Jefferies 2014 Global Healthcare Conference

James C. Foster
Chairman, President & CEO

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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 one-time charges, consistent with the manner in which management measures and forecasts Charles River'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. Charles River 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.
Charles River Snapshot

- A leading **drug discovery** and **early-stage development** company
  - $1.17B in net sales\(^{(1)}\)

- **Unique portfolio** of products and services focused on the research and development continuum for new drugs

- A **multinational** company with ~8,000 employees worldwide
  - ~65 facilities in 16 countries

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1) Based on Charles River's FY 2013 net sales. Does not include the acquisition of Argenta and BioFocus.
Our Role in Drug Development

Only CRO with an integrated portfolio that spans the discovery and early-stage development process from target discovery through preclinical development.

Discovery Services

Research Models and Services

Preclinical Services

Post-Market

Ability to work with clients to discover new drugs and move downstream with them throughout early-stage development.
Global leader in breeding and distribution of research models
- Largest selection of the most widely used strains in the world
- ~1 of every 2 models sold anywhere in the world comes from Charles River
- Expertise in biosecurity ensures animals are free of known contaminants, reducing risk to critical research

Premier provider of services which support the use of research models in discovery / development of new molecules
- Genetically Engineered Models and Services (GEMS)
- Insourcing Solutions (IS)

Global footprint with facilities strategically located in close proximity to clients
Acquired Argenta and BioFocus

- Precisely in line with strategy to build a broader portfolio to support the drug discovery and early-stage development continuum, and increased virtualization of biopharma

- Expert in integrated drug discovery from target discovery to delivery of clinic-ready candidates
  - Focus on earliest stages of drug discovery, with extensive capabilities in medicinal chemistry, target discovery, and complex in vitro biology

- Exceptional fit for CRL’s in vivo expertise

- Engage with clients earlier in the discovery process

- Advances CRL’s position as a market leader in the multi-billion dollar outsourced discovery services market
Discovery Services

- Acquisition of Argenta and BioFocus integrates chemistry, in vitro and in vivo capabilities
  - Legacy discovery services include non-regulated efficacy testing and druggability (PK/ADME)
- Therapeutic area expertise in oncology, CNS, respiratory, metabolism, inflammation, and cardiovascular
- Creates a unique CRO, offering clients a single source for services across the discovery spectrum
  - Particularly important when biopharmas are making earlier go/no-go decisions on molecules progressing to regulated testing
A Leading Global Franchise: Preclinical Services

- A **global leader** in both non-regulated and regulated **safety assessment** services
- Providing clients with expertise for integrated drug development
  - **Non-GLP efficacy** studies
  - Safety studies including general and **specialty toxicology**
    - Inhalation, infusion, developmental and reproductive, juvenile / neonatal, ocular, bone, immunotoxicology and phototoxicology
  - **Expert pathology** services
A Leading Global Franchise: Preclinical Services

- **Biologics Testing Solutions** business is a **global leader** in safety testing and manufacturing support for large molecules.
- **Global platform** supports clients in both North America and Europe.
- **Biotechs** are primary developers of large molecules:
  - Biotechs are **net outsourcers**
  - Large pharma and public markets providing **funding** for these companies.
Endotoxin and Microbial Detection

- The **only FDA-approved in vitro** non-clinical endotoxin test
  - Used for lot release testing and in-process quality measurement
- Strategy is to enhance our position as the **premier provider of rapid microbial identification and endotoxin detection products and services** to the biopharmaceutical industry
  - Expansion of capabilities through product extensions and acquisitions, such as Accugenix
- **Fastest-growing product line (10%+)** over last few years and expected to continue
- **PTS** (Portable Testing System) cartridge-based technology is a significant advance over existing technology, which has enabled us to **take market share**
- **MCS** (Multi-Cartridge System) launched in 2011 to drive penetration of **high-throughput** central testing labs
Pfizer PTS™ Implementation

- Pfizer assessed Endosafe® rapid test methods, gathering data over time to support comparability to traditional testing methods
  - ~47,000 samples tested by different users demonstrated comparability
  - Aligned with USP<85> and PharmEur 2.6.14 standards
  - Reduced operator error, cost per test, training costs, reagent control, and technician test time
  - Decentralized >60% of testing from the laboratory to the manufacturing floor

- Implemented ~70 PTS units and ~20 MCS units
- Presented poster at 2014 PDA Annual Meeting
Biopharma Industry Evolution

Create a more efficient biopharma R&D model

- Rationalize therapeutic areas
- Earlier elimination of molecules
- Facility and headcount consolidation
- Seek flexible, externalized R&D model
- Narrow R&D supplier lists

- Readiness to embrace the **outsourcing model** for the expertise that they no longer believe needs to be maintained in-house
- **Outsourcing** additional **core activities**, such as **discovery** testing, in addition to regulated safety assessment
- Accelerated investments in **biotechnology** companies
- Investing in **academic** research

Need for Strategic R&D Partners
Positioned for Commercial Success

- Increasingly choosing to **build strategic relationships** with a small number of partners
- Reliance on CRL for our unique, early-stage **portfolio**, scientific expertise, quality, and flexibility
- Broad, **flexible** client arrangements allow us to become more **embedded** with clients on the **same side of the table**
- As relationships strengthen, opportunities to identify **additional services** which can be outsourced to CRL are enhanced
- **Strategic relationships** represented **slightly more than 25% of total sales** in 2013
- Discussions on additional **strategic relationships and expansion of existing ones** are ongoing
 Positioned for Commercial Success

- **Mid-Tier** presents a significant opportunity to drive sales growth
  - In 2013, sales to *mid-tier exceeded* sales to global key accounts
  - PCS mid-tier sales increased *~6% in 2013*
  - Consolidated mid-tier sales increased *~7% in 1Q14*
- Most of the mid-tier biopharma companies maintain *limited in-house capabilities* and many *outsource* to a single provider
- **Turnover** in the mid-tier is *considerable* due to smaller pipelines
  - These clients often return to CRL with each new molecule
  - Expanded discovery capabilities enable clients to stay with CRL for a more significant portion of the drug discovery and development process
Positioned for Commercial Success

- Focusing on large **academic institutions** globally
  - Institutions funded by multiple sources including large pharma
- Believe we are **taking market share**
  - Highest-quality products and services at a **marginal price premium**
- **Global academic sales** increased ~3% in 2013, despite U.S. Sequestration and Federal budget issues
- U.S. Federal budget **sequestration** and government shutdown had only a **small impact**
  - Primarily a modest reduction in small model volume and restrictions on filling open positions in some Insourcing Solutions contracts
CRL is expanding the scope of strategic relationships

- Global biopharmaceutical companies
- Mid-tier biotechnology companies
- Academic research centers
- Non-Governmental research organizations (NGOs)
- Venture capital firms

Forming strategic relationships with multiple constituencies enhances the value CRL brings to every relationship

- Example: Global pharma increasingly relies on biotech for pipeline support
  - More than half of late-stage molecules are originated externally* (product licensing, program partnerships, or company acquisitions)
  - CRL works with many biotech companies, enhancing our understanding of their molecules

Strong partnerships are essential to our long-term success

**2014 Guidance**

*from Continuing Operations*

<table>
<thead>
<tr>
<th><strong>Net sales growth, reported</strong></th>
<th>9% - 11%</th>
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<tbody>
<tr>
<td><strong>Impact of foreign exchange</strong></td>
<td><strong>NM</strong></td>
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<tr>
<td><strong>Net sales growth, constant currency</strong></td>
<td>9% - 11%</td>
</tr>
<tr>
<td><strong>GAAP EPS</strong></td>
<td>$2.64-$2.74</td>
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<tr>
<td><strong>Non-GAAP EPS</strong></td>
<td>$3.15-$3.25</td>
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<tr>
<td><strong>Free Cash Flow</strong></td>
<td>$180-$190M</td>
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<tr>
<td><strong>Capital Expenditures</strong></td>
<td>$55-$65M</td>
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(1) Guidance updated on May 1, 2014. See website for reconciliations of Non-GAAP to GAAP results.
Growth Drivers

- Expanding strategic client relationships
  - **Flexibly** utilizing our **unique portfolio** to support the individual needs of global key accounts and mid-tier clients
  - Robust mid-tier funding environment

- Discovery Services
  - Broader capabilities offer a more compelling value proposition
  - Engage with clients earlier in the discovery process

- EMD
  - Expansion of rapid testing capabilities drives client conversion to PTS™ platform

- Acquisitions
  - Expand breadth of current portfolio **upstream**, **geographic reach**, and **technological expertise**

- Efficiency initiatives
Capital Priorities

- M&A: Continue to evaluate acquisition candidates and intend to pursue opportunities in 2014
- Stock repurchases: An integral part of how we return value to shareholders; a benchmark to which we compare other capital allocation decisions, including M&A
  - Purchased 3.5M shares in 2013 for $165.7M
  - Purchased 183K shares in 1Q14 for $9.8M
  - $129.3M outstanding at end of 1Q14 under current stock authorization
- Debt repayment
  - Goal to maintain leverage at <3x total debt-to-EBITDA
- Capital expenditures
  - Continue to invest in those businesses with the greatest potential for growth
Investment Perspective

- **Improving organic sales growth trends**
  - Market share gains / strategic client relationships
  - Improvement in preclinical market
- **Acquisitions** to expand scope of early-stage portfolio and supplement organic growth
- One of the *highest operating margins* in the CRO industry
  - **Drive margin expansion** through an intensified focus on operating efficiency and productivity
- Industry-leading **free cash flow** generation
- Disciplined **capital deployment**
- **Unique portfolio**: The only CRO that spans the discovery and early-stage development process
Every Step of the Way.