# 1Q 2020 Results

May 7, 2020

## Charles River Laboratories



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# Regulation G

This presentation includes discussion of non-GAAP financial measures. We believe that the inclusion of these non-GAAP financial measures provides useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often one-time charges, consistent with the manner in which management measures and forecasts the Company’s performance. The non-GAAP financial measures included in this presentation are not meant to be considered superior to or a substitute for results of operations prepared in accordance with GAAP. The company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules and regulations. In accordance with Regulation G, you can find the comparable GAAP measures and reconciliations to those GAAP measures on our website at ir.criver.com.

# Estimates of COVID-19 Impact

The Company has provided its estimates for the impact from COVID-19, including on the Company's revenue. These estimates were determined using methodologies and assumptions that vary depending on the specific reporting segment and situation. For the Research Models and Services segment, estimates are primarily based on comparisons to daily historical research model sales volumes prior to COVID-19 and the subsequent reduction in research model order activity associated with our clients' COVID-19-related site closures and/or their reduced on-site activity, as well as our discussions with clients, particularly of our research model services businesses, with regard to revenue expectations and operational impacts from COVID-19. For the Discovery and Safety Assessment segment, estimates are based on multiple factors including, but not limited to, discussions with clients with regard to the cause of delays to discovery projects and safety assessment studies, location-specific actions to ensure employee safety in our facilities, the impact of remote versus in-person activities and services, and supply chain delays and other resource constraints. For the Manufacturing Support segment, estimates are based on discussions with clients with regard to their revenue expectations and operations. Further, we assume for the purposes of formulating these estimates that (1) restrictions on economic activity, including stay-in-place orders and other similar government actions, are largely relaxed in the third quarter and these restrictions are not re-imposed for the remainder of the fiscal year and (2) the global economy gradually improves through the remainder of 2020. Because these estimates and assumptions involve risks and uncertainties, actual events and results may differ materially from these estimates and assumptions, and Charles River assumes no obligation and expressly disclaims any duty to update them.

# Response to Global COVID-19 Pandemic

- Our role in biomedical research is of even greater importance during these unprecedented times
- We are working collaboratively with our clients to discover and develop new therapies for the treatment of disease, including COVID-19
- Our work would not be possible without the collective efforts of CRL's dedicated employees
- Appreciate the hard work and unwavering commitment of the CRL team
  - Allows us to continue to fulfill our mission every day
- Implemented a number of measures to address COVID-19 pandemic that are focused on:
  - Maintaining the health and safety of our employees and continuity of our operations
  - Ensuring our ability to support our clients' research programs
  - Sustaining our solid financial position

# CRL's Business Continuity Plans

- Comprehensive business continuity plans in place for each site globally
  - Continuously updated to address the evolving COVID-19 situation
  - Implemented plans in China in January and optimized plans for other regions as the COVID-19 virus spread
- Encouraged employees to work remotely when possible
- Most of our employees are essential and need to come into our sites to fulfill their responsibilities
  - Adhering to guidance from government, health, and other regulatory agencies
- Most employees already work in biosecure environments that require PPE (i.e. masks, gloves) and other procedures to safely accomplish their daily responsibilities
  - Additional safety precautions have been relatively straightforward to implement

# CRL’s Business Continuity Plans, cont.

- Determined that we currently meet the criteria to be designated as an essential business in each of the jurisdictions in which we operate
  - Nearly 100 global sites
  - Vast majority of our site-based staff are able to continue to work on-site
  - Other personnel are working remotely
- All operating sites are open and adequately staffed to accommodate continued, significant client demand across most of our businesses
- Business continuity plans also enable us to provide products and services to clients from their local or preferred site, or if needed, utilize an alternate location when possible
- Procurement has played a pivotal role in business continuity
  - Proactively engaged with our suppliers beginning in January to limit the disruption to our supply chain

# Financial Impact from COVID-19 Pandemic

- Believe long-term growth prospects for CRL remain firmly intact
- Moved swiftly to mitigate the anticipated, near-term revenue loss from COVID-19
  - Expected to reduce 2020 revenue by $135-$215M
  - Most significant headwind in the RMS segment
- Implemented temporary cost reductions initiatives, which are expected to result in meaningful savings this year
  - Primarily by lowering compensation expense and discretionary spending
- Intend to be prudent with capital deployment by slowing the pace of planned M&A activity and meaningfully reducing our planned capital projects for 2020
- Believe these collective actions will enable us to:
  - Preserve most jobs
  - Ensure our ability to continue to support our clients' research programs
  - Sustain our solid financial position

# Partnering with Our Clients on COVID-19 Programs

- Believe that we are particularly essential to our clients now and are in continuous communication with them to accommodate their evolving needs
  - One biotech R&D recently commented: CRL is the “backbone” required to support their programs
  - Many other clients have sent us notes of support and encouragement during this unprecedented time, noting that they couldn’t move their research forward without us
- Partnering with >40 clients to date in our DSA and Manufacturing segments on their development programs for potential vaccine candidates and therapeutics to treat COVID-19
  - Believe this is one of the highest levels in the CRO industry
  - Safety Assessment business conducting safety testing on COVID-19 vaccines and other therapeutics at multiple sites across North America and Europe
  - Conducting pathology studies in Maryland on an antibody treatment
  - Pennsylvania Biologics site conducting a study on reusing N95 masks
  - Will work with our strategic partner, Distributed Bio, on antibody-based therapeutics

# Broadly Supporting Our Clients' Outsourcing Needs

- Clients opting to outsource more projects to us for non-COVID-19-related programs across multiple therapeutic areas because:
  - Their own sites have become inaccessible
  - The ease and flexibility of outsourcing projects to an integrated, early-stage CRO like CRL
- Believe providing continued support to clients during the COVID-19 pandemic will lead to more outsourcing and longer-term business opportunities for CRL
- Biopharma clients who were previously conducting more programs internally or with multiple CROs are now choosing to outsource some of this work to CRL
- Our global scale, scientific depth, and breadth of our critical, early-stage solutions further differentiate us from the competition during these unprecedented times
- Even more so today, clients value the stability and efficiency of working with one large scientific partner to accommodate their early-stage research programs and to support the safe manufacture of their therapies
- Committed to providing flexible outsourcing solutions to our clients, while adapting to challenges associated with the evolving COVID-19 situation

# CRL’s Resilient Business Model

- Believe that healthcare will fare better than many sectors since it will play a crucial role in finding a solution and caring for those affected by COVID-19
- Believe CRL’s business model will be more resilient due to our unique, non-clinical focus, global scale, and comprehensive scientific capabilities
- Believe we will be able to withstand the COVID-19 situation better than many others because of the critical nature of our work, our broad portfolio, and our flexible outsourcing options
- Clients can partner with us to continue to move their early-stage programs forward across multiple therapeutic areas, including the incremental work they are doing on their COVID-19 programs
  - Even when facing meaningful disruptions or delays in other areas

# 1Q20 Revenue

| ($ in millions) | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| Revenue, reported | $707.1 | $604.6 | 17.0% |
| (Increase)/decrease due to FX | | | 0.7% |
| Contribution from acquisitions | | | (9.5)% |
| Revenue growth, organic | | | 8.2% |

- Through 1Q20, biotech funding environment remained very strong and client order activity was robust
  - Including bookings and proposal activity in the Safety Assessment business
- Led to exceptional 1Q20 financial results
  - COVID-19 caused only a moderate impact in the RMS segment
- 1Q20 organic revenue growth was driven by DSA and Manufacturing segments
  - COVID-19 reduced RMS revenue by ~$9M, or 150 bps on the consolidated growth rate, in 1Q20
  - COVID-19 had a negligible effect on the DSA and Manufacturing segments
- Last year’s large stocking order in the Microbial Solutions business reduced the consolidated revenue growth rate by an additional 120 bps in 1Q20



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# 1Q20 Operating Margin

| | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| GAAP OM% | 13.3% | 11.5% | 180 bps |
| Non-GAAP OM% | 19.0% | 16.3% | 270 bps |

- Non-GAAP operating margin improvement reflects flow-through of strong top-line performance in the DSA and Manufacturing segments and lower corporate costs
  - Well-positioned to generate greater operating leverage because investments in staff, capacity, and infrastructure that are more balanced now



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# 1Q20 EPS

| | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| GAAP EPS | $1.02 | $1.11 | (8.1)% |
| Non-GAAP EPS | $1.84 | $1.40 | 31.4% |

- 1Q20 non-GAAP EPS were well ahead of our outlook
  - Strong revenue growth, operating margin expansion, and a lower tax rate



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# COVID-19 Impact on 2020 Guidance

- 2020 was off to a spectacular start through mid-March when COVID-19 began to have an impact on our North American and European research models businesses
- Going forward, COVID-19 is expected to have the most significant impact on the RMS segment's revenue growth rate in 2020
  - Specifically on the research models business and particularly in 2Q20
- DSA and Manufacturing revenue growth rates are only expected to be modestly affected by COVID-19
- COVID-19 expected to reduce full-year 2020 revenue by $135-$215M
  - Reduce organic revenue growth guidance by just over 500 bps at midpoint
  - Reduce non-GAAP EPS guidance by $0.60 at midpoint
- Revised guidance is based on a range of recovery scenarios for our businesses

# Revised 2020 Guidance

| | CURRENT | PRIOR |
|---|---|---|
| Revenue growth, reported | 4.5%-8.0% | 13.0%-14.5% |
| Contribution from acquisitions | ~(4.0%) | (4.0%-4.5%) |
| Decrease/(Increase) due to FX | 0.5%-1.0% | (1.0%-1.5%) |
| Revenue growth, organic | 1.5%-4.5% | 7.75%-8.75% |
| GAAP EPS | $4.25-$4.60 | $5.20-$5.35 |
| Acquisition-related amortization | $1.75-$1.80 | $1.65-$1.70 |
| Charges related to global efficiency initiatives | ~$0.05 | <$0.05 |
| Acquisition-related adjustments | ~$0.20 | ~$0.25 |
| Other items | $0.25-$0.32 | $0.25-$0.32 |
| Venture capital investment losses/(gains) | $0.18 | --- |
| Non-GAAP EPS | $6.75-$7.10 | $7.45-$7.60 |

See ir.criver.com for reconciliations of Non-GAAP to GAAP results.

# RMS Results – Revenue

| ($ in millions) | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| Revenue, reported | $146.0 | $137.2 | 6.4% |
| (Increase)/decrease due to FX | | | 0.9% |
| Contribution from acquisitions | | | (9.0)% |
| Revenue growth, organic | | | (1.7)% |

- COVID-19 reduced 1Q20 RMS revenue by 660 bps, or $9M
  - Nearly evenly split between China and Western markets
- In February, we anticipated a modest 1Q20 impact related to COVID-19 in RMS China
  - China impact in line with out expectations
- Incremental headwinds to our North American and European research model businesses, particularly during last 2 weeks of 1Q20 as COVID-19 spread
- Research models business (~60% of 2019 global RMS revenue) has been most affected by COVID-19-related closures to our clients' research facilities to date
- RM Services businesses largely unaffected by COVID-19



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# RMS Results – RM Production & COVID-19 Impact

- Research model (RM) demand sharply declined as stay-at-home orders spread across the globe
  - Diminishing order activity from Academic clients as institutions closed abruptly
    - Academic clients represented ~one-third of global RMS revenue in 2019
  - Significant reduction in order activity from both large biopharma and smaller biotech clients as these clients reduced or closed their on-site activities
- China already seeing a gradual ramp-up in order activity as the commercial sector returns to work and Academia slowly reopens
- RM demand trends expected to persist at least through 2Q20 in North America and Europe
  - Cautiously optimistic that NA/EU RM businesses will meaningfully recover beginning in 2H20
  - Clients are already inquiring whether we will have models available to rapidly expand or reconstitute their colonies when they return to work
- Expect RM demand will improve in 3Q20 as global biopharma and biotech clients resume more normal research activities and believe Academic demand will begin to rebound by the fall
- Expect total RMS revenue will decline by at least 10% organically in 2020 due to COVID-19
  - Most significant impact expected in 2Q20

# RMS Results – RM Services

- RM Services businesses performed very well in 1Q20 and are expected to experience very little impact from COVID-19
- Believe strong performance reflects the value our clients see in outsourcing these critical services to us, or in the case of Insourcing Solutions (IS), the efficiency of using our people or capacity to manage their research needs
- GEMS business benefited from strong demand and new business wins across most geographies
  - Some clients that previously managed their proprietary, genetically modified model colonies in-house have closed their facilities and are outsourcing this work to us
  - We anticipate that much of this GEMS work will remain outsourced after the COVID-19 crisis subsides
- IS business continued to perform very well with contributions from contract awards at the end of 2019 from the NIH and in Europe
  - Also continued to gain traction with new biopharma clients through CRADL initiative, which provides turnkey research capacity in Boston/Cambridge and South San Francisco (SSF)
  - CRADL sites have remained open and accessible to client during COVID-19 crisis
  - Occupancy of our new site in SSF has improved nicely since it opened earlier in 2020 with excellent client feedback

# RMS Results – HemaCare

- Acquired in January, HemaCare had a strong first quarter as part of the CRL family
- Performed in line with our acquisition plan, with pro forma revenue growth >30% in 1Q20
- HemaCare is a premier provider of human-derived cellular products used as critical inputs throughout the cell therapy development and manufacturing processes
- Believe HemaCare's offering will lead more clients to start their cell therapy discovery programs at CRL and remain with us through discovery, early-stage development, and the manufacturing support process
- HemaCare temporarily closed its donor collection clinic in mid-March due to COVID-19 in order to ensure donor safety
  - Also paused certain integration activities
- HemaCare has remained operational and continues to ship its products to clients
- Believe COVID-19 will result in a short-term disruption for the business
- Over the longer term beyond 2020, we believe HemaCare's growth profile in excess of 30% annually remains intact

# RMS Results – Operating Margin

| | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| RMS GAAP OM% | 18.7% | 27.6% | (890) bps |
| RMS Non-GAAP OM% | 23.0% | 28.1% | (510) bps |

- RMS non-GAAP operating margin decline was almost exclusively driven by the COVID-19 impact
- Due to high fixed-cost nature of the RMS business, the cost reduction initiatives that we have implemented cannot offset the sharp, short-term decline in RM volumes
- Believe RMS operating margin will improve once client order activity returns to more normalized levels later in the year



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# DSA Results – Revenue

| ($ in millions) | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| Revenue, reported | $438.7 | $354.2 | 23.9% |
| (Increase)/decrease due to FX | | | 0.5% |
| Contribution from acquisitions | | | (12.8)% |
| Revenue growth, organic | | | 11.6% |

- Strong client demand for both Discovery and Safety Assessment (SA) services
  - Believe this is a testament to our position as the leading, early-stage CRO, as well as the strength of the market environment in 1Q20
- Benefited from broad-based demand across our client segments, led by biotechnology clients
- Pleased with the progress that Citoxlab has made as part of the CRL family
  - 1-year anniversary of the Citoxlab acquisition was in April
  - Citoxlab has enhanced our leading market position, expanded our geographic footprint and global scale, and solidified our scientific capabilities
    - Further distinguishes us from the competition during these unprecedented times



**See ir.criver.com for reconciliations of GAAP to Non-GAAP results.**

# DSA Results - Safety Assessment (SA)

- SA was a significant driver of DSA revenue growth
  - Strong volume and price increases, as well as a tailwind from healthy backlog exiting 4Q19
- SA proposal activity and bookings were robust and these trends continued through the end of March
  - March bookings were particularly strong
- Large biopharmaceutical and mid-size biotechnology companies have largely remained “business as usual” with regard to their early-stage programs
- We believe these clients are compensating for reduced on-site activities due to COVID-19 with increased outsourcing of their IND-enabling safety programs
- Believe clients are actively re-evaluating their CRO outsourcing strategies to work with fewer trusted partners to ensure business continuity amidst the challenges of the COVID-19 crisis
  - Also re-evaluating their supply chains to reduce dependency on Asia, including the use of CDMOs and CROs in China and India
- Our integrated, early-stage portfolio from target identification through non-clinical development uniquely positions us to enable clients to work with one early-stage CRO
  - For their time-sensitive COVID-19 programs or other important research efforts across multiple therapeutic areas
- Believe we offer the expertise, stability, and flexibility that clients require as we collaboratively navigate today’s challenges and those that arise in the future
  - Clients have told us our business continuity plans and COVID-19 preparedness are a “cut above” other CROs

# COVID-19 Impact on DSA Segment

- COVID-19 headwinds for DSA segment are expected to be modest and partly offset by clients opting to outsource projects in lieu or starting new studies in-house
- Expect an impact on SA revenue growth over the next 1-2 quarters, primarily as a result of study slippage
- Experienced a modest increase in study slippage since the end of March due to client-driven delays and resource constraints
  - Study slippage is associated with a number of factors, including test article availability from our clients as shipments are temporarily delayed from their partners in India and China
- We believe the overall impact from study slippage and other factors will be modest
- Expect the DSA segment will deliver organic revenue growth at least at the mid-single-digit level for the full-year 2020

# DSA Results – Discovery Services

- Discovery Services business also had a very good quarter
  - Particularly early discovery services
- Our scientific expertise, track record for delivering clinical candidates, and efforts to build a cohesive offering generated significant client interest
- A small number of Discovery clients appear to be slowing the initiation of new programs or delaying projects for at least one quarter, particularly for integrated drug discovery programs
  - Reducing their own on-site activities related to COVID-19
- Expect the Discovery business will rebound in 2H20 as clients return to work and resume their programs or initiate new ones

# DSA Results – Operating Margin

| | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| DSA GAAP OM% | 16.5% | 13.2% | 330 bps |
| DSA Non-GAAP OM% | 22.0% | 18.6% | 340 bps |

- DSA operating margin increases driven by significant improvement in both the Discovery Services and SA businesses
  - Greater operating leverage on strong top-line growth



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# Manufacturing Results – Revenue

| ($ in millions) | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| Revenue, reported | $122.4 | $113.2 | 8.1% |
| (Increase)/decrease due to FX | | | 1.5% |
| Revenue growth, organic | | | 9.6% |

- Last year's large stocking order from a non-pharma strategic partner in the Microbial Solutions business reduced the Manufacturing segment's revenue growth rate by 680 bps in 1Q20
- Microbial Solutions, Biologics Testing Solutions (Biologics), and Avian Vaccine (Avian) businesses all had outstanding quarters
  - Each delivered double-digit revenue growth when adjusting Microbial for the stocking order
- These businesses play a crucial role in ensuring the quality and safety of our clients' manufacturing activities and finished products
- Little disruption to our clients' manufacturing operations and we are attracting new business opportunities for treatments related to COVID-19
- Expect the Manufacturing segment will generate high-single-digit organic revenue growth in 2020
  - Believe COVID-19 will have a relatively small impact on our Manufacturing businesses



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# Manufacturing – Operating Margin

| | 1Q20 | 1Q19 | YOY Δ |
|---|---|---|---|
| Manufacturing GAAP OM% | 33.6% | 27.8% | 580 bps |
| Manufacturing Non-GAAP OM% | 35.6% | 31.0% | 460 bps |

- Significant operating margin improvement related to:
  - Enhanced operating efficiency due to process improvements in Microbial Solutions
  - Operating leverage from higher revenue in both the Biologics and Avian businesses
  - Elimination of duplicate costs related to last year's transition to our new Biologics facility in Pennsylvania



**See ir.criver.com for reconciliations of GAAP to Non-GAAP results.**

# Planned Transition of General Counsel Role

- Last spring, Dave Johst announced his intention to retire as Corporate Executive Vice President, General Counsel & Chief Administrative Officer
  - We thank Dave for his 29 years of service at CRL
  - He contributed to our growth and expansion by providing strategic counsel and direction to our global operations
    - Contributed to our market-leading position
- John Kuo will become Executive Vice President, General Counsel, Corporate Secretary & Chief Compliance Officer at the end of May
  - >25 years of experience
  - Previously at Varian Medical Systems as Senior Vice President, General Counsel & Corporate Secretary
  - Believe John will continue to provide strategic counsel and guidance that will support our future growth

# CRL’s Commitment to Our Clients

- All of our operating sites are open and adequately staffed to accommodate our clients’ needs
  - Believe we will endure the COVID-19 challenge better than many other companies
- Our client base is resilient
  - Biotech clients had ~3 years of cash on hand at the end of 1Q20, which should enable them to withstand any near-term disruption caused by COVID-19
    - Biotech clients have been our principal source of growth in recent years
  - Global biopharma clients have the financial strength and scientific resources to survive
    - Industry as a whole is working tirelessly to find solutions for COVID-19 and other diseases on behalf of the patients who rely on them
- We have taken a disciplined and determined approach to address the COVID-19 crisis
- Together with our clients, we are committed to delivering innovative, safe, and effective medicines to patients as quickly and efficiently as possible

# 1Q20 Results

| ($ in millions) | 1Q20 | 1Q19 | YOY Δ | Organic Δ |
|---|---|---|---|---|
| Revenue | $707.1 | $604.6 | 17.0% | 8.2% |
| GAAP OM% | 13.3% | 11.5% | 180 bps | |
| Non-GAAP OM% | 19.0% | 16.3% | 270 bps | |
| GAAP EPS | $1.02 | $1.11 | (8.1)% | |
| Non-GAAP EPS | $1.84 | $1.40 | 31.4% | |

- Delivered strong revenue growth and significant operating margin expansion
  - Drove non-GAAP EPS growth of 31%, widely outperforming our expectations
- Operating margin performance reflects our ability to leverage investments made in staff, capacity, and infrastructure to accommodate growth in a scalable and efficient manner
- Strong start to the year changed in March as the COVID-19 virus spread and stay-at-home orders began to be adopted globally
  - Led to a reduction in client demand, primarily for our research models business



**See ir.criver.com for reconciliations of GAAP to Non-GAAP results.**

# Revised 2020 Guidance

| | Current |
|---|---|
| Revenue growth, reported | 4.5%-8.0% |
| Revenue growth, organic | 1.5%-4.5% |
| GAAP EPS | $4.25-$4.60 |
| Non-GAAP EPS | $6.75-$7.10 |

- Believe COVID-19 will reduce full-year 2020 revenue by ~$135M-$215M
  - Impact will be greatest in 2Q20, specifically on the RMS segment

# Key 2020 Guidance Assumptions

- Guidance considers multiple recovery scenarios for each business, ranging from:
  - Meaningful improvement in 3Q20
  - Downside case with modest recovery in 3Q20 and more meaningful recovery not occurring until 4Q20
- Scenarios are based on several key assumptions, with variations based primarily on timing
  - For the RM business, we expect that many biopharma clients will be returning to work in 3Q20 and academic researchers will begin to return in the fall
  - Assumed that we will continue to have the adequate resources and supplies
    - Such as PPE equipment, test articles from our clients, and large models required for safety assessment studies
  - Our essential personnel will continue to work on-site to accommodate client demand

# Revised 2020 Segment Revenue Outlook

| | 2020 Reported Revenue Growth | 2020 Organic Revenue Growth |
|---|---|---|
| RMS | Low- to mid-single-digit decline | At least 10% decline |
| DSA | High-single-digit growth | At least mid-single-digit growth |
| Manufacturing | Mid- to high-single-digit growth | High-single-digit growth |
| Consolidated CRL | 4.5%-8.0% | 1.5%-4.5% |

- Impact of COVID-19 is expected to be:
  - Most significant on the RMS segment, including HemaCare
  - More modest on the DSA segment
  - Small on the Manufacturing segment



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# 2Q20 Outlook

| | 2Q20 Outlook |
|---|---|
| Reported revenue growth YOY | Low- to mid-single-digit decline |
| Organic revenue growth YOY | Mid-single-digit decline |
| Non-GAAP EPS growth YOY | ~20%-30% decline vs. 2Q19 |

- 2Q20 is expected to experience the largest headwind from COVID-19, particularly the RMS segment

# Cost Reduction Initiatives

- Implemented temporary cost reduction initiatives to mitigate the near-term margin impact from COVID-19, including:
  - Reducing compensation expense
    - Delaying merit increases
    - Temporarily suspending 401k contributions
    - Hiring restrictions to control headcount
    - Reduction of working hours, principally in the RMS segment
  - Meaningfully reducing other discretionary costs, including for all non-essential travel
- Cost savings are expected to total $55-$90M in 2020
  - Level of savings is partially dependent on the duration of these temporary actions
- Will regularly re-evaluate these initiatives and will curtail, extend, or implement additional cost levers as the COVID-19 situation warrants

# Solid Financial Position

- Fundamental drivers of our business will remain healthy
  - Believe our actions and our solid financial position are two of the many factors that differentiate Charles River from our competitors as we manage through these unprecedented times
  - We want our clients to be confident that we can, and will, provide the support on which they rely so that they can continue their research efforts during this pandemic and in the future
- Borrowed $150M under the revolver at the end of 1Q20 to have additional cash on hand, and to proactively protect against any dislocation in credit markets
  - Increased our cash and equivalents to $372M, well above our targeted levels
- Available borrowing capacity of nearly $900M at end of 1Q20 under our $2.05B revolving credit facility
- No significant debt maturities until 2023 when the credit facility matures
- Our existing cash position and our cash flow from operations will be more than sufficient to meet anticipated capital needs for the foreseeable future

| CRL Debt Maturities | |
|---|---|
| Q2-Q4 2020 | $37.5M |
| 2021 | $72.6M |
| 2022 | $81.3M |
| 2023 | $1.17B |
| 2024 | $0.2M |
| After 2024 (senior notes) | $1.00B |

# Solid Financial Position, cont.

| Maintenance Covenants under Credit Agreement | Requirement | As of 3/28/20 |
|---|---|---|
| Gross Leverage Ratio | ≤ 4.0x | 3.44x |
| Interest Coverage Ratio | ≥ 3.5x | 6.55x |

- At the end of 1Q20, we had $2.4B of outstanding debt
  - Represents gross leverage ratio of 3.44x and net leverage ratio of 2.90x
- Subject to two maintenance covenants under the credit agreement: gross leverage and interest coverage
  - Even with additional $150M borrowed, we were well within these requirements at end of 1Q20
  - Believe we will be in compliance each quarter this year



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# Capital Priorities

- Due to the fluid COVID-19 situation, capital priorities have changed to conserve capital and enhance liquidity
  - Slowed our planned M&A activity for at least the short term
  - Re-evaluating capital projects for the year
- Expect to move forward only with capital projects that have already commenced or those which are critical to the business
  - Either for maintenance purposes or to accommodate near-term client demand
  - Result in a meaningful reduction in capex by $30M to ~$120M for 2020
- Do not intend to repurchase any shares this year
- Balance sheet and financial position are very strong, which we intend to maintain

# Cash Flow

| ($ in millions) | 1Q20 | 1Q19 | 2020 Outlook |
|---|---|---|---|
| Free cash flow (FCF) | $42.9 | ($1.9) | $325-$350 |
| Capex | $25.7 | $16.7 | ~$120 |
| Depreciation | $29.4 | $25.9 | ~$125 |
| Amortization | $27.9 | $19.4 | ~$115 |

- FCF in 1Q20 significantly improved from last year
  - Strong 1Q20 operating performance
  - Also favorable comparison to 1Q19, which was negatively affected by the timing of certain working capital items related to an ERP systems implementation at MPI as part of the integration process
- Reduced FCF guidance due to the anticipated impact of COVID-19 on our operating performance, partially offset by lower capex
- Higher 1Q20 capex was primarily driven by planned investments in capacity and infrastructure to support our growth initiatives



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# Unallocated Corporate Expenses

| ($ in millions) | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| GAAP | $46.5 | $46.6 | $46.2 |
| Non-GAAP | $39.8 | $41.9 | $40.8 |

- Unallocated corporate costs were slightly favorable to our expectations
  - 5.6% of total revenue in 1Q20, compared to 6.8% of total revenue in 1Q19 (non-GAAP)
- Costs were favorable primarily as a result of a discrete benefit associated with our deferred compensation program
  - Resulted in a 50-basis-point benefit to 1Q20 operating margin, which we expect to normalize over the course of the year
  - Operating income benefit was more than offset by a corresponding investment loss associated with our deferred compensation program, which was recorded below the line in Other Income
- Continue to expect unallocated corporate costs to be ~5.5% of revenue for the full-year 2020



See ir.criver.com for reconciliations of GAAP to Non-GAAP results.

# Net Interest Expense

| ($ in millions) | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| GAAP interest expense, net | $14.8 | $23.7 | $9.8 |
| Non-GAAP interest expense, net | $14.8 | $22.1 | $9.8 |
| Adjustments for foreign exchange forward contract and related interest expense(1) | $4.2 | ($5.3) | $6.4 |
| Adjusted net interest expense | $19.0 | $16.8 | $16.2 |

- Total adjusted net interest expense for 1Q20 increased sequentially, primarily as a result of higher debt balances associated with the HemaCare transaction
- For the year, we continue to expect total adjusted net interest expense in the range of $78-$80M (non-GAAP)
  - Higher debt balances will be offset by lower expected interest rates as a result of recent Federal Reserve rate cuts
- GAAP net interest expense expected to be $74-$76M in 2020

(1) 1Q20 amounts reported in total adjusted interest expense include $6.1M gain on forward contract partially offset by $1.4M of additional interest expense.



**See ir.criver.com for reconciliations of GAAP to Non-GAAP results.**

# Tax Rate

| | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| GAAP | 8.3% | 23.7% | 16.0% |
| Non-GAAP | 14.3% | 23.5% | 17.2% |

- 1Q20 tax rate was ~300 bps lower YOY and at the bottom of our 1Q20 outlook
  - Largely the result of a favorable excess tax benefit associated with stock-based compensation related to higher stock price levels in February at the time of equity vesting activities
- Continue to expect full-year 2020 tax rate will be in the range of 22%-23.5% (non-GAAP)
- 2020 GAAP tax rate expected to be in a range of 23%-24.5%



**See ir.criver.com for reconciliations of GAAP to Non-GAAP results.**

# 2020 Revised Guidance Summary

| | GAAP | Non-GAAP |
|---|---|---|
| Revenue growth | 4.5%-8.0% reported | 1.5%-4.5% organic |
| Unallocated corporate | ~5.5% of revenue | ~5.5% of revenue |
| Net interest expense (total) | $74M-$76M | $78M-$80M (adjusted) |
| Tax rate | 23%-24.5% | 22.0%-23.5% |
| EPS | $4.25-$4.60 | $6.75-$7.10 |
| Cash flow | Operating cash flow: $445M-$470M | Free cash flow: $325M-$350M |
| Capital expenditures | ~$120M | ~$120M |

**See ir.criver.com for reconciliations of GAAP to Non-GAAP results.**

# Concluding Remarks

- In the face of COVID-19 challenges, our ability to respond quickly demonstrates we have built the capabilities and processes necessary to make nimble decisions and fully support our clients' evolving needs
- We will continue to work together to stay focused on executing our strategy and achieving our long-term financial and operational targets
- Strong 1Q20 results reflect the tremendous efforts of our employees around the world and the critical nature of the work that we do
- We believe our non-clinical focus, global scale, and scientific expertise, coupled with our solid and stable financial position, underscore the resilience of our business model and will enable us to withstand the current situation better than others
- We will continue to focus on our commitment to our clients, employees, communities, and shareholders through these unprecedented times, and believe we will emerge as a more distinguished partner for all of our key stakeholders

# 1Q20 Regulation G Financial Reconciliations



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**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**
**RECONCILIATION OF GAAP TO NON-GAAP**
**SELECTED BUSINESS SEGMENT INFORMATION (UNAUDITED)[1]**
**(in thousands, except percentages)**

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| **Research Models and Services** | | |
| Revenue | $ 145,996 | $ 137,172 |
| Operating income | 27,373 | 37,832 |
| Operating income as a % of revenue | 18.7 % | 27.6 % |
| Add back: | | |
| Amortization related to acquisitions | 5,652 | 352 |
| Severance | (9) | 160 |
| Acquisition related adjustments [2] | 285 | - |
| Site consolidation costs, impairments and other items | 229 | 181 |
| Total non-GAAP adjustments to operating income | $ 6,157 | $ 693 |
| Operating income, excluding non-GAAP adjustments | $ 33,530 | $ 38,525 |
| Non-GAAP operating income as a % of revenue | 23.0 % | 28.1 % |
| | | |
| Depreciation and amortization | $ 8,752 | $ 4,322 |
| Capital expenditures | $ 5,412 | $ 4,112 |
| | | |
| **Discovery and Safety Assessment** | | |
| Revenue | $ 438,683 | $ 354,197 |
| Operating income | 72,283 | 46,705 |
| Operating income as a % of revenue | 16.5 % | 13.2 % |
| Add back: | | |
| Amortization related to acquisitions | 23,007 | 16,735 |
| Severance | 83 | 13 |
| Acquisition related adjustments [2] | 1,289 | 2,254 |
| Total non-GAAP adjustments to operating income | $ 24,379 | $ 19,002 |
| Operating income, excluding non-GAAP adjustments | $ 96,662 | $ 65,707 |
| Non-GAAP operating income as a % of revenue | 22.0 % | 18.6 % |
| | | |
| Depreciation and amortization | $ 41,330 | $ 33,784 |
| Capital expenditures | $ 14,729 | $ 8,848 |
| | | |
| **Manufacturing Support** | | |
| Revenue | $ 122,380 | $ 113,200 |
| Operating income | 41,112 | 31,499 |
| Operating income as a % of revenue | 33.6 % | 27.8 % |
| Add back: | | |
| Amortization related to acquisitions | 2,247 | 2,324 |
| Severance | 256 | 227 |
| Acquisition related adjustments [2] | 2 | 50 |
| Site consolidation costs, impairments and other items | - | 1,008 |
| Total non-GAAP adjustments to operating income | $ 2,505 | $ 3,609 |
| Operating income, excluding non-GAAP adjustments | $ 43,617 | $ 35,108 |
| Non-GAAP operating income as a % of revenue | 35.6 % | 31.0 % |
| | | |
| Depreciation and amortization | $ 6,366 | $ 5,805 |
| Capital expenditures | $ 5,161 | $ 3,606 |

**CONTINUED ON NEXT SLIDE**



charles river

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**
**RECONCILIATION OF GAAP TO NON-GAAP**
**SELECTED BUSINESS SEGMENT INFORMATION (UNAUDITED)[1]**
**(in thousands, except percentages)**

**CONTINUED FROM PREVIOUS SLIDE**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | | March 28, 2020 | | March 30, 2019 |
| **Unallocated Corporate Overhead** | $ | (46,487) | $ | (46,244) |
| Add back: | | | | |
| Acquisition related adjustments (2) | | 6,983 | | 5,422 |
| Other items (3) | | (287) | | - |
| Total non-GAAP adjustments to operating expense | $ | 6,696 | $ | 5,422 |
| Unallocated corporate overhead, excluding non-GAAP adjustments | $ | (39,791) | $ | (40,822) |
| **Total** | | | | |
| Revenue | $ | 707,059 | $ | 604,569 |
| Operating income | | 94,281 | | 69,792 |
| Operating income as a % of revenue | | 13.3 % | | 11.5 % |
| Add back: | | | | |
| Amortization related to acquisitions | | 30,906 | | 19,411 |
| Severance and executive transition costs | | 330 | | 400 |
| Acquisition related adjustments (2) | | 8,559 | | 7,726 |
| Site consolidation costs, impairments and other items (3) | | (58) | | 1,189 |
| Total non-GAAP adjustments to operating income | $ | 39,737 | $ | 28,726 |
| Operating income, excluding non-GAAP adjustments | $ | 134,018 | $ | 98,518 |
| Non-GAAP operating income as a % of revenue | | 19.0 % | | 16.3 % |
| Depreciation and amortization | $ | 57,260 | $ | 45,358 |
| Capital expenditures | $ | 25,721 | $ | 16,731 |

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company’s performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

(2) These adjustments are related to the evaluation and integration of acquisitions, which primarily include transaction, third-party integration, and certain compensation costs, and fair value adjustments associated with contingent consideration.

(3) This amount relates to third-party costs, net of insurance reimbursements, associated with the remediation of the unauthorized access into the Company's information systems which was detected in March 2019.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**RECONCILIATION OF GAAP EARNINGS TO NON-GAAP EARNINGS (UNAUDITED)[1]**

**(in thousands, except per share data)**

| | Three Months Ended | |
|---|---|---|
| | **March 28, 2020** | **March 30, 2019** |
| Net income attributable to common shareholders | $ 50,769 | $ 55,133 |
| Add back: | | |
| Non-GAAP adjustments to operating income (Refer to previous slide) | 39,737 | 28,726 |
| Venture capital (gains) losses | 12,035 | (10,575) |
| Tax effect of non-GAAP adjustments: | | |
| Non-cash tax benefit related to international financing structure [2] | 1,073 | - |
| Tax effect of the remaining non-GAAP adjustments | (11,804) | (3,880) |
| Net income attributable to common shareholders, excluding non-GAAP adjustments | $ 91,810 | $ 69,404 |
| Weighted average shares outstanding - Basic | 49,189 | 48,458 |
| Effect of dilutive securities: | | |
| Stock options, restricted stock units and performance share units | 777 | 1,004 |
| Weighted average shares outstanding - Diluted | 49,966 | 49,462 |
| Earnings per share attributable to common shareholders: | | |
| Basic | $ 1.03 | $ 1.14 |
| Diluted | $ 1.02 | $ 1.11 |
| Basic, excluding non-GAAP adjustments | $ 1.87 | $ 1.43 |
| Diluted, excluding non-GAAP adjustments | $ 1.84 | $ 1.40 |

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

(2) This adjustment relates to the recognition of deferred tax assets expected to be utilized as a result of changes to the Company's international financing structure.



charles river

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
## RECONCILIATION OF GAAP REVENUE GROWTH
## TO NON-GAAP REVENUE GROWTH, ORGANIC (UNAUDITED) [1]

| **Three Months Ended March 28, 2020** | **Total CRL** | **RMS Segment** | **DSA Segment** | **MS Segment** |
|---|---|---|---|---|
| Revenue growth, reported | 17.0 % | 6.4 % | 23.9 % | 8.1 % |
| Decrease due to foreign exchange | 0.7 % | 0.9 % | 0.5 % | 1.5 % |
| Contribution from acquisitions [2] | (9.5)% | (9.0)% | (12.8)% | - % |
| **Non-GAAP revenue growth, organic [3]** | **8.2 %** | **(1.7)%** | **11.6 %** | **9.6 %** |

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

(2) The contribution from acquisitions reflects only completed acquisitions.

(3) Organic revenue growth is defined as reported revenue growth adjusted for acquisitions and foreign exchange.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**
**RECONCILIATION OF GAAP TO NON-GAAP REVENUE AND EARNINGS PER SHARE (EPS)**
**Guidance for the Twelve Months Ended December 26, 2020E**

| 2020 GUIDANCE | CURRENT | PRIOR |
|---|---|---|
| Revenue growth, reported | 4.5% – 8.0% | 13.0% – 14.5% |
| Less: Contribution from acquisitions (1) | ~(4.0%) | (4.0%) – (4.5%) |
| Unfavorable/(favorable) impact of foreign exchange | 0.5% – 1.0% | (1.0%) – (1.5%) |
| Revenue growth, organic (2) | 1.5% – 4.5% | 7.75% – 8.75% |
| GAAP EPS estimate | $4.25 – $4.60 | $5.20 – $5.35 |
| Acquisition-related amortization (3) | $1.75 – $1.80 | $1.65 – $1.70 |
| Charges related to global efficiency initiatives (4) | ~$0.05 | <$0.05 |
| Acquisition-related adjustments (5) | ~$0.20 | ~$0.25 |
| Other items (6) | $0.25 – $0.32 | $0.25 – $0.32 |
| Venture capital investment losses/(gains) (7) | $0.18 | -- |
| Non-GAAP EPS estimate | $6.75 – $7.10 | $7.45 – $7.60 |
| Free cash flow (8) | $325 – $350 million | $350 – $360 million |

Footnotes to Guidance Table:

(1) The contribution from acquisitions reflects only those acquisitions that have been completed.

(2) Organic revenue growth is defined as reported revenue growth adjusted for acquisitions and foreign currency translation.

(3) Acquisition-related amortization includes an estimate of $0.25-$0.30 for the impact of the HemaCare acquisition as the purchase price allocation has not been finalized.

(4) These charges, which primarily include severance and other costs, relate primarily to the Company's planned efficiency initiatives. Other projects in support of global productivity and efficiency initiatives are expected, but these charges reflect only the decisions that have already been finalized.

(5) These adjustments are related to the evaluation and integration of acquisitions, and primarily include transaction, advisory, and certain third-party integration costs, as well as certain costs associated with acquisition-related efficiency initiatives.

(6) These items primarily relate to charges of $0.15-$0.22 associated with the planned termination of the Company's U.S. pension plan in the second half of 2020, as well as charges of approximately $0.10 associated with U.S. and international tax legislation that necessitated changes to the Company's international financing structure.

(7) Venture capital investment performance only includes recognized gains or losses. The Company does not forecast the future performance of its venture capital investments.

(8) The reconciliation of the current 2020 free cash flow guidance is as follows: Cash flow from operating activities of $445-$470 million, less capital expenditures of approximately $120 million, equates to free cash flow of $325-$350 million.

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
## RECONCILIATION OF GROSS/NET LEVERAGE RATIO, INCLUDING GAAP NET INCOME TO ADJUSTED EBITDA (1)
**(dollars in thousands, except for per share data)**

| | March 28, 2020 | December 28, 2019 | December 29, 2018 | December 30, 2017 | December 31, 2016 | December 26, 2015 | December 27, 2014 | December 28, 2013 | December 29, 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **DEBT (2):** | | | | | | | | | |
| Total Debt & Finance Leases | $ 2,374,437 | $ 1,888,211 | $ 1,668,014 | $ 1,145,104 | $ 1,235,009 | $ 863,031 | $ 777,863 | $ 663,789 | $ 666,520 |
| Plus: Other adjustments per credit agreement | $ 2,563 | $ 712 | $ 3,033 | $ 298 | $ 3,621 | $ 1,370 | $ 2,828 | $ 9,787 | $ 9,680 |
| Total Indebtedness per credit agreement | $ 2,377,000 | $ 1,888,924 | $ 1,671,047 | $ 1,145,402 | $ 1,238,630 | $ 864,401 | $ 780,691 | $ 673,576 | $ 676,200 |
| Less: Cash and cash equivalents | (372,433) | (238,014) | (195,442) | (163,794) | (117,626) | (117,947) | (160,023) | (155,927) | (109,685) |
| Net Debt | $ 2,004,567 | $ 1,650,910 | $ 1,475,605 | $ 981,608 | $ 1,121,004 | $ 746,454 | $ 620,668 | $ 517,649 | $ 566,515 |

| | March 28, 2020 | December 28, 2019 | December 29, 2018 | December 30, 2017 | December 31, 2016 | December 26, 2015 | December 27, 2014 | December 28, 2013 | December 29, 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **ADJUSTED EBITDA (2):** | | | | | | | | | |
| Net income attributable to common shareholders | $ 245,423 | $ 252,019 | $ 226,373 | $ 123,355 | $ 154,765 | $ 149,313 | $ 126,698 | $ 102,828 | $ 97,295 |
| Adjustments: | | | | | | | | | |
| Less: Aggregate non-cash amount of nonrecurring gains | (352) | (310) | — | — | (685) | (9,878) | (2,048) | — | — |
| Plus: Interest expense | 81,880 | 79,586 | 65,258 | 29,777 | 27,709 | 15,072 | 11,950 | 20,969 | 33,342 |
| Plus: Provision for income taxes | 44,459 | 50,023 | 54,996 | 171,369 | 66,835 | 43,391 | 46,685 | 32,142 | 24,894 |
| Plus: Depreciation and amortization | 212,318 | 198,095 | 161,779 | 131,159 | 126,658 | 94,881 | 96,445 | 96,636 | 81,275 |
| Plus: Non-cash nonrecurring losses | 3,454 | 427 | 559 | 17,716 | 6,792 | 10,427 | 1,615 | 4,202 | 12,283 |
| Plus: Non-cash stock-based compensation | 56,125 | 57,271 | 47,346 | 44,003 | 43,642 | 40,122 | 31,035 | 24,542 | 21,855 |
| Plus: Permitted acquisition-related costs | 47,021 | 34,827 | 19,181 | 6,687 | 22,653 | 13,451 | 6,285 | 1,752 | 3,676 |
| Plus: Pro forma EBITDA adjustments for permitted acquisitions | — | 12,320 | 15,648 | 690 | 18,573 | 9,199 | 10,787 | — | 253 |
| Adjusted EBITDA (per the calculation defined in compliance certificates) | $ 690,329 | $ 684,259 | $ 591,140 | $ 524,756 | $ 466,942 | $ 365,978 | $ 329,452 | $ 283,071 | $ 274,873 |

| | March 28, 2020 | December 28, 2019 | December 29, 2018 | December 30, 2017 | December 31, 2016 | December 26, 2015 | December 27, 2014 | December 28, 2013 | December 29, 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **LEVERAGE RATIO:** | | | | | | | | | |
| Gross leverage ratio per credit agreement (total debt divided by adjusted EBITDA) | 3.44x | 2.76x | 2.83x | 2.2x | 2.7x | 2.4x | 2.4x | 2.4x | 2.5x |
| Net leverage ratio (net debt divided by adjusted EBITDA) | 2.9x | 2.4x | 2.5x | 1.9x | 2.4x | 2.0x | 1.9x | 1.8x | 2.1x |

| | March 28, 2020 |
|---|---|
| **INTEREST COVERAGE RATIO:** | |
| Capital Expenditures | 151,393 |
| Cash Interest Expense | 82,275 |
| Interest Coverage ratio per the credit agreement (Adjusted EBITDA minus Capital Expenditures divided by cash interest expense) | 6.55x |

**(1)** Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

**(2)** Pursuant to the definition in its credit agreement dated March 26. 2018, the Company has defined its pro forma leverage ratio as total debt divided by adjusted EBITDA for the trailing-twelve-month period following the close of, and pro forma for, the acquisition of CTL International and HemaCare Corporation. The Company has defined interest coverage ratio as adjusted EBITDA for the trailing-twelve-month period less the aggregate amount of capital expenditures for the trailing-twelve-period; divided by the consolidated interest expense for the period of four consecutive fiscal quarters. Adjusted EBITDA represents net income, prepared in accordance with accounting principles generally accepted in the U.S. (GAAP), adjusted for interest, taxes, depreciation and amortization, and certain items that management believes are not reflective of the operational performance of the business. These adjustments include, but are not limited to, acquisition-related expenses including transaction and advisory costs; asset impairments; changes in fair value of contingent consideration obligations; employee stock compensation; historical EBITDA of companies acquired during the period; and other items identified by the company.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**RECONCILIATION OF FREE CASH FLOW (NON-GAAP) [1]**

**(in thousands)**

| | Three Months Ended | | Fiscal Year Ended |
|---|---|---|---|
| | **March 28, 2020** | **March 30, 2019** | **December 26, 2020E** |
| Net cash provided by operating activities | $ 68,590 | $ 14,859 | $445,000-$470,000 |
| Less: Capital expenditures | (25,721) | (16.731) | (~120,000) |
| Free cash flow | $ 42,869 | $ (1,872) | $325,000-$350,000 |

[1] Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**RECONCILIATION OF GAAP TO NON-GAAP**

**SELECTED BUSINESS SEGMENT INFORMATION (UNAUDITED)[(1)]**

**(in thousands)**

| | Three Months Ended December 28, 2019 |
|---|---|
| **Unallocated Corporate Overhead** | $ (46,610) |
| Add back: | |
| Severance and executive transition costs | 390 |
| Acquisition related adjustments [(2)] | 3,634 |
| Other items [(3)] | 657 |
| Total non-GAAP adjustments to operating expense | $ 4,681 |
| Unallocated corporate overhead, excluding non-GAAP adjustments | $ (41,929) |

**(1)** Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

**(2)** These adjustments are related to the evaluation and integration of acquisitions, which primarily include transaction, third-party integration, and certain compensation costs, and fair value adjustments associated with contingent consideration.

**(3)** This amount relates to third-party costs, net of insurance reimbursements, associated with remediation of the unauthorized access into the Company's information systems which was detected in March 2019.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**RECONCILIATION OF GAAP TO NON-GAAP NET INTEREST EXPENSE[1]**

**(in thousands)**

| | Three Months Ended | | | Fiscal Year Ended |
|---|---|---|---|---|
| | **March 28, 2020** | **December 28, 2019** | **March 30, 2019** | **December 26, 2020E** |
| GAAP Interest expense, net | $ 14,751 | $ 23,678 | $ 9,808 | $74,000-$76,000 |
| Exclude: | | | | |
| Write-off of deferred financing costs and fees related to debt financing | - | (1,605) | - | - |
| Non-GAAP Interest expense, net | 14,751 | 22,073 | 9,808 | $74,000-$76,000 |
| Adjustments for foreign exchange forward contract and related interest expense [2] | 4,213 | (5,292) | 6,422 | ~4,000 |
| Adjusted Interest expense, net | $ 18,964 | $ 16,781 | $ 16,230 | $78,000-$80,000 |

[1] Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

[2] Amounts reported in total adjusted interest expense, net include a $6.1 million gain on a forward contract partially offset by $1.4 million of additional interest expense for the three months ended March 28, 2020; a $3.0 million loss on a forward contract and $1.6 million of additional interest expense for the three months ended December 28, 2019; and an $8.9 million gain on a forward contract partially offset by $2.5 million of additional interest expense for the three months ended March 30, 2019.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**RECONCILIATION OF GAAP TAX RATE TO NON-GAAP TAX RATE (UNAUDITED) (1)**

**(in thousands)**

| | Three Months Ended | | |
|---|---|---|---|
| | March 28, 2020 | December 28, 2019 | March 30, 2019 |
| Income from operations before income taxes & noncontrolling interests | $ 55,459 | $ 105,565 | $ 66,290 |
| Add back: | | | |
| Amortization related to acquisitions | 30,906 | 24,956 | 19,411 |
| Severance and executive transition costs | 330 | 7,270 | 400 |
| Acquisition related adjustments (2) | 8,559 | 5,316 | 7,726 |
| Site consolidation costs, impairments and other items (3) | (58) | 1,340 | 1,189 |
| Write-off of deferred financing costs and fees related to debt refinancing | - | 1,605 | - |
| Venture capital (gains) losses | 12,035 | (14,983) | (10,575) |
| Income before income taxes & noncontrolling interests, excluding specified charges (Non-GAAP) | $ 107,231 | $ 131,069 | $ 84,441 |
| | | | |
| Provision for income taxes (GAAP) | $ 4,622 | $ 25,053 | $ 10,602 |
| Non-cash tax expense related to international financing structure (4) | (1,073) | (581) | - |
| Tax effect of the remaining non-GAAP adjustments | 11,804 | 6,368 | 3,880 |
| Provision for income taxes (Non-GAAP) | $ 15,353 | $ 30,840 | $ 14,482 |
| | | | |
| Total rate (GAAP) | 8.3 % | 23.7 % | 16.0 % |
| Total rate, excluding specified charges (Non-GAAP) | 14.3 % | 23.5 % | 17.2 % |

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company’s performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations and guidance.

(2) These adjustments are related to the evaluation and integration of acquisitions, which primarily include transaction, third-party integration, and certain compensation costs, and fair value adjustments associated with contingent consideration.

(3) This amount relates to third-party costs, net of insurance reimbursements, associated with the remediation of the unauthorized access into the Company's information systems which was detected in March 2019.

(4) This adjustment relates to the utilization of deferred tax assets as a result of changes to the Company's international financing structure.

## CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
## RECONCILIATION OF GAAP TO NON-GAAP TAX RATE GUIDANCE (1)

| | Fiscal Year Ended December 26, 2020E |
|---|---|
| **GAAP Tax Rate** | **23.0%-24.5%** |
| Charges associated with changes to the international financing structure | (~1.0%) |
| **Non-GAAP Tax Rate** | **22.0%-23.5%** |

(1) Charles River management believes that supplementary non-GAAP financial measures provide useful information to allow investors to gain a meaningful understanding of our core operating results and future prospects, without the effect of often-one-time charges and other items which are outside our normal operations, consistent with the manner in which management measures and forecasts the Company's performance. The supplementary non-GAAP financial measures included are not meant to be considered superior to, or a substitute for results of operations prepared in accordance with U.S. GAAP. The Company intends to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules, regulations, and guidance.

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