing operations	$ (0.21)	$ (0.18)	$ (2.21)	$ 0.19
Basic earnings (loss) per share from discontinued operations	(0.10)	0.02	(0.78)	0.14
Basic earnings (loss) per share	$ (0.31)	$ (0.16)	$ (2.99)	$ 0.33
Diluted earnings (loss) per share from continuing operations	$ (0.21)	$ (0.18)	$ (2.21)	$ 0.19
Diluted earnings (loss) per share from discontinued operations	(0.10)	0.02	(0.78)	0.14
Diluted earnings (loss) per share	$ (0.31)	$ (0.16)	$ (2.99)	$ 0.33

FORTREA HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)
(unaudited)

	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 105.3	$ 108.6
Accounts receivable and unbilled services, net	689.1	988.5
Prepaid expenses and other	142.5	84.6
Current assets of discontinued operations	—	69.1
Total current assets	936.9	1,250.8
Property, plant and equipment, net	173.1	172.6
Goodwill, net	1,767.0	1,739.4
Intangible assets, net	691.2	728.1
Deferred income taxes	3.2	3.2
Other assets, net	92.3	69.7
Long-term assets of discontinued operations	—	368.8
Total assets	$ 3,663.7	$ 4,332.6
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 137.6	$ 132.9
Accrued expenses and other current liabilities	323.1	335.5
Unearned revenue	321.1	214.2
Current portion of long-term debt	—	26.1
Short-term operating lease liabilities	14.0	17.2
Current liabilities of discontinued operations	—	52.5
Total current liabilities	795.8	778.4
Long-term debt, less current portion	1,124.5	1,565.9
Operating lease liabilities	65.4	62.8
Deferred income taxes and other tax liabilities	126.9	147.7
Other liabilities	37.6	32.1
Long-term liabilities of discontinued operations	—	31.6
Total liabilities	2,150.2	2,618.5
Commitments and contingent liabilities		
Equity:		
Common stock, 89.7 and 88.8 shares outstanding at September 30, 2024 and December 31, 2023, respectively	0.1	0.1
Additional paid-in capital	2,027.3	1,998.0
Accumulated deficit	(335.8)	(68.5)
Accumulated other comprehensive loss	(178.1)	(215.5)
Total equity	1,513.5	1,714.1
Total liabilities and equity	$ 3,663.7	$ 4,332.6

FORTREA HOLDINGS INC.
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Nine Months Ended September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (267.3)	$ 29.3
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	66.1	73.6
Stock compensation	43.1	27.2
Credit loss expense	17.0	21.9
Operating lease right-of-use asset expense	10.8	20.9
Operating lease right-of-use asset impairment	4.8	—
Goodwill and other asset impairments	24.0	—
Deferred income taxes	(23.2)	(13.3)
Loss on sale of business	23.2	—
Write-off of debt issuance costs	12.2	—
Other, net	4.7	3.5
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable and unbilled services, net	290.9	(45.0)
(Increase) decrease in prepaid expenses and other	(33.3)	0.6
Increase in accounts payable	5.8	45.9
Increase (decrease) in deferred revenue	106.4	(6.0)
Decrease in accrued expenses and other	(39.5)	(8.6)
Net cash provided by operating activities	245.7	150.0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(28.7)	(30.9)
Proceeds from sale of business, net	276.6	—
Proceeds from sale of assets	0.2	8.1
Net cash provided by (used for) investing activities	248.1	(22.8)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facilities	617.0	24.0
Payments on revolving credit facilities	(617.0)	(24.0)
Proceeds from term loans	—	1,061.4
Proceeds from issuance of senior notes	—	570.0
Debt issuance costs	—	(26.4)
Principal payments of long-term debt	(482.7)	(7.7)
Payments for taxes related to net share settlement of stock awards	(14.0)	—
Special payment to Former Parent	—	(1,595.0)
Net transfers to Former Parent	—	(135.4)
Net cash used for financing activities	(496.7)	(133.1)
Effect of exchange rate changes on cash and cash equivalents	(0.4)	(0.7)
Net change in cash and cash equivalents	(3.3)	(6.6)
Cash and cash equivalents at beginning of period	108.6	110.4
Cash and cash equivalents at end of period	$ 105.3	$ 103.8

The cash flows related to discontinued operations have not been segregated and are included in the condensed consolidated and combined statements of cash flows.

RECONCILIATION OF NON-GAAP MEASURES

FORTREA HOLDINGS INC.
NET INCOME TO ADJUSTED EBITDA RECONCILIATION
(in millions)
(unaudited)

	Trailing Twelve Months Ended September 30, 2024	Three Months Ended September 30,		Nine Months Ended September 30,	
		2024	2023	2024	2023
Adjusted EBITDA from continuing operations:					
Net income (loss) from continuing operations	$ (246.2)	$ (18.5)	$ (16.1)	$ (197.6)	$ 16.9
Income tax (benefit) expense	(8.6)	(17.3)	(5.8)	(2.5)	7.3
Interest expense, net	136.4	22.4	34.6	101.9	35.2
Foreign exchange loss	5.5	0.2	1.2	7.0	1.2
Depreciation and amortization (a)	86.7	21.2	22.8	64.5	67.1
Restructuring and other charges (b)	30.2	8.9	12.7	23.3	16.9
Stock based compensation	56.7	13.0	10.5	41.9	25.6
Disposition-related costs (c)	7.3	5.9	—	7.3	—
One-time spin related costs (d)	123.1	27.0	6.1	97.9	6.1
Customer matter (e)	13.9	0.9	—	5.2	—
Enabling Services Segment costs (f)	12.4	—	5.4	7.3	14.1
Other (g)	(12.0)	0.5	(3.2)	(9.7)	(3.5)
Adjusted EBITDA from continuing operations	$ 205.4	$ 64.2	$ 68.2	$ 146.5	$ 186.9

(a) Includes amortization of intangible assets acquired as part of business acquisitions.

(b) Restructuring and other charges represent amounts incurred in connection with the elimination of redundant positions to reduce overcapacity, align resources and facilities, and restructure certain operations.

(c) Disposition-related costs are short-term incremental costs to support the transition services agreement associated with the sale of the Enabling Services Segment.

(d) Represents one-time or incremental costs required to implement capabilities to exit the Transition Services Agreement with former parent.

(e) As part of working with a customer, the Company has agreed to make concessions and provide discounts and other consideration to the customer as part of a multi-party solution.

(f) These adjustments remove the impact of certain Enabling Services costs not included in discontinued operations. The Enabling Services Segment was sold in the second quarter of 2024.

(g) Includes the recognition of a contingent consideration payment on a sale of a facility recorded in the second quarter of 2024 , income related to services provided under Transition Services Agreements, and the yield expense incurred on amounts received under the Company's Receivables Securitization Program.

FORTREA HOLDINGS INC.
NET INCOME TO ADJUSTED NET INCOME RECONCILIATION
(in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Adjusted net income (loss) from continuing operations:				
Net income (loss) from continuing operations	$ (18.5)	$ (16.1)	$ (197.6)	$ 16.9
Foreign exchange loss	0.2	1.2	7.0	1.2
Amortization (a)	15.2	15.3	45.6	45.7
Restructuring and other charges (b)	8.9	12.7	23.3	16.9
Stock based compensation	13.0	10.5	41.9	25.6
Disposition-related costs (c)	5.9	—	7.3	—
One-time spin related costs (d)	27.0	6.1	97.9	6.1

Customer matter (e)	0.9	—	5.2	—
Enabling Services Segment costs (f)	—	5.4	7.3	14.1
Other (g)	0.5	(3.2)	(9.7)	(3.5)
Income tax impact of adjustments (h)	(32.4)	(11.8)	(14.7)	(23.8)
Adjusted net income (loss) from continuing operations	$ 20.7	$ 20.1	$ 13.5	$ 99.2
Basic shares	89.6	88.8	89.4	88.8
Diluted shares	90.1	89.2	90.3	89.0
Adjusted basic EPS from continuing operations	$ 0.23	$ 0.23	$ 0.15	$ 1.12
Adjusted diluted EPS from continuing operations	$ 0.23	$ 0.23	$ 0.15	$ 1.11

(a) Includes amortization of intangible assets acquired as part of business acquisitions.

(b) Restructuring and other charges represent amounts incurred in connection with the elimination of redundant positions to reduce overcapacity, align resources and facilities, and restructure certain operations.

(c) Disposition-related costs are short-term incremental costs to support the transition services agreement associated with the sale of the Enabling Services Segment.

(d) Represents one-time or incremental costs required to implement capabilities to exit the Transition Services Agreement with former parent.

(e) As part of working with a customer, the Company has agreed to make concessions and provide discounts and other consideration to the customer as part of a multi-party solution.

(f) These adjustments remove the impact of certain Enabling Services costs not included in discontinued operations. The Enabling Services Segment was sold in the second quarter of 2024.

(g) Includes the recognition of a contingent consideration payment on a sale of a facility recorded in the second quarter of 2024 , income related to services provided under Transition Services Agreements, and the yield expense incurred on amounts received under the Company's Receivables Securitization Program.

(h) Income tax impact of adjustments calculated based on the tax rate applicable to each item.

FORTREA HOLDINGS INC.

NET CASH PROVIDED BY OPERATING ACTIVITIES TO FREE CASH FLOW RECONCILIATION
(in millions)
(unaudited)

	Nine Months Ended September 30, 2024
Net cash provided by operating activities	$ 245.7
Capital expenditures	(28.7)
Free cash flow	$ 217.0

The cash flows related to discontinued operations have not been segregated and are included in the condensed consolidated and combined statements of cash flows.