

# BENCH STRENGTH

COVANCE ANNUAL REPORT 2010



## Leveraging Our Bench Strength

In business as in sports, the team with the strongest, deepest bench typically wins the game. At Covance, we believe our bench strength is among our greatest attributes, the one that enables us to break away from the competition. Our reputation as the research and development partner of choice is backed by a global roster of talented doctors, nurses, pathologists, scientists, clinical researchers, technicians, and support staff. We have built our strength one person at a time — recruiting,



on-boarding, and developing the impressive talent who make up our bench.

Covance professionals work side by side with our clients' medical and scientific leaders, providing experienced, ready-to-go teams that help clients bring their new medicines from laboratory bench to bedside. Many of our professionals come to Covance from the more than 1,500 pharmaceutical, biotechnology, and food and nutrition companies we serve. Others bring a diverse range of skills from a variety of industries. Together, they form a dynamic team that helps our clients reduce the time and cost of new product development.

Strong teamwork and innovative thinking exhibited by Covance employees around the world are hallmarks of our exceptional client service, our preferential partnerships, and our trust-based relationships with clients. Our deep bench strength is the power behind our passion and our mission of bringing miracles to market sooner.

## To Our Shareholders

Covance now stands at the forefront of the most exciting and dynamic shift in the history of the contract research industry. Drug development outsourcing is expected to more than double over the next seven years as pharmaceutical and biotechnology companies increasingly look for ways to reduce their fixed costs and improve the efficiencies of bringing important new medicines to market. Covance is ideally positioned to capitalize on this transformational market opportunity.

Among contract research organizations (CROs), only Covance has the combined breadth of services, geographic footprint, and experience managing large partnerships, as well as the

to support new compounds. These relationships will move Takeda toward a fully virtual R&D outsourcing model, improving productivity and facilitating Takeda's global growth.

This year we also realized important progress in our strategic alliance with Eli Lilly. The campus we acquired in Greenfield, Indiana, as part of the 2008 landmark \$1.6 billion asset transfer agreement has grown organically to include six new service lines: nutritional analysis, sample storage, biotech services, biomarkers, specialty toxicology, and our market access services. We now serve more than 60 clients at this site, and our staff has grown from 260 in 2008 to more



bench strength to construct broad-based, innovative contracts. A fitting example is the 10-year, \$2.2 billion alliance we signed with sanofi-aventis in September. The largest research and development outsourcing agreement to date, this alliance included the transfer of sanofi-aventis sites in Alnwick, England, and Porcheville, France, adding 300 talented scientists, technicians, operators, and support staff to Covance. The alliance includes a \$350 million revenue commitment at these facilities as well as a \$1.85 billion enterprise-wide services agreement that gives sanofi-aventis access to Covance's entire portfolio of drug development services. In addition to expanding our presence in Europe, Covance gained a full complement of Chemistry Manufacturing Control (CMC) services, which augments our already extensive portfolio.

While the size and scope of our alliance with sanofi-aventis is unprecedented, we believe it is a harbinger of things to come. Recently, Takeda — the largest pharmaceutical company in Japan — selected Covance as one of two CROs to help them plan and execute global drug development programs

than 500 employees today. By expanding the services at this campus, Covance converted what had been an internal cost center for Lilly to an attractive, profitable, and growing contract research facility.

While Covance may be best known as a drug development company, we also have more than 70 years of experience in nutritional chemistry and food safety testing. Nutritional chemistry represents nearly 5 percent of Covance's revenues and is among our fastest-growing and most profitable service offerings.

In 2009, we entered into a seven-year, \$42 million strategic services contract with the Kellogg Company — the largest contract in the history of our food business — to outsource much of their analytical chemistry, microbiology, and stability testing to Covance. In October 2010, as part of that agreement, we opened a new Covance lab in Battle Creek, Michigan, with Kellogg as our anchor client. For three decades, Covance employees worked side by side with Kellogg employees in Kellogg's own internal labs. Now, the expanded team is

working for Kellogg as well as other clients on a wide range of testing services, significantly enhancing Covance's capability in microbiological food safety testing.

We believe that no other CRO is as well positioned as Covance to grow with this market. We are proud that Covance has been the leader in creating large, innovative solutions for our clients, and we envision that this trend will continue.

## Adapting to a Changing Market

Despite the challenging economic climate of 2010, Covance continued to grow revenue: full-year net revenue was \$1.93 billion, up 3.1 percent from last year. In Early Development, growth in our discovery, chemistry, and clinical pharmacology

We closed the year by announcing a \$250 million accelerated share repurchase program that allowed us to acquire 4.75 million shares during November.

Combined, our restructuring actions, strategic alliance, and share repurchase program helped contribute to a solid finish, which we believe positions us for strong earnings-per-share growth in 2011.

## Investing in the Future

During the past year, we invested in our own leadership, creating a leaner, stronger management structure to facilitate faster decision-making. We also continued to invest in new client service offerings, delivering a



services, combined with the fourth-quarter addition of our Alnwick and Porcheville sites, contributed to 6.1 percent year-on-year revenue growth in this segment. Late-stage Development performance, though affected by a number of study delays and cancellations, still grew 1 percent against very strong 2009 performance. Backlog, an indicator of future growth, grew a robust 27 percent, to \$6.2 billion. We generated a record free cash flow of \$208 million and ended the year with \$377 million in cash.

Over the course of the year, we also initiated several important actions to better position Covance for long-term growth. We rationalized our toxicology footprint to better align our capacity with market demand. We began the process of closing our Vienna, Virginia, toxicology facility and took an asset impairment charge relating to our Chandler, Arizona, facility. We reduced headcount across the company at all levels and streamlined our operations to improve productivity and efficiency. Throughout this process, we ensured that our clients' interests were represented fully and thoughtfully across our services.

number of significant accomplishments that position us for future growth.

In addition, we formed our Discovery & Translational Services group. Leveraging our acquired discovery assets in Greenfield, Indiana, and Seattle, Washington, with our minority equity stake in Caprion Proteomics and alliance with Rules-Based Medicine, we now offer clients a depth and breadth of drug discovery and biomarker services unmatched in the CRO industry. This will benefit our clients who are pursuing personalized-medicine strategies.

To augment both our biomarker and our central laboratory services, we opened a 20,000-square-foot, state-of-the-art biorepository facility dedicated to the long-term storage of clinical trial specimens. As the number of global clinical trials grows along with regulatory requirements for retesting specimens, pharmaceutical and biotech clients need cost-effective, comprehensive long-term storage solutions.

We also expanded our presence in the Asia-Pacific region, our fastest-growing regional market. In 2010, we opened a

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new toxicology facility in Shanghai to complement our clinical development, bioanalytical, and central laboratory services, which enables us to provide clients with fully integrated drug development services, unrivaled by competition in China. Our leadership team in China has worked hard to recruit and develop staff who will be strong contributors to Covance's success and profitability in the region. Though China currently represents less than 5 percent of the global market, we believe it will be an important force in the future of health care spending.

To better serve our clients in Japan, Covance formed a strategic relationship with BML, the country's second largest reference laboratory dedicated to the biotechnological and medical information systems business. Covance recognized that BML's long-standing presence and distinguished reputation in Japan as well as their cultural knowledge and experience would help us form a stronger, more valuable team. Together, we opened the CB Laboratory, which provides local laboratory testing, customized kits, logistical services, and training to support safety and efficacy testing in clinical trials.

## Focusing on Fundamentals

Throughout 2010, we held fast to the three core strategies that have continued to serve us well for the past 10 years. First, *delivering operational and service excellence* continues to define the Covance brand in the marketplace and lays the foundation for our continued progress on creating strategic partnerships.

Our people are the heart of operational and service excellence. We take pride in hiring and developing the right people — the ones who can provide clients with accurate data, on time, and on budget. Our employees embody our corporate values and culture; they are unsurpassed in the industry in approaching their work with a high level of business integrity and a relentless focus on process. It is no surprise that our people and our

culture are always among the top reasons cited by clients for awarding Covance new or repeat business.

Our second area of strategic focus was and continues to be *integrated drug development*. We continually develop new methods and approaches to bundling services, from late discovery through Investigational New Drug or proof of concept, to help clients reach major drug development milestones faster and more cost-effectively. Through innovative program management, we can provide our clients with a comprehensive solution, faster cycle times, and significantly lower costs versus their internal resources.

Finally, as evidenced by our alliances with Eli Lilly, Merck, Kellogg, Otsuka, sanofi-aventis, and Takeda, our third strategy of *driving strategic outsourcing* is creating strong, long-term client partnerships. These collaborations continue to build a competitive advantage for both Covance and our clients.

Covance has clearly established that we understand the dynamics of our clients' rapidly changing environment. We are demonstrating that we have the depth of expertise, geographic reach, broad portfolio, and proven record for large asset transfers. This allows us to be the right partner at a time when our clients need help driving R&D transformations. For these reasons, we are confident that ongoing conversations concerning large, new alliances will favor Covance.

On behalf of our Board of Directors, our management team, and our 10,528 employees, I thank you, our shareholders, for your support.

Sincerely,



**Joe Herring**

Chairman and Chief Executive Officer

