Q2 2024 Earnings Presentation

08.12.2024

Fortrea

FORWARD-LOOKING STATEMENTS & NON-GAAP FINANCIAL MEASURES

Forward-Looking Statements Disclosure. *Certain information in this presentation contains "forward-looking" statements. You should not place undue reliance on these statements. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategies. These statements often include words such as "believe", "expect", "approximately", "anticipate", "intend", "plan", "estimate", "seek", "will", "should", "could", "may" or the negative thereof or variations thereon or similar expressions that are predictions of or indicate future events or trends. These statements are based on certain assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances. As you read and consider this presentation, you should understand that these statements are not guarantees of performance or results and that actual future results may vary materially. They involve risks, uncertainties and assumptions. Many factors could affect our actual financial results and could cause actual results to differ materially from those expressed in the forward-looking statements, including among other things, the current positive market and customer response to us; our ability to leverage our competitive advantages to achieve or exceed market growth rates; our reliance on our former parent company, Laboratory Corporation of America Holdings to provide financial reporting and other financial and information for periods prior to the spin-off through the end of the relevant transition agreements, as well as IT, accounting, finance, legal, human resources, and other services critical to our businesses; our dependence on third parties generally to provide services critical to our businesses throughout the transition period and beyond; our ability to establish and develop our accounting, enterprise resource planning, and other management systems post the transition period, which could cost more or take longer than anticipated; our ability to successfully implement our business strategies, improve margins, and execute our long-term value creation strategy; risks and expenses associated with our international operations and currency fluctuations; our customer or therapeutic area concentrations; any further deterioration in the macroeconomic environment, which could lead to defaults or cancellations by our customers; the risk that our backlog and net new business may not be indicative of our future revenues and we might not realize all of the anticipated future revenue reflected in our backlog; our 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; the risk that we may underprice our contracts, overrun our cost estimates, or fail to receive approval for, or experience delays in documentation of change orders; our 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 we file with the U.S. Securities and Exchange Commission (the "SEC"), including any updates or amendments thereof. For a further discussion of the risks relating to our business, see the "Risk Factors" Section of our Annual Report on Form 10-K (the "Form 10-K"), as filed with the SEC.*

In light of these risks, uncertainties and assumptions, the forward-looking statements contained in this presentation might not prove to be accurate and you should not place undue reliance upon them. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. All such statements speak only as of the date made, and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Non-GAAP Financial Measures. *This presentation contains discussions of certain financial measures, such as EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Net Debt, Net Leverage and Free Cash Flow, which are non-GAAP financial measures. 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 and operational performance and cash flow, 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 believes these adjusted measures are useful to investors as a supplement to, but not as a substitute for, GAAP measures, in evaluating the Company's operational performance and cash-flow. The Company further believes that the use of these non-GAAP financial measures provides an additional tool for investors in evaluating operating results and trends, growth, indebtedness, cash-flow and shareholder returns, as well as in comparing the Company's financial results with the financial results of other companies. However, the Company notes that these adjusted measures may be different from and not directly comparable to the measures presented by other companies. Because not all companies use identical calculations, our presentation of these non-GAAP financial measures may not be comparable to other similarly titled measures of other companies. 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.*

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Fortrea's Q2'24 Highlights

Doubled Adjusted EBITDA in Q2 vs Q1

Divested non-core businesses; paid down $504M of debt in Q2

Missed book-to-bill target in Q2 on slower biotech decisions. TTM book-to-bill 1.16x

Key wins in top 20 large pharma and biotechs across therapeutic areas

Solid demand environment – value of RFPs increased across both large pharma and biotech, strong pipeline in H2

Sustained focus on cost structure and margin expansion:

- ~60% of TSA services[1] exited at end of Q2'24
- Executing against SG&A reduction roadmap

1 Transition services agreement with former parent

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Fortrea's Program for Change: Significant Opportunity to Create Shareholder Value

Leverage Competitive Advantages to Lay Foundation for Growth in '23

- Leverage existing scale, skills and capabilities
- Selective further organic investments to differentiate
- World-class customer relationship development

Improve Margins & Optimize the Business in '24

- Continued execution of growth and operational initiatives
- Exit TSAs with fit-for-purpose infrastructure
- Begin to align SG&A to benchmarks
- Improve workforce productivity

Disciplined Strategy to Drive Long-term Growth & Margins

- Positioned for sustained long-term growth
- Investing for further differentiation
- Operating within industry leading delivery cost structures
- Move to 2.5x to 3.0x leverage

Margin optimization program underway to increase EBITDA margins through 2024 and beyond

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Q2’24– Key Financial Highlights
Continuing Operations

($ in millions, except per share data)	Q2 2023	Q2 2024	% Change
Revenue	$725.1	$662.4	(8.6)%
Adj. EBITDA [1]	$71.9	$55.2	(23.2)%
% Adj. EBITDA Margin [1]	*9.9%*	*8.3%*	
Net Income (Loss)	$25.0	$(99.3)	(497.2)%
Net Income (Loss) / diluted share	$0.28	$(1.11)	(496.4)%
Adj. Net Income (Loss) [1]	$46.1	$(2.3)	(105.0)%
Adj. Net Income (Loss) / diluted share [1]	$0.52	$(0.03)	(105.8)%
Ending Backlog	$6,977	$7,366	5.6%

1 Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income and Adjusted Net Income/share are non-GAAP financial measures. Please see slides 10 through 13 for a reconciliation to the most comparable GAAP number.

Cash Flow and Liquidity Profile

Cash Flow [1] and Liquidity ($ in millions)	YTD Q2 2024
Operating Cash Flow [1]	$248.1
Less: CAPEX	($20.5)
Free Cash Flow [2]	$227.6
Liquidity [3]	$576.2

Debt and Leverage ($ in millions)	June 30 2024
Gross Debt [4]	$1,142.0
Cash [5]	$126.2
Net Debt [6]	$1,015.8
Net Leverage [7]	4.9x
Net DSO from continuing operations [8]	54 days

1 The cash flows related to discontinued operations have not been segregated and are included in the cash flow-related amounts shown above.
2 Free Cash Flow, a non-GAAP measure, is equal to Operating Cash Flow less Capital Expenditures;
3 Liquidity equals cash plus available borrowing capacity under the $450M revolving credit facility.
4 Debt includes long-term and current notes, term loans and revolving credit facility balance, excluding debt issuance discount and fees.
5 Cash is defined as Cash and Cash Equivalents;
6 Net Debt, a non-GAAP measure, is defined as Debt less Cash;
7 Net leverage, a non-GAAP measure, is defined as Net Debt divided by TTM adj. EBITDA. TTM adj. EBITDA as of June 30, 2024, was $209.4 million. Please see slide 10 for a reconciliation to the most comparable GAAP number for Q2 2024.
8 Net Days Sales Outstanding (DSO) reflects Revenue, net, and is based on accounts receivable and unbilled services, less allowance for credit losses, and unearned revenue. Includes impact of accounts receivable sale under A/R Securitization facility signed in Q2 2024.

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2024 Financial Guidance
Continuing Operations

($ in millions)	**Q2'24 Actuals**	**FY'24 Guidance [1]** *(as of August 12th, 2024)*
Revenue	$662.4	$2,700 - $2,750
Adj. EBITDA[2]	$55.2	$220 - $240

1 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 Fortrea 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 Fortrea's ongoing operations.

2 Adjusted EBITDA is a non-GAAP financial measure. Please see slide 10 for a reconciliation to the most comparable GAAP number for Q2 2024.

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Reduced Debt Through Divestment and Securitization

Debt *($ in millions)*	**Outstanding at Q1'24**	**Divestiture Prepayment**	**Securitization Funding[1]**	**Outstanding at Q2'24**
7.5% Sr. Notes due 2030	$570.0	$0.0	$0.0	$570.0
Term Loan A due 2028	$481.3	($64.0)	$0.0	$417.3
Term Loan B due 2030	$565.7	($211.0)	($200.0)	$154.7
Revolver Outstanding	$29.0	$0.0	($29.0)	$0.0
Total Debt Outstanding[2]	**$1,646.0**	**($275.0)**	**($229.0)**	**$1,142.0**

Reduced Total Debt by $504M and Estimated Annual Total Cash Interest and Securitization Costs by ~$24M

1 The Company's $300M securitization facility is a sale of Accounts Receivable and does not constitute debt.
2 Debt includes long-term and current notes, term loans and revolving credit facility balance, excluding debt issuance discount and fees.

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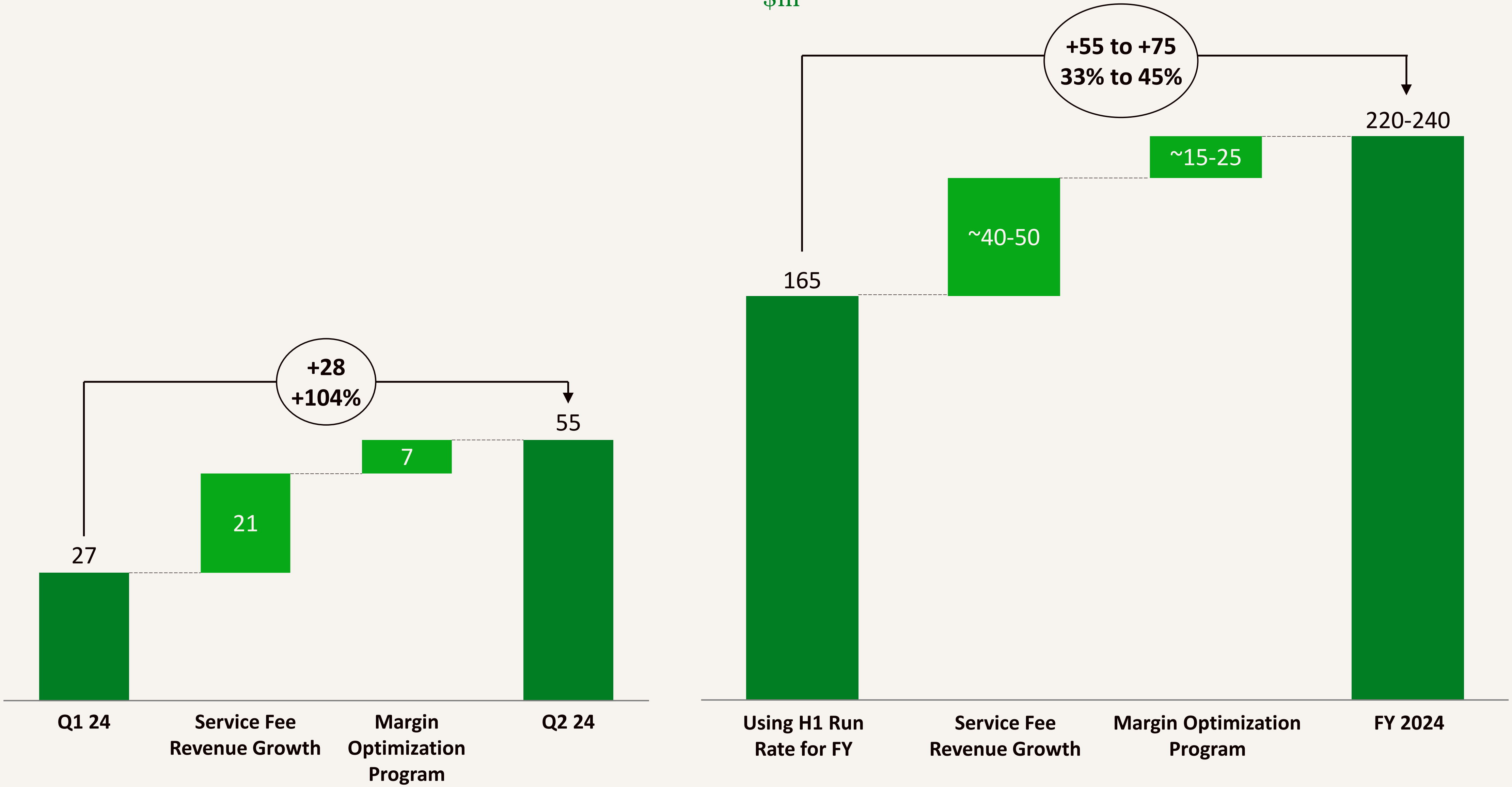
Illustrative 2024 Sequential Adjusted EBITDA Margin[1] Bridge

$m



1 Adjusted EBITDA Margin is a non-GAAP financial measure. See slide 10 for a reconciliation to the most comparable GAAP number

Net Income to Adjusted EBITDA Reconciliation (Non-GAAP)
Continuing Operations

($ in millions)	Trailing Twelve Months Ended June 30, 2024	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Adjusted EBITDA from continuing operations:					
Net income (loss) from continuing operations	**$(243.8)**	**$(99.3)**	**$25.0**	**$(179.1)**	**$33.0**
Provision for income taxes	2.9	10.7	11.6	14.8	13.1
Interest expense, net	148.6	45.2	0.7	79.5	0.6
Depreciation and amortization [1]	88.3	21.4	23.4	43.3	44.3
EBITDA from continuing operations	**(4.0)**	**(22.0)**	**60.7**	**(41.5)**	**91.0**
Foreign exchange (gain) loss	6.5	1.5	(5.2)	6.8	0.0
Restructuring and other charges [2]	34.0	11.0	3.6	14.4	4.2
Stock based compensation	54.2	15.4	8.8	28.9	15.1
Disposition-related costs [3]	1.4	1.4	0.0	1.4	0.0
One-time spin related costs [4]	102.2	53.9	0.0	70.9	0.0
Customer matter [5]	13.0	0.4	0.0	4.3	0.0
Enabling Services Segment costs not included in discontinued operations [6]	17.8	2.5	4.2	7.3	8.7
Other [7]	(15.7)	(8.9)	(0.2)	(10.2)	(0.3)
Adjusted EBITDA for continuing operations	**$209.4**	**$55.2**	**$71.9**	**$82.3**	**$118.7**
Adjusted EBITDA Margin from continuing operations:					
Revenue from continuing operations	$2,748.0	$662.4	$725.1	$1,324.5	$1,419.0
Adjusted EBITDA Margin from continuing operations	7.6%	8.3%	9.9%	6.2%	8.4%

Note: The financial information included herein includes immaterial adjustments to the Company's previously reported financial information. Please see the Company's Quarterly Report on Q1 2024 Form 10-Q, when filed with the Securities and Exchange Commission, for more information regarding these revisions.
1 Includes amortization of intangible assets acquired as part of business acquisitions.
2 Restructuring and other charges represent amounts incurred in connection with the elimination of redundant positions to reduce overcapacity, align resources, and restructure certain operations.
3 Disposition-related costs are short-term incremental costs to support the Transition Services Agreement associated with the sale of the Enabling Services Segment.
4 Represents one-time or incremental costs required to implement capabilities to exit Transition Services Agreement with former parent.
5 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.
6 These adjustments remove the impact of the Enabling Services Segment, which the Company sold in the second quarter of 2024.
7 Includes the recognition of a contingent consideration payment on a sale of a facility recorded in the second quarter of 2024 and income related to services provided under Transition Services Agreements.

Net Income to Adjusted Net Income Reconciliation (Non-GAAP)

Continuing Operations

($ in millions)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Adjusted net income (loss) from continuing operations:				
Net income (loss) from continuing operations	$(99.3)	$25.0	$(179.1)	$33.0
Foreign exchange (gain) loss	1.5	(5.2)	6.8	0.0
Amortization [1]	15.1	15.4	30.4	30.4
Restructuring and other charges [2]	11.0	3.6	14.4	4.2
Stock based compensation	15.4	8.8	28.9	15.1
Disposition-related costs [3]	1.4	0.0	1.4	0.0
One-time spin related costs [4]	53.9	0.0	70.9	0.0
Customer matter [5]	0.4	0.0	4.3	0.0
Enabling Services Segment costs not included in discontinued operations [6]	2.5	4.2	7.3	8.7
Other [7]	(8.9)	(0.2)	(10.2)	(0.3)
Income tax impact of adjustments [8]	4.7	(5.5)	17.7	(12.0)
Adjusted net income (loss) from continuing operations	**$(2.3)**	**$46.1**	**$(7.2)**	**$79.1**
Basic shares	89.4	88.8	89.3	88.8
Adjusted basic earnings (loss) per share from continuing operations	$(0.03)	$0.52	$(0.08)	$0.89
Diluted shares	89.4	88.8	89.3	88.8
Adjusted diluted earnings (loss) per share from continuing operations	$(0.03)	$0.52	$(0.08)	$0.89

Note: The financial information included herein includes immaterial adjustments to the Company's previously reported financial information. Please see the Company's Quarterly Report on Q1 2024 Form 10-Q, when filed with the Securities and Exchange Commission, for more information regarding these revisions.

1 Includes amortization of intangible assets acquired as part of business acquisitions.

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

3 Disposition-related costs are short-term incremental costs to support the Transition Services Agreement associated with the sale of the Enabling Services Segment.

4 Represents one-time or incremental costs required to implement capabilities to exit Transition Services Agreement with former parent.

5 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.

6 These adjustments remove the impact of the Enabling Services Segment, which the Company sold in the second quarter of 2024.

7 Includes the recognition of a contingent consideration payment on a sale of a facility recorded in the second quarter of 2024 and income related to services provided under Transition Services Agreements.

8 Income tax impact of adjustments calculated based on the tax rate applicable to each item.

2023 Net Income to Adjusted EBITDA Reconciliation (Non-GAAP)

Continuing Operations

($ in millions)	Three Months Ended				Twelve Months Ended
	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023	December 31, 2023
Adjusted EBITDA from continuing operations:					
Net income (loss) from continuing operations	**$8.0**	**$25.0**	**$(16.1)**	**$(48.6)**	**$(31.7)**
Provision for income taxes	1.5	11.6	(5.8)	(6.1)	1.2
Interest expense, net	(0.1)	0.7	34.6	34.5	69.7
Depreciation and amortization [1]	20.9	23.4	22.8	22.2	89.3
EBITDA from continuing operations	**30.3**	**60.7**	**35.5**	**2.0**	**128.5**
Foreign exchange (gain) loss	5.2	(5.2)	1.2	(1.5)	(0.3)
Restructuring and other charges [2]	0.6	3.6	12.7	6.9	23.8
Stock based compensation	6.3	8.8	10.5	14.8	40.4
Disposition-related costs [3]	0.0	0.0	0.0	0.0	0.0
One-time spin related costs [4]	0.0	0.0	6.1	25.2	31.3
Customer matter [5]	0.0	0.0	0.0	8.7	8.7
Enabling Services Segment costs not included in discontinued operations [6]	4.5	4.2	5.4	5.1	19.2
Other	(0.1)	(0.2)	(3.2)	(2.3)	(5.8)
Adjusted EBITDA for continuing operations	**$46.8**	**$71.9**	**$68.2**	**$58.9**	**$245.8**
Adjusted EBITDA Margin from continuing operations :					
Revenue from continuing operations	$693.9	$725.1	$713.8	$709.7	$2,842.5
Adjusted EBITDA Margin from continuing operations	6.7%	9.9%	9.6%	8.3%	8.6%

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1 Includes amortization of intangible assets acquired as part of business acquisitions.

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

3 There were no disposition-related costs in 2023.

4 Represents one-time or incremental costs required to implement capabilities to exit Transition Services Agreement with former parent.

5 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.

6 These adjustments remove the impact of the Enabling Services Segment, which the Company sold in the second quarter of 2024.

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2023 Net Income to Adjusted Net Income Reconciliation (Non-GAAP)

Continuing Operations

($ in millions)	Three Months Ended				Twelve Months Ended
	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023	December 31, 2023
Adjusted net income (loss) from continuing operations:					
Net income (loss) from continuing operations	$8.0	$25.0	$(16.1)	$(48.6)	$(31.7)
Foreign exchange (gain) loss	5.2	(5.2)	1.2	(1.5)	(0.3)
Amortization [1]	15.0	15.4	15.3	15.2	60.9
Restructuring and other charges [2]	0.6	3.6	12.7	6.9	23.8
Stock based compensation	6.3	8.8	10.5	14.8	40.4
Disposition-related costs [3]	0.0	0.0	0.0	0.0	0.0
One-time spin related costs [4]	0.0	0.0	6.1	25.2	31.3
Customer matter [5]	0.0	0.0	0.0	8.7	8.7
Enabling Services Segment costs not included in discontinued operations [6]	4.5	4.2	5.4	5.1	19.2
Other	(0.1)	(0.2)	(3.2)	(2.3)	(5.8)
Income tax impact of adjustments [7]	(6.5)	(5.5)	(11.8)	(10.6)	(34.4)
Adjusted net income (loss) from continuing operations	**$33.0**	**$46.1**	**$20.1**	**$12.9**	**$112.1**
Basic shares [8]	88.8	88.8	88.8	88.8	88.8
Adjusted basic earnings (loss) per share from continuing operations	$0.37	$0.52	$0.23	$0.15	$1.26
Diluted shares	88.8	88.8	89.2	89.7	89.0
Adjusted diluted earnings (loss) per share from continuing operations	$0.37	$0.52	$0.23	$0.14	$1.26

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3 There were no disposition-related costs in 2023.
4 Represents one-time or incremental costs required to implement capabilities to exit Transition Services Agreement with former parent.
5 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.
6 These adjustments remove the impact of the Enabling Services Segment, which the Company sold in the second quarter of 2024.
7 Income tax impact of adjustments calculated based on the tax rate applicable to each item.
8 On June 30, 2023, the Separation from former parent was effectuated through a pro-rata distribution of one share of the Company's common stock for every share of Labcorp common stock held at the close of business on the record date of June 20, 2023. As a result, on June 30, 2023, the Company had 88.8 M shares of common stock outstanding. This share amount is being utilized for Q1 2023 for the calculation of basic earnings per share for all periods presented through the Separation date. Additionally, there are no dilutive instruments for Q1 2023.

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