

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 001-39212

PPD, Inc.

(Exact name of registrant as specified in its charter)

Delaware

45-3806427

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

929 North Front Street, Wilmington, North Carolina 28401

(Address of Principal Executive Offices) (Zip Code)

910-251-0081

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	PPD	The NASDAQ Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding
Common Stock \$0.01 par value	351,394,547 shares outstanding as of October 25, 2021

When we use the terms “PPD,” the “Company,” “we,” “us” or “our” in this Quarterly Report on Form 10-Q, we mean PPD, Inc. and its subsidiaries on a consolidated basis, unless the context indicates otherwise.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements reflect our current views with respect to, among other things, the following: our proposed merger with Thermo Fisher Scientific Inc. (“Thermo Fisher”), our current expectations and anticipated results of operations, our financial performance, the impact from the novel coronavirus disease (“COVID-19”) pandemic, the continued reliance of the biopharmaceutical industry on outsourcing to contract research organizations, the continued growth in research and development spending in the biopharmaceutical industry, estimated growth rates in addressable markets and our ability to effectively recruit, train, develop and retain talented individuals. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, market trends or industry results to differ materially from those expressed or implied by such forward-looking statements. Therefore, any statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such.

These statements often include words such as “anticipate,” “expect,” “suggest,” “plan,” “believe,” “intend,” “project,” “forecast,” “estimates,” “targets,” “projections,” “should,” “could,” “would,” “may,” “might,” “will,” and other similar expressions. We base these forward-looking statements on our current expectations, plans and 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 under the circumstances at this time, including the impact from the COVID-19 pandemic and our proposed merger with Thermo Fisher. As you read this Quarterly Report on Form 10-Q, you should understand that these statements are not guarantees of performance or results. The forward-looking statements contained herein are subject to and involve risks, uncertainties and assumptions and you should not place undue reliance on these forward-looking statements. Although we believe that these forward-looking statements are based on reasonable assumptions at the time they are made, actual results might differ materially from those expressed in the forward-looking statements. In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks listed below and those outlined under Part II, Item 1A, “Risk Factors,” included elsewhere in this Quarterly Report on Form 10-Q, as well as Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2020, as such factors may be further updated from time to time in our periodic filings with the Securities and Exchange Commission.

Some of the factors, risks and uncertainties that might materially affect the forward-looking statements contained herein and may make an investment in our securities speculative or risky include, but are not limited to, the following:

- uncertainties associated with the proposed merger with Thermo Fisher;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement;
- the inability to complete the proposed merger due to the failure to satisfy conditions to completion of the proposed merger, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the proposed merger;
- risks related to disruption of management’s attention from our ongoing business operations due to the proposed merger;
- the effect of the announcement of the proposed merger on our relationships with our customers, operating results and business generally;
- the risk that the proposed merger will not be consummated in a timely manner;
- the costs of the proposed merger if the proposed merger is not consummated;
- restrictions imposed on our business during the pendency of the proposed merger;
- potential litigation instituted against us or our directors challenging the proposed merger;
- any failure of our backlog to accurately predict or convert into future revenue;
- the fact that our customers can terminate, delay or reduce the scope of our contracts with them upon short notice or with no notice;
- the impact of industry, customer and therapeutic area concentration;
- consolidation amongst our customers, and the potential for rationalization of the combined drug development pipeline, resulting in fewer products in clinical development;
- our ability to accurately price our contracts and manage costs associated with the performance of such contracts;
- any failures in our information and communication systems, including cybersecurity breaches, impacting us or our customers, clinical trial participants or employees;
- our dependence on our technology network, and the impact from upgrades to the network;
- any failure to perform services in accordance with contractual requirements, regulatory standards and ethical standards;
- our ability to access clinical research sites, attract suitable investigators or enroll a sufficient number of patients for our customers’ clinical trials;

- any failure by us to comply with numerous privacy laws;
- our ability to keep pace with rapid technological changes that could make our services less competitive or obsolete;
- our ability to recruit, retain and motivate key personnel, including the loss of any key executive;
- our dependence on third parties for critical goods and support services, including a significant impact from the COVID-19 pandemic on our suppliers;
- any violation of laws, including laws governing the conduct of clinical trials or other biopharmaceutical research, and anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the United Kingdom Bribery Act of 2010;
- competition between our existing and potential customers and the potential negative impact on our business;
- our management of business restructuring transactions and the integration of acquisitions;
- risks related to the drug and medical device development services industry that could result in potential liability that could affect our business, reputation and financial condition;
- any failure of our insurance to cover the potential liabilities, including indemnification obligations, associated with the operation of our business and provision of services and changes to our insurance coverage;
- our use of biological and hazardous materials, which could violate law or cause injury or death, resulting in liability;
- international or U.S. economic, currency, political and other risks, such as those from the COVID-19 pandemic;
- disruptions to our operations by the occurrence of a natural disaster, pandemic or other catastrophic events;
- the current and uncertain future impact from the COVID-19 pandemic on our business, growth, reputation, prospects, financial condition, results of operations (including components of our financial results), cash flows and liquidity;
- changes in tax laws, such as U.S. tax reform, or interpretations of existing tax laws;
- economic conditions, import/export implications and regulatory changes relating to the United Kingdom's exit from the European Union;
- any inability to adequately protect our intellectual property or the security of our systems and the data stored therein;
- our investments in third parties, which are illiquid and subject to loss;
- the substantial value of our goodwill and intangible assets, which we might not fully realize, resulting in impairment losses;
- difficult and volatile conditions in the capital and credit markets and in the overall economy, including those caused by the COVID-19 pandemic;
- the fragmented and highly competitive nature of the drug development services industry;
- changes in trends in the biopharmaceutical industry, including decreases in research and development spending and outsourcing;
- the potential adverse effect that the political, economic and/or regulatory influences and changes impacting the United States and international healthcare industry could have on both our customers' and our businesses, including as a result of healthcare reform;
- any patent or other intellectual property litigation we might be involved in;
- risks related to our indebtedness;
- risks related to ownership of our common stock;
- the significant influence certain stockholders have over us; and
- other factors beyond our control.

These cautionary statements should not be construed by you to be exhaustive and are made only as of the date hereof. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PPD, INC.
FORM 10-Q
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

PPD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 1,560,796	\$ 1,233,802	\$ 4,514,648	\$ 3,317,182
Operating costs and expenses:				
Direct costs, exclusive of depreciation and amortization	529,690	433,422	1,507,510	1,222,700
Reimbursed costs	433,358	335,866	1,330,704	810,523
Selling, general and administrative expenses	335,624	249,320	959,587	734,712
Depreciation and amortization	74,028	71,317	227,426	206,395
Long-lived asset impairment	—	1,414	1,584	1,414
Total operating costs and expenses	1,372,700	1,091,339	4,026,811	2,975,744
Income from operations	188,096	142,463	487,837	341,438
Interest expense, net of interest income of \$381 and \$433 for the three months ended September 30, 2021 and 2020, respectively, and \$1,377 and \$1,996 for the nine months ended September 30, 2021 and 2020, respectively	(46,231)	(49,882)	(139,577)	(165,995)
Loss on extinguishment of debt	—	—	(10,677)	(93,534)
Gain (loss) on investments	18,971	(53,100)	(28,127)	16,649
Other income (expense), net	21,022	(17,153)	17,392	(14,097)
Income before provision for income taxes	181,858	22,328	326,848	84,461
Provision for income taxes	39,993	11,169	81,421	20,682
Income before equity in earnings (losses) of unconsolidated affiliates	141,865	11,159	245,427	63,779
Equity in earnings (losses) of unconsolidated affiliates, net of income taxes	27,250	(2,057)	22,488	(5,686)
Net income	169,115	9,102	267,915	58,093
Net income attributable to noncontrolling interest	(2,044)	(1,587)	(3,955)	(4,499)
Net income attributable to PPD, Inc.	167,071	7,515	263,960	53,594
Recapitalization investment portfolio consideration	(14,150)	44,468	22,189	(6,529)
Net income attributable to common stockholders of PPD, Inc.	\$ 152,921	\$ 51,983	\$ 286,149	\$ 47,065
Earnings per share attributable to common stockholders of PPD, Inc.:				
Basic	\$ 0.44	\$ 0.15	\$ 0.82	\$ 0.14
Diluted	\$ 0.43	\$ 0.15	\$ 0.80	\$ 0.14
Weighted-average common shares outstanding:				
Basic	351,351	348,672	350,974	338,277
Diluted	359,538	354,830	358,826	343,159

The accompanying notes are an integral part of these condensed consolidated financial statements.

PPD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 169,115	\$ 9,102	\$ 267,915	\$ 58,093
Other comprehensive (loss) income, net of tax expense (benefit):				
Foreign currency translation	(54,083)	45,602	(52,997)	(7,192)
Defined benefit plan, net of income taxes of \$41 and \$28 for the three months ended September 30, 2021 and 2020, respectively, and \$128 and \$85 for the nine months ended September 30, 2021 and 2020, respectively	179	138	550	380
Derivative instruments, net of income taxes of \$1,812 and \$297 for the three months ended September 30, 2021 and 2020, respectively, and \$13,476 and \$(31,300) for the nine months ended September 30, 2021 and 2020, respectively	5,548	503	40,975	(96,992)
Other comprehensive (loss) income	<u>(48,356)</u>	<u>46,243</u>	<u>(11,472)</u>	<u>(103,804)</u>
Comprehensive income (loss)	120,759	55,345	256,443	(45,711)
Comprehensive income attributable to noncontrolling interest	<u>(1,689)</u>	<u>(2,078)</u>	<u>(2,805)</u>	<u>(5,651)</u>
Comprehensive income (loss) attributable to PPD, Inc.	119,070	53,267	253,638	(51,362)
Recapitalization investment portfolio consideration	<u>(14,150)</u>	<u>44,468</u>	<u>22,189</u>	<u>(6,529)</u>
Comprehensive income (loss) attributable to common stockholders of PPD, Inc.	<u>\$ 104,920</u>	<u>\$ 97,735</u>	<u>\$ 275,827</u>	<u>\$ (57,891)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

PPD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except par value)

Assets	September 30, 2021	December 31, 2020
Current assets:		
Cash and cash equivalents	\$ 1,172,716	\$ 767,999
Accounts receivable and unbilled services, net	2,071,676	1,609,718
Income taxes receivable	12,312	22,386
Prepaid expenses and other current assets	172,363	146,100
Total current assets	3,429,067	2,546,203
Property and equipment, net	509,314	496,474
Investments in unconsolidated affiliates	78,037	43,178
Investments	241,482	265,894
Goodwill, net	1,798,369	1,820,208
Intangible assets, net	619,749	748,404
Other assets	191,923	201,643
Operating lease right-of-use assets	160,076	171,839
Total assets	\$ 7,028,017	\$ 6,293,843
Liabilities, Redeemable Noncontrolling Interest and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 181,499	\$ 176,341
Accrued expenses:		
Payables to investigators	524,647	404,654
Accrued employee compensation	354,604	331,156
Other accrued expenses	202,465	195,779
Income taxes payable	26,453	21,206
Unearned revenue	1,429,817	1,060,544
Current portion of operating lease liabilities	44,555	51,643
Current portion of long-term debt and finance lease obligations	34,521	36,238
Total current liabilities	2,798,561	2,277,561
Accrued income taxes	22,198	18,658
Deferred tax liabilities	50,827	54,535
Recapitalization investment portfolio liability	169,734	191,923
Long-term operating lease liabilities, less current portion	128,382	137,657
Long-term debt and finance lease obligations, less current portion	4,207,811	4,226,192
Other liabilities	37,191	98,908
Total liabilities	7,414,704	7,005,434
Commitments and contingencies (Note 7)		
Redeemable noncontrolling interest	37,734	34,929
Stockholders' deficit:		
Preferred stock - \$0.01 par value; 100,000 shares authorized; None issued and outstanding	—	—
Common stock - \$0.01 par value; 2,000,000 shares authorized; 352,029 shares issued and 351,390 shares outstanding as of September 30, 2021 and 350,858 shares issued and 350,132 shares outstanding as of December 31, 2020	3,520	3,509
Treasury stock, at cost, 639 and 726 shares as of September 30, 2021 and December 31, 2020, respectively	(11,928)	(13,268)
Additional paid-in-capital	1,865,963	1,819,892
Accumulated deficit	(1,985,659)	(2,271,808)
Accumulated other comprehensive loss	(296,317)	(284,845)
Total stockholders' deficit	(424,421)	(746,520)
Total liabilities, redeemable noncontrolling interest and stockholders' deficit	\$ 7,028,017	\$ 6,293,843

The accompanying notes are an integral part of these condensed consolidated financial statements.

PPD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 267,915	\$ 58,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	227,426	206,395
Stock-based compensation expense	33,548	16,099
Operating lease right-of-use asset expense	34,174	34,625
Amortization of debt issuance costs and debt discounts	6,046	8,263
Loss (gain) on investments	28,127	(16,649)
Deferred income tax (benefit) expense	(8,907)	5,770
Loss on extinguishment of debt	10,677	93,534
Amortization of costs to obtain a contract	11,793	7,973
Equity in (earnings) losses of unconsolidated affiliates, net of income taxes	(22,488)	5,686
Other	(1,280)	256
Change in operating assets and liabilities:		
Accounts receivable and unbilled services, net	(516,639)	(148,501)
Prepaid expenses and other current assets	(24,150)	26,908
Other assets	(6,570)	(39,813)
Income taxes, net	22,101	(21,445)
Accounts payable, accrued expenses and other liabilities	167,687	116,503
Operating lease liabilities	(38,203)	(33,165)
Unearned revenue	395,136	(52,065)
Net cash provided by operating activities	<u>586,393</u>	<u>268,467</u>
Cash flows from investing activities:		
Purchases of property and equipment	(88,213)	(116,418)
Capital contributions paid for investments	(3,827)	(5,382)
Distributions received from investments	112	19,704
Investment in unconsolidated affiliate	(5,000)	(10,000)
Other	(1,600)	321
Net cash used in investing activities	<u>(98,528)</u>	<u>(111,775)</u>
Cash flows from financing activities:		
Proceeds from New Term Loan	3,034,750	—
Redemption of 2015 Term Loan	(3,064,006)	—
Borrowing on revolving credit facility	—	150,000
Repayment of revolving credit facility	—	(150,000)
Proceeds from issuance of 2025 and 2028 Notes	—	1,200,000
Redemption of HoldCo Notes	—	(1,464,500)
Redemption of OpCo Notes	—	(1,160,865)
Payments on long-term debt and finance leases	(18,118)	(32,080)
Payment of debt issuance costs	(24,120)	(18,525)
Payment of contingent consideration for acquisition of business	—	(4,338)
Net proceeds from initial public offering	—	1,772,960
Recapitalization investment portfolio distribution	(12,819)	—
Proceeds from exercise of stock options	16,075	14,272
Payments related to tax withholdings for stock-based compensation	(2,314)	—
Purchase of treasury stock	—	(626)
Net cash (used in) provided by financing activities	<u>(70,552)</u>	<u>306,298</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(12,596)</u>	<u>(5,087)</u>
Net increase in cash and cash equivalents	404,717	457,903
Cash and cash equivalents, beginning of the period	767,999	345,187
Cash and cash equivalents, end of the period	<u>\$ 1,172,716</u>	<u>\$ 803,090</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

PPD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND REDEEMABLE NONCONTROLLING INTEREST
(unaudited)
(in thousands)

	Redeemable Noncontrolling Interest	PPD, Inc. Stockholders' Deficit							
		Common Stock			Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit
		Shares	Amount	Paid-in- Capital	Shares	Amount			
Balance, June 30, 2021	\$ 36,045	351,952	\$ 3,520	\$ 1,852,175	640	\$ (11,941)	\$ (247,961)	\$ (2,138,580)	\$ (542,787)
Net income	2,044	—	—	—	—	—	—	167,071	167,071
Other comprehensive loss	(355)	—	—	—	—	—	(48,356)	—	(48,356)
Issuance of common stock	—	77	—	1,262	(1)	13	—	—	1,275
Stock-based compensation expense	—	—	—	12,600	—	—	—	—	12,600
Payments for taxes withheld for stock-based compensation	—	—	—	(74)	—	—	—	—	(74)
Recapitalization investment portfolio consideration	—	—	—	—	—	—	—	(14,150)	(14,150)
Balance, September 30, 2021	\$ 37,734	352,029	\$ 3,520	\$ 1,865,963	639	\$ (11,928)	\$ (296,317)	\$ (1,985,659)	\$ (424,421)
Balance, December 31, 2020	\$ 34,929	350,858	\$ 3,509	\$ 1,819,892	726	\$ (13,268)	\$ (284,845)	\$ (2,271,808)	\$ (746,520)
Net income	3,955	—	—	—	—	—	—	263,960	263,960
Other comprehensive loss	(1,150)	—	—	—	—	—	(11,472)	—	(11,472)
Issuance of common stock	—	1,171	11	14,836	(87)	1,340	—	—	16,187
Stock-based compensation expense	—	—	—	33,548	—	—	—	—	33,548
Payments for taxes withheld for stock-based compensation	—	—	—	(2,313)	—	—	—	—	(2,313)
Recapitalization investment portfolio consideration	—	—	—	—	—	—	—	22,189	22,189
Balance, September 30, 2021	\$ 37,734	352,029	\$ 3,520	\$ 1,865,963	639	\$ (11,928)	\$ (296,317)	\$ (1,985,659)	\$ (424,421)

The accompanying notes are an integral part of these condensed consolidated financial statements.

PPD, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND REDEEMABLE NONCONTROLLING INTEREST
(unaudited)
(in thousands)

	Redeemable Noncontrolling Interest	PPD, Inc. Stockholders' Deficit							
		Common Stock			Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit
		Shares	Amount	Paid-in- Capital	Shares	Amount			
Balance, June 30, 2020	\$ 33,609	349,312	\$ 3,493	\$ 1,787,645	726	\$ (13,268)	\$ (448,951)	\$ (2,397,045)	\$ (1,068,126)
Net income	1,587	—	—	—	—	—	—	7,515	7,515
Other comprehensive income	491	—	—	—	—	—	46,243	—	46,243
Issuance of common stock	—	979	10	13,553	—	—	—	—	13,563
Stock-based compensation expense	—	—	—	5,409	—	—	—	—	5,409
Recapitalization investment portfolio consideration	—	—	—	—	—	—	—	44,468	44,468
Balance, September 30, 2020	\$ 35,687	350,291	\$ 3,503	\$ 1,806,607	726	\$ (13,268)	\$ (402,708)	\$ (2,345,062)	\$ (950,928)
Balance, December 31, 2019	\$ 30,036	280,127	\$ 2,801	\$ 1,983	701	\$ (12,707)	\$ (298,904)	\$ (2,391,321)	\$ (2,698,148)
Net income	4,499	—	—	—	—	—	—	53,594	53,594
Other comprehensive income (loss)	1,152	—	—	—	—	—	(103,804)	—	(103,804)
Issuance of common stock	—	70,164	702	1,788,525	—	—	—	—	1,789,227
Repurchases of common stock	—	—	—	—	25	(561)	—	—	(561)
Stock-based compensation expense	—	—	—	16,099	—	—	—	—	16,099
Recapitalization investment portfolio consideration	—	—	—	—	—	—	—	(6,529)	(6,529)
Other	—	—	—	—	—	—	—	(806)	(806)
Balance, September 30, 2020	\$ 35,687	350,291	\$ 3,503	\$ 1,806,607	726	\$ (13,268)	\$ (402,708)	\$ (2,345,062)	\$ (950,928)

The accompanying notes are an integral part of these condensed consolidated financial statements.

PPD, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

Description of Business

PPD, Inc. (together with its subsidiaries “PPD” or the “Company”) is a holding company incorporated in Delaware. References to the “Company” throughout these condensed consolidated financial statements refer to PPD, Inc. and its consolidated subsidiaries, unless the context indicates otherwise. The Company is a leading provider of drug development services to the biopharmaceutical industry, focused on helping the Company’s customers bring their medicines and other treatments to patients around the world. The Company has been in the drug development services business for 35 years, providing a comprehensive suite of clinical development and laboratory services to pharmaceutical, biotechnology, medical device, government organizations and other industry participants. The Company has deep experience across a broad range of rapidly growing areas of drug development and engages with customers through a variety of commercial models, including both full-service and functional service partnerships and other offerings tailored to address the specific needs of the Company’s customers. The Company has two reportable segments, Clinical Development Services (“Clinical Development Services”) and Laboratory Services (“Laboratory Services”).

Unaudited Interim Financial Information and the Use of Estimates

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial reporting. The significant accounting policies followed by the Company for interim financial reporting are consistent with the accounting policies it follows for annual financial reporting and are disclosed in Note 1, “Basis of Presentation and Summary of Significant Accounting Policies,” of the Company’s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2020 (the “2020 Form 10-K”). There have been no significant changes to the Company’s significant accounting policies during the first nine months of 2021.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company monitors estimates and assumptions on a continuous basis and updates these estimates and assumptions as facts and circumstances change and new information is obtained, including facts and circumstances related to the novel coronavirus disease (“COVID-19”) pandemic. Actual results could differ from those estimates and assumptions due to, among other things, the impacts caused by the COVID-19 pandemic.

In the opinion of the Company’s management, these condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results to be expected for the full twelve-month period ending December 31, 2021 or any other future period. Therefore, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the 2020 Form 10-K. The information as of December 31, 2020 in the Company’s condensed consolidated balance sheet included herein is derived from the Company’s audited consolidated financial statements included in the 2020 Form 10-K.

Merger Agreement

On April 15, 2021, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) by and among the Company, Thermo Fisher Scientific Inc., a company organized under the laws of Delaware (“Thermo Fisher”) and Powder Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Thermo Fisher (“Merger Sub”) pursuant to which the Company will be, subject to the terms and conditions of the Merger Agreement, merged with and into Merger Sub, with PPD continuing as the surviving corporation and a wholly owned subsidiary of Thermo Fisher. Under, and subject to, the terms of the Merger Agreement, the Company’s stockholders will have the right to receive \$47.50 per share in cash, without interest and less applicable withholding tax, for each share of Company common stock upon the closing of the proposed merger. The board of directors of the Company have unanimously approved the Merger Agreement and the transactions contemplated thereby and stockholders holding in aggregate approximately 60% of the issued and outstanding shares of the Company’s common stock duly executed and delivered to Thermo Fisher a written consent, adopting and approving the Merger Agreement and the transactions contemplated thereby. The consummation of the proposed merger remains subject to the satisfaction or, to the extent permitted by law, waiver of customary closing conditions, including approvals under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and certain other competition and foreign direct investment laws. Subject to such closing conditions, the Company continues to expect the proposed merger to close by the end of 2021.

Third-party costs incurred related to the proposed merger during the three and nine months ended September 30, 2021 were \$1.9 million and \$13.4 million, respectively, and are recorded as a component of selling, general and administrative (“SG&A”) expenses on the condensed consolidated statements of operations.

Gain on Investment in Unconsolidated Affiliate

During September 2021, one of the Company’s equity method investments, Medable, Inc. (“Medable”), completed a round of financing to raise capital which resulted in a dilution of the Company’s ownership. The net effect of this dilution on the Company’s ownership resulted in a gain of \$31.9 million, net of taxes. The gain is recorded as a component of equity in earnings (losses) of unconsolidated affiliates, net of income taxes, on the condensed consolidated statements of operations. The Company continues to have the ability to exercise significant influence from its investment in Medable. See Note 6, “Investments,” of the Company’s 2020 Form 10-K for additional information on the Company’s investments.

2. Revenue

Performance Obligations

Revenue recognized from performance obligations partially satisfied in prior periods was \$65.3 million and \$149.3 million for the three and nine months ended September 30, 2021, respectively, and \$28.4 million and \$82.9 million for the three and nine months ended September 30, 2020, respectively. These cumulative catch-up adjustments primarily relate to contract modifications executed in the relevant period, which resulted in changes to the transaction price, and to a lesser extent, changes in transaction price related to variable consideration and changes in estimates such as estimated total costs.

As of September 30, 2021, the aggregate amounts of transaction price allocated to unsatisfied performance obligations with an original contract term of greater than one year was \$10.3 billion. The Company expects to recognize 36% to 42% of the transaction price allocated to unsatisfied performance obligations over the next 12 months as services are rendered, with the remainder recognized thereafter during the remaining contract term. The Company does not include the value of the transaction price allocated to unsatisfied performance obligations for contracts that have an original contract term of less than one year, for contracts which are determined to be short-term based on certain termination for convenience provisions or where the right to invoice practical expedient has been applied.

Accounts Receivable and Unbilled Services, Net and Unearned Revenue

The Company’s accounts receivable and unbilled services, net, consisted of the following amounts on the dates set forth below:

(in thousands)	September 30, 2021	December 31, 2020
Accounts receivable	\$ 1,031,077	\$ 735,568
Unbilled services	1,047,180	882,078
Total accounts receivable and unbilled services	2,078,257	1,617,646
Allowance for doubtful accounts	(6,581)	(7,928)
Total accounts receivable and unbilled services, net	<u>\$ 2,071,676</u>	<u>\$ 1,609,718</u>

The Company’s unearned revenue consisted of the following amounts on the dates set forth below:

(in thousands)	September 30, 2021	December 31, 2020
Unearned revenue	\$ 1,429,817	\$ 1,060,544

As of September 30, 2021 and December 31, 2020, contract assets of \$215.3 million and \$171.2 million, respectively, were included in unbilled services. The changes in the Company’s contract assets and unearned revenue resulted from the timing difference between the Company’s satisfaction of performance obligations under its contracts, achievement of billing milestones and customer payments. Additionally, during the nine months ended September 30, 2021 and 2020, the Company recognized revenue of \$757.7 million and \$815.4 million, respectively, from the balance of unearned revenue outstanding as of the beginning of each respective year. Impairments of accounts receivable, unbilled services and contract assets were insignificant during the three and nine months ended September 30, 2021 and 2020.

Customer Concentration

Concentrations of credit risk with respect to accounts receivable and unbilled services, net, are limited due to the Company’s large number of customers. As of September 30, 2021 and December 31, 2020, one customer accounted for approximately 11% and 12%, respectively, of accounts receivable and unbilled services, net. No one customer accounted for greater than 10% of revenues for the three and nine months ended September 30, 2021 or 2020.

3. Goodwill and Intangible Assets, Net

Goodwill, Net

The changes in the carrying amount of goodwill by segment consisted of the following on the dates set forth below:

(in thousands)	Total	Clinical Development Services	Laboratory Services
Balance at December 31, 2020:			
Goodwill	\$ 1,946,919	\$ 1,720,305	\$ 226,614
Accumulated impairment losses	(126,711)	(99,432)	(27,279)
Goodwill, net	1,820,208	1,620,873	199,335
Activity:			
Translation adjustments	(21,839)	(21,839)	—
Balance at September 30, 2021:			
Goodwill	1,925,080	1,698,466	226,614
Accumulated impairment losses	(126,711)	(99,432)	(27,279)
Goodwill, net	\$ 1,798,369	\$ 1,599,034	\$ 199,335

Intangible Assets, Net

The Company's definite-lived intangible assets consisted of the following on the dates set forth below:

(in thousands)	September 30, 2021			December 31, 2020		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Customer relationships	\$ 893,385	\$ (513,486)	\$ 379,899	\$ 902,302	\$ (479,341)	\$ 422,961
Trade names	375,156	(177,687)	197,469	378,764	(159,131)	219,633
Backlog	179,686	(179,686)	—	181,762	(181,196)	566
Investigator/payer network	240,168	(231,480)	8,688	245,683	(217,963)	27,720
Technology/intellectual property	8,600	(4,934)	3,666	8,600	(4,256)	4,344
Know-how/processes	593,343	(563,316)	30,027	598,922	(525,742)	73,180
Total	\$ 2,290,338	\$ (1,670,589)	\$ 619,749	\$ 2,316,033	\$ (1,567,629)	\$ 748,404

Amortization expense was \$37.8 million and \$122.5 million for the three and nine months ended September 30, 2021, respectively, and \$39.5 million and \$118.6 million for the three and nine months ended September 30, 2020, respectively.

4. Long-term Debt and Finance Lease Obligations

Long-term debt and finance lease obligations consisted of the following on the dates set forth below:

(dollars in thousands)	Maturity Date	Effective Rate	Stated Rate	September 30, 2021	December 31, 2020
New Term Loan	January 2028	2.70%	2.50%	\$ 3,034,750	\$ —
2025 Notes	June 2025	4.97%	4.63%	500,000	500,000
2028 Notes	June 2028	5.24%	5.00%	700,000	700,000
2015 Term Loan ⁽¹⁾	August 2022	3.71%	3.50%	—	3,064,006
Finance lease obligations	Various	Various	Various	57,297	25,734
				4,292,047	4,289,740
Unamortized debt discount				(13,756)	(4,198)
Unamortized debt issuance costs				(35,959)	(23,112)
Current portion of long-term debt and finance lease obligations				(34,521)	(36,238)
Long-term debt and finance lease obligations, less current portion				\$ 4,207,811	\$ 4,226,192

⁽¹⁾ Maturity date, effective rate and stated rate are as of December 31, 2020 for the extinguished 2015 Term Loan.

Extinguished 2015 Credit Agreement

On August 18, 2015, Jaguar Holding Company II and Pharmaceutical Product Development, LLC entered into a credit agreement (the “2015 Credit Agreement”), as amended, consisting of a \$2.575 billion senior secured term loan (the “2015 Term Loan”) issued at 99.5% of face value, or a discount of 0.5%, and a \$300.0 million senior secured revolving credit facility (the “2015 Revolving Credit Facility”). In May and November of 2016, the Company amended the 2015 Credit Agreement to increase the borrowings of the 2015 Term Loan by \$660.0 million in total. Borrowings under the 2015 Term Loan bore interest at a variable rate based on the London Inter-bank Offered Rate (“LIBOR”) for a specific interest period plus an applicable margin, subject to a Eurocurrency rate floor of 1.00%. The 2015 Term Loan was scheduled to mature on August 18, 2022 and the 2015 Revolving Credit Facility was scheduled to mature on May 15, 2022.

On January 13, 2021, the Company extinguished the 2015 Term Loan in accordance with the provisions governing the 2015 Credit Agreement for \$3,064.0 million with the proceeds received from the Company’s New Term Loan (as defined below), together with cash on hand. At the same time, the Company also extinguished its then existing 2015 Revolving Credit Facility. The total loss on extinguishment of debt associated with the extinguishments of the 2015 Term Loan and the 2015 Revolving Credit Facility was \$10.7 million. As a result, the obligations of the Company under the 2015 Credit Agreement were discharged on that date.

New Credit Agreement

On January 13, 2021, the Company and its indirect wholly-owned subsidiary, PPD Development, L.P. (the “Co-Borrower”) entered into and closed a new (i) \$3,050.0 million aggregate principal amount senior secured first-lien term loan facility (the “New Term Loan”) issued at 99.5% of face value, or a discount of 0.5%, maturing in January 2028 and (ii) \$600.0 million committed principal amount senior secured first-lien revolving credit facility (the “New Revolving Credit Facility”) maturing in January 2026 under the credit agreement dated as of January 13, 2021 (the “New Credit Agreement”). Debt issuance costs of \$23.0 million, consisting primarily of arrangement fees and professional fees, were deferred in connection with the New Term Loan. Additionally, debt issuance costs of \$1.1 million related to professional fees were deferred in connection with the New Revolving Credit Facility.

The proceeds from borrowings under the New Term Loan, together with cash on hand, were used to (i) refinance in full the principal amount outstanding and accrued and unpaid interest, fees and other amounts then due and owing under the 2015 Term Loan and (ii) pay fees and expenses relating to the New Credit Agreement.

Borrowings under the New Term Loan bear interest at a rate equal to, at the option of the Company, either (a) Adjusted LIBOR (as defined in the New Credit Agreement) plus a margin of 2.00% with an “Adjusted LIBOR floor” of 0.50% or (b) Base Rate (as defined in the New Credit Agreement) plus a margin of 1.00%, with a “Base Rate floor” of 1.50%. Loans under the New Revolving Credit Facility bear interest, at a rate equal to, at the option of the Company either (a) Adjusted LIBOR plus a margin of 1.75% with an “Adjusted LIBOR floor” of 0.00% or (b) Base Rate plus a margin of 0.75% with a “Base Rate floor” of 1.00%. Pricing on each of the New Term Loan and New Revolving Credit Facility included a 25 basis point step-down to the respective interest rate margins for achievement and maintenance of a total net leverage ratio of 3.75:1.00 or lower which was achieved during the quarter ended September 30, 2021. Interest on the New Term Loan was based on Adjusted LIBOR as of September 30, 2021.

In addition to paying interest on outstanding principal under the New Revolving Credit Facility, the Company is required to pay a commitment fee, payable quarterly in arrears, of 0.50% per annum on the average daily unused portion of the New Revolving Credit Facility, with step-downs to (i) 0.375% and (ii) 0.25% per annum on such portion upon achievement of a total net leverage ratio equal to or less than (i) 4.75x and (ii) 3.75x, respectively, and an additional 0.125% per annum upon the public announcement that the Company’s corporate credit rating from each of Moody’s and S&P is equal to or better than Ba2 or BB, respectively. The commitment fee shall, however, in no event be less than 0.25% per annum. The commitment fee was set at 0.25% per annum for the quarter ending September 30, 2021. The borrowers must also pay customary letter of credit fees.

The borrowers are required, subject to certain exceptions, to pay outstanding loans under the New Term Loan, (i) commencing with the fiscal year ending December 31, 2022, with 50% of excess cash flow, with step-downs upon achievement of certain first lien net leverage ratios, (ii) with 100% of the net cash proceeds of all non-ordinary course asset sales by the Company and its restricted subsidiaries, with step-downs upon achievement of certain first lien net leverage ratios and subject to the Company’s reinvestment right and (iii) with 100% of the net cash proceeds of issuances of debt obligations of the Company and its restricted subsidiaries, other than permitted debt. The borrowers may also voluntarily repay outstanding loans under the New Term Loan and the New Revolving Credit Facility at any time without premium or penalty, except in connection with, or resulting in, any repricing event. In addition, the borrowers may elect to permanently terminate or reduce all or a portion of the revolving credit commitments and the letter of credit sub-limit under the New Revolving Credit Facility at any time without premium or penalty.

The borrowers are required to repay installments on the New Term Loan in quarterly principal amounts equal to 0.25% of the original principal amount of the New Term Loan borrowed on the last business day of each calendar quarter end, with the balance payable on January 13, 2028. The entire principal amount of revolving loans outstanding (if any) under the New Revolving Credit Facility are due and payable in full at maturity on January 13, 2026, on which day the revolving credit commitments thereunder will terminate.

All obligations under the New Credit Agreement are unconditionally guaranteed on a senior basis by, subject to certain exceptions, each existing and subsequently acquired or organized wholly owned restricted subsidiary of the Company organized in the United States and certain other non-U.S. subsidiaries. The obligations of the borrowers under the New Credit Agreement and the guarantees are secured, subject to certain exceptions and excluded assets, by (i) the equity securities of the Co-Borrower and each guarantor, and of each direct, restricted subsidiary of the Company, the Co-Borrower and of each subsidiary guarantor and (ii) security interests in, and mortgages on, substantially all personal property and material owned real property of the Company and each subsidiary guarantor.

The New Credit Agreement includes negative covenants limiting the ability of the Company and its restricted subsidiaries to incur indebtedness and liens, sell assets and make restricted payments, including dividends and investments, subject to certain exceptions. In addition, the New Credit Agreement also contains other customary affirmative and negative covenants and customary events of default (with customary grace periods, as applicable). Additionally, certain negative covenants are subject to customary investment grade fall-away provisions if the Company has a public corporate credit/family ratings that is investment grade from Moody's and S&P (so long as there is no ongoing event of default) and will be reinstated if the rating condition is no longer met. If an event of default occurs the administrative agent shall, at the request of, or may, with the consent of the required lenders, (i) terminate lenders' commitments under the New Credit Agreement, (ii) declare any outstanding loans under the New Credit Agreement to be immediately due and payable, (iii) require that the Company cash collateralize the letters of credit ("L/C") obligations and (iv) exercise on behalf of itself, the L/C issuers and the lenders all rights and remedies available to it, the L/C issuers and the lenders under the loan documents or applicable law.

From time to time, the Company is required to have L/C issued on its behalf to provide credit support for guarantees, contractual commitments or insurance policies. As of September 30, 2021 and December 31, 2020, the Company had L/C outstanding with an aggregate value of \$1.6 million which reduced available borrowings under the New Revolving Credit Facility and 2015 Revolving Credit Facility by such amount. As of September 30, 2021, the Company had available credit under the New Revolving Credit Facility of \$598.4 million. The Company did not have any borrowings outstanding under the New Revolving Credit Facility as of or at any time during the three and nine month periods ended September 30, 2021.

Debt Covenants and Default Provisions

Other than the customary covenants and default provisions related to the New Credit Agreement, there were no changes to the debt covenants or default provisions related to the Company's other outstanding debt or other obligations during the first nine months of 2021. The Company was in compliance with all covenants for all long-term debt arrangements as of September 30, 2021 and December 31, 2020. For additional information on the Company's debt arrangements, debt covenants and default provisions, see Note 9, "Long-term Debt and Finance Lease Obligations," of the Company's audited consolidated financial statements included in the 2020 Form 10-K.

New Finance Lease Agreement

In January 2021, the Company entered into a new lease agreement for its existing laboratory facilities in Virginia. The new lease agreement replaced the prior operating lease agreements for certain existing facilities, consolidated multiple operating leases into one new lease agreement and extended the term of the lease for the facilities. The new finance lease totaling \$26.3 million was recorded as a component of property and equipment, net, and current and long-term debt and finance lease obligations on the condensed consolidated balance sheets.

Scheduled Maturities of Long-term Debt and Finance Lease Obligations

As of September 30, 2021, the scheduled maturities of long-term debt and settlement of finance lease obligations for the remainder of 2021, each of the next five years and thereafter were as follows (in thousands):

Year	Amount
2021 (remaining three months)	\$ 8,597
2022	34,910
2023	34,581
2024	34,615
2025	534,720
2026	35,135
Thereafter	3,609,489
Total	<u>\$ 4,292,047</u>

5. Income Taxes

The Company's effective income tax rate was 22.0% and 50.0% for the three months ended September 30, 2021 and 2020, respectively, and 24.9% and 24.5% for the nine months ended September 30, 2021 and 2020, respectively. The Company's provision for income taxes for the three months ended September 30, 2021 and the nine months ended September 30, 2021 and 2020 was primarily due to the estimated tax effect on the Company's pre-tax income. The Company's provision for income taxes for the three months ended September 30, 2020 was primarily due to the estimated tax on the Company's distribution of pre-tax income among domestic and foreign jurisdictions and the impact of statutory rate changes in the United Kingdom.

As of September 30, 2021 and December 31, 2020, the Company's total unrecognized tax benefits were \$23.9 million and \$21.3 million, respectively. Included in the balance of unrecognized tax benefits as of September 30, 2021 and December 31, 2020, were \$17.1 million and \$14.9 million, respectively, net of the federal benefit for state taxes that, if recognized, would reduce the Company's effective tax rate. In addition, the Company believes that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by up to \$8.1 million within the next 12 months due to the filing of amended returns, settlement of audits and the expiration of the statutes of limitations.

The Company has analyzed its filing positions in all significant federal, state and foreign jurisdictions where it is required to file income tax returns, as well as open tax years in these jurisdictions. The significant jurisdictions with periods subject to examination where the Company does business are the 2017 through 2020 tax years for the United States and the United Kingdom. Various U.S., foreign and state income tax returns are under examination by taxing authorities. The Company does not believe that the outcome of any examination will have a material impact on its results of operations, financial condition and/or cash flows.

6. Derivative Instruments and Hedging Activities

The Company has variable rate borrowings under its New Term Loan, and as a result, is exposed to interest rate fluctuations on these borrowings. From time to time, the Company enters into interest rate swaps to mitigate the risk in fluctuations in interest rates. For hedges that qualify, the Company accounts for these interest rate swaps as cash flow hedges because their purpose is to hedge the Company's exposure to increases in interest rates on its variable rate borrowings and as the interest rate swaps effectively convert variable rate borrowings to fixed rate borrowings based on the fixed interest rate for the interest rate swaps plus the applicable margin on the New Term Loan. For those designated interest rate swaps accounted for as cash flow hedges, the Company recognizes in accumulated other comprehensive loss ("AOCL") or accumulated other comprehensive income ("AOCI"), net of tax, any changes in the fair value, representing unrealized gains or losses, of its interest rate swaps. The Company assesses effectiveness at inception and on an ongoing quarterly basis. The Company may also enter into interest rate swap agreements that are not designated as cash flow hedges for accounting purposes. Changes in the fair value of interest rate swaps not designated as cash flow hedges are reported in the statements of operations as part of other income (expense), net. The Company does not use derivative financial instruments for speculative or trading purposes and does not offset the fair value amounts of its derivatives. Current market conditions, including dislocation in the financial markets and volatility in interest rates, may affect the performance of the Company's hedging relationships for cash flow hedges, which could cause the hedges to no longer be effective.

The following table summarizes the material terms of the interest rate swaps outstanding as of September 30, 2021 (dollars in thousands):

Swap #	Terms	Notional Amount	Fixed Interest Rate	Maturity Date	Designated/Undesignated
1	Variable to fixed	\$ 1,500,000	1.19%	March 31, 2025	Designated
2	Variable to fixed	1,428,000	1.22%	March 31, 2025	Designated
3	Variable to fixed	72,000	1.22%	March 31, 2025	Undesignated
4	Variable to fixed	500,000	1.17%	March 31, 2025	Undesignated
5	Fixed to variable	500,000	0.52%	March 31, 2025	Undesignated

During the three months ended September 30, 2021 and 2020, the Company recorded a loss of \$0.1 million and a gain of \$0.4 million, respectively, in other income (expense), net, from the settlement and change in the fair value of the undesignated interest rate swaps. During the nine months ended September 30, 2021 and 2020, the Company recorded a gain of \$0.6 million and a loss of \$1.5 million, respectively, in other income (expense), net, from the settlement and change in the fair value of the undesignated interest rate swaps. The Company expects to reclassify current unrealized losses of \$32.6 million within the next 12 months from AOCL to interest expense, net, on the condensed consolidated statements of operations as interest payments are made on the New Term Loan.

The Company recognized the following amounts of pre-tax (loss) gain as a component of other comprehensive income (“OCI”) or other comprehensive loss (“OCL”) during the three and nine months ended September 30, 2021 and 2020:

(in thousands)	Pre-Tax (Loss) Gain Recognized in OCI or OCL			
	Derivatives in Cash Flow Hedging Relationships			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest rate swaps	\$ (1,174)	\$ (4,364)	\$ 29,421	\$ (142,709)

The following table provides the location of the pre-tax loss reclassified from AOCL into the condensed consolidated statements of operations for the periods indicated below:

(in thousands)	Location of Loss Reclassified from AOCL into Statements of Operations	Pre-Tax Loss Reclassified from AOCL into Statements of Operations			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
Interest rate swaps	Interest expense, net	\$ (8,534)	\$ (5,001)	\$ (25,030)	\$ (4,513)
Interest rate swaps	Other income (expense), net	—	(163)	—	(9,904)

The fair value of derivative instruments consisted of the following balances on the dates set forth below:

(in thousands)	Balance sheet location	September 30, 2021		December 31, 2020	
		Assets	Liabilities	Assets	Liabilities
Derivatives designated as hedging instruments:					
Interest rate swaps	Other accrued expenses	\$ —	\$ 31,635	\$ —	\$ 32,188
Interest rate swaps	Other liabilities	—	18,447	—	74,286
Derivatives not designated as hedging instruments:					
Interest rate swaps	Prepaid expenses and other current assets	1,942	—	1,901	—
Interest rate swaps	Other assets	—	—	1,667	—
Interest rate swaps	Other accrued expenses	—	6,011	—	5,184
Interest rate swaps	Other liabilities	—	8,355	—	11,893
		<u>\$ 1,942</u>	<u>\$ 64,448</u>	<u>\$ 3,568</u>	<u>\$ 123,551</u>

The Company considers the fair value of interest rate swap assets and liabilities to be a Level 2 classification within the fair value hierarchy. See Note 8, “Fair Value Measurements,” for additional information.

7. Commitments and Contingencies

The Company records liabilities for pending and threatened litigation matters when an adverse outcome is probable and the amount of the potential liability can be reasonably estimated. The Company reviews claims and legal proceedings on a continuous basis and records or adjusts liabilities recorded for such matters based on updated facts and circumstances including settlements or offers to settle, judicial rulings, advice of counsel or other information pertinent to a particular matter. Legal costs associated with contingencies are charged to expense as incurred.

In the ordinary course of business, the Company periodically becomes involved in a variety of pending and threatened proceedings and claims, including investigations, disputes, litigations and regulatory matters. These actions may be threatened or commenced by various parties, including customers, current or former employees, vendors, government agencies, including tax authorities, or others. Based on the latest information available, the Company does not expect that any pending or threatened proceeding, claim or investigation, dispute, litigation or regulatory matter, either individually or in the aggregate, will have a material adverse effect on the business, financial position, results of operations and/or cash flows of the Company.

8. Fair Value Measurements

The Company records certain assets and liabilities at fair value on a recurring and nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a fair value hierarchy that gives highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest level to unobservable inputs. The inputs used to measure fair value are classified into the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company can access at the measurement date.
- Level 2 - Observable inputs other than quoted prices in Level 1, including (i) quoted prices for similar assets and liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active and (iii) observable inputs for the assets or liabilities other than quoted market prices.
- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. This includes assets and liabilities determined using pricing models, discounted cash flow methodologies or similar techniques reflecting the Company's own assumptions.

Recurring Fair Value Measurements

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis (in thousands):

As of September 30, 2021	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 1,222	\$ —	\$ 240,260	\$ 241,482
Derivative instruments	—	1,942	—	1,942
Total assets	\$ 1,222	\$ 1,942	\$ 240,260	\$ 243,424
Liabilities				
Derivative instruments	\$ —	\$ 64,448	\$ —	\$ 64,448
Recapitalization investment portfolio liability	—	—	169,734	169,734
Total liabilities	\$ —	\$ 64,448	\$ 169,734	\$ 234,182
As of December 31, 2020				
Assets				
Investments	\$ 1,307	\$ —	\$ 264,587	\$ 265,894
Derivative instruments	—	3,568	—	3,568
Total assets	\$ 1,307	\$ 3,568	\$ 264,587	\$ 269,462
Liabilities				
Derivative Instruments	\$ —	\$ 123,551	\$ —	\$ 123,551
Recapitalization investment portfolio liability	—	—	204,742	204,742
Total liabilities	\$ —	\$ 123,551	\$ 204,742	\$ 328,293

Fair Value Investments

The following table summarizes the Company's quantitative information about the fair value measurements of Auven Therapeutics Holdings, L.P. ("Auven") and venBio Global Strategic Fund, L.P. ("venBio") on the dates set forth below (dollars in thousands):

Quantitative Information About Level 3 Fair Value Measurements for September 30, 2021				
Description	Fair Value	Valuation Technique	Unobservable Input	Range of Rates
Fair value option investments	\$224,314	Market evaluation/pricing models	Discount for lack of marketability	20.0% - 32.5%
		Recent acquisition transactions	Discount for lack of control	20.0% - 35.0%

Quantitative Information About Level 3 Fair Value Measurements for December 31, 2020				
Description	Fair Value	Valuation Technique	Unobservable Input	Range of Rates
Fair value option investments	\$253,801	Market evaluation/pricing models	Discount for lack of marketability	12.5% - 32.5%
		Recent acquisition transactions	Discount for lack of control	20.0% - 35.0%

See Note 6, "Investments," of the Company's audited consolidated financial statements included in the 2020 Form 10-K for additional information on the Company's investments.

Changes in fair value of the Company's investments measured on a recurring basis using significant unobservable inputs (Level 3) for the respective periods were as follows:

(in thousands)	2021	2020
Balance as of January 1,	\$ 264,587	\$ 248,453
Recognized fair value (loss) gain	(28,042)	16,296
Cash distributions received	(112)	(19,704)
Capital contributions paid	3,827	5,382
Balance as of September 30,	<u>\$ 240,260</u>	<u>\$ 250,427</u>

Recapitalization Investment Portfolio Liability

Changes in fair value of the recapitalization investment portfolio liability measured on a recurring basis using significant unobservable inputs (Level 3) for the respective periods were as follows:

(in thousands)	2021	2020
Balance as of January 1,	\$ 204,742	\$ 191,678
Recapitalization investment portfolio consideration change in value	(22,189)	6,529
Cash distributions paid	(12,819)	—
Balance as of September 30,	<u>\$ 169,734</u>	<u>\$ 198,207</u>

Fair Value of Financial Instruments

The Company estimated the fair value of its financial instruments using available market information. The estimate of fair value has been determined based on the fair value hierarchy for U.S. GAAP. The carrying amounts for cash and cash equivalents, accounts receivable and unbilled services, net, accounts payable and unearned revenue approximate their fair values due to the short-term nature of these financial instruments. The following table presents information about the carrying value and estimated fair value of the Company's financial instruments on the dates set forth below:

(in thousands)	September 30, 2021		December 31, 2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
New Term Loan	\$ 3,034,750	\$ 3,030,957	\$ —	\$ —
2025 Notes	500,000	521,875	500,000	527,645
2028 Notes	700,000	753,375	700,000	754,257
2015 Term Loan	—	—	3,064,006	3,067,652

The estimated fair value of the New Term Loan, 2025 Notes and 2028 Notes is based on recently reported market transactions and prices for identical or similar financial instruments obtained from a third-party pricing source. The Company considers the fair value of the New Term Loan, 2025 Notes and the 2028 Notes to be within the Level 2 classification of the fair value hierarchy. The estimated fair value of the Company's previously outstanding 2015 Term Loan was determined in the same manner as the New Term Loan.

9. Accumulated Other Comprehensive Loss

The balances of AOCL, net of tax, were as follows for the three and nine months ended September 30, 2021 and 2020:

(in thousands)	Foreign Currency Translation	Derivative Instruments	Defined Benefit Plan	Accumulated Other Comprehensive Loss
Balance as of June 30, 2021	\$ (200,340)	\$ (44,495)	\$ (3,126)	\$ (247,961)
OCL before reclassifications	(54,083)	(884)	—	(54,967)
Amounts reclassified from AOCL	—	6,432	179	6,611
Net (OCL) or OCI	(54,083)	5,548	179	(48,356)
Balance as of September 30, 2021	\$ (254,423)	\$ (38,947)	\$ (2,947)	\$ (296,317)

(in thousands)	Foreign Currency Translation	Derivative Instruments	Defined Benefit Plan	Accumulated Other Comprehensive Loss
Balance as of December 31, 2020	\$ (201,426)	\$ (79,922)	\$ (3,497)	\$ (284,845)
(OCL) or OCI before reclassifications	(52,997)	22,124	—	(30,873)
Amounts reclassified from AOCL	—	18,851	550	19,401
Net (OCL) or OCI	(52,997)	40,975	550	(11,472)
Balance as of September 30, 2021	\$ (254,423)	\$ (38,947)	\$ (2,947)	\$ (296,317)

(in thousands)	Foreign Currency Translation	Derivative Instruments	Defined Benefit Plan	Accumulated Other Comprehensive Loss
Balance as of June 30, 2020	\$ (359,246)	\$ (88,929)	\$ (776)	\$ (448,951)
OCI or (OCL) before reclassifications	45,602	(3,073)	—	42,529
Amounts reclassified from AOCL	—	3,576	138	3,714
Net OCI	45,602	503	138	46,243
Balance as of September 30, 2020	\$ (313,644)	\$ (88,426)	\$ (638)	\$ (402,708)

(in thousands)	Foreign Currency Translation	Derivative Instruments	Defined Benefit Plan	Accumulated Other Comprehensive Loss
Balance as of December 31, 2019	\$ (306,452)	\$ 8,566	\$ (1,018)	\$ (298,904)
OCL before reclassifications	(7,192)	(107,546)	(22)	(114,760)
Amounts reclassified from AOCI or AOCL	—	10,554	402	10,956
Net (OCL) or OCI	(7,192)	(96,992)	380	(103,804)
Balance as of September 30, 2020	\$ (313,644)	\$ (88,426)	\$ (638)	\$ (402,708)

The following table presents the significant reclassifications to the condensed consolidated statements of operations out of AOCL or AOCI and the line item affected on the condensed consolidated statements of operations for the respective periods were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line item in statements of operations
	2021	2020	2021	2020	
Details about AOCL or AOCI Components					
Losses on derivative instruments:					
Interest rate swaps	\$ (8,534)	\$ (5,001)	\$ (25,030)	\$ (4,513)	Interest expense, net
Interest rate swaps	—	(163)	—	(9,904)	Other income (expense), net
Income tax benefit	2,102	1,588	6,179	3,863	Provision for income taxes
Total net of income tax	<u>\$ (6,432)</u>	<u>\$ (3,576)</u>	<u>\$ (18,851)</u>	<u>\$ (10,554)</u>	
Defined benefit plan:					
Amortization of actuarial loss	\$ (220)	\$ (166)	\$ (678)	\$ (487)	Other income (expense), net
Income tax benefit	41	28	128	85	Provision for income taxes
Total net of income tax	<u>\$ (179)</u>	<u>\$ (138)</u>	<u>\$ (550)</u>	<u>\$ (402)</u>	

10. Related Party Transactions

Majority Sponsors Transactions

The Company's majority sponsors include the Carlyle Group Inc. ("Carlyle") and Hellman & Friedman LLC ("H&F"). Affiliates of Carlyle had investments in the 2015 Term Loan totaling \$12.6 million as of December 31, 2020 and no investments in the New Term Loan as of September 30, 2021. The amounts paid to the relevant affiliates for those loans for the respective periods were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest paid	\$ —	\$ 114	\$ 1,174	\$ 1,511
Principal paid	—	33	12,853	408

Recapitalization investment portfolio distributions made to affiliates of Carlyle and affiliates of H&F during the nine months ended September 30, 2021 were \$11.8 million. There were no such payments made during the three months ended September 30, 2021 or the three and nine months ended September 30, 2020. See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," of the Company's audited consolidated financial statements included in the 2020 Form 10-K for additional information related to the recapitalization investment portfolio liability.

SNBL Transactions

The Company owns 60% of its consolidated subsidiary PPD-SNBL K.K. ("PPD-SNBL"). The 40% ownership interest held by Shin Nippon Biomedical Laboratories Ltd. ("SNBL") is classified as a redeemable noncontrolling interest on the condensed consolidated balance sheets due to certain put options, one of which is triggered by a change in control of the Company, under which SNBL may require the Company to purchase SNBL's remaining ownership interest at fair value upon the occurrence of certain events described in the PPD-SNBL shareholders agreement. As of September 30, 2021, no such events had occurred. Upon closing of the proposed merger with Thermo Fisher and for a period of one year thereafter, SNBL will have the right, but not the obligation, to exercise its put option to sell its 40% ownership interest in PPD-SNBL to the Company.

Both the Company and SNBL have service agreements to provide administrative and support services to PPD-SNBL, both of which will remain in effect as long as the PPD-SNBL shareholders agreement remains in effect. The Company and SNBL also have a collaboration agreement under which the parties may collaborate on various drug development services. This collaboration agreement will remain in effect as long as SNBL owns at least 20% of PPD-SNBL. For the three months ended September 30, 2021 and 2020, the Company incurred expenses for services rendered under the services agreement of \$0.3 million and \$0.2 million, respectively. For each of the nine months ended September 30, 2021 and 2020, the Company incurred expenses under the services agreement of \$0.8 million. The expenses are recorded as a component of SG&A expenses on the condensed consolidated statements of operations. Additionally, as of September 30, 2021, the Company owed SNBL \$0.3 million for services rendered under the services agreement. No such amount was owed to SNBL as of December 31, 2020.

11. Earnings Per Share

The following table provides a reconciliation of the numerator and denominator of the basic and diluted earnings per share (“EPS”) computations for the periods set forth below:

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net income	\$ 169,115	\$ 9,102	\$ 267,915	\$ 58,093
Net income attributable to noncontrolling interest	(2,044)	(1,587)	(3,955)	(4,499)
Recapitalization investment portfolio consideration	(14,150)	44,468	22,189	(6,529)
Net income attributable to common stockholders of PPD, Inc.	<u>\$ 152,921</u>	<u>\$ 51,983</u>	<u>\$ 286,149</u>	<u>\$ 47,065</u>
Denominator:				
Basic weighted-average common shares outstanding	351,351	348,672	350,974	338,277
Effect of dilutive stock options and share awards	8,187	6,158	7,852	4,882
Diluted weighted-average common shares outstanding	<u>359,538</u>	<u>354,830</u>	<u>358,826</u>	<u>343,159</u>
Earnings per share:				
Basic	\$ 0.44	\$ 0.15	\$ 0.82	\$ 0.14
Diluted	\$ 0.43	\$ 0.15	\$ 0.80	\$ 0.14

See Note 4, “Stockholders’ Deficit and Redeemable Noncontrolling Interest,” and Note 1, “Basis of Presentation and Summary of Significant Accounting Policies,” of the Company’s audited consolidated financial statements included in the 2020 Form 10-K for additional information related to shares and the recapitalization investment portfolio consideration.

The Company does not include potentially dilutive shares in the calculation of diluted weighted-average number of common shares outstanding in cases where the inclusion of such additional shares would be anti-dilutive. Potential common shares related to time-based and vested performance-based stock options and unvested restricted stock units may be determined to be anti-dilutive based on the application of the treasury stock method and are also anti-dilutive in periods when there is a net loss attributable to common stockholders of PPD, Inc.

The number of potential common shares outstanding that were considered anti-dilutive using the treasury stock method and therefore excluded from the computation of diluted EPS, weighted for the portion of the period they were outstanding, for the respective periods were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Anti-dilutive equity awards	2,256	320	2,106	469

At September 30, 2021, unvested (i) performance-based options, (ii) performance stock units and (iii) liquidity/realization options totaling 5.2 million potential shares were outstanding but excluded from the calculation of diluted EPS, as these shares are contingently issuable based on the Company’s actual or expected achievement of performance factors or certain market conditions.

12. Segments

The Company is managed through two reportable segments, Clinical Development Services and Laboratory Services. The Company determines reportable segments using the management approach. The management approach is based on how the Company’s chief operating decision maker (“CODM”) organizes the segments for purposes of assessing performance and making operating decisions. The Clinical Development Services segment provides a wide range of services to its customers including early development/Phase I, patient recruitment and enrollment, investigator site management, Phase II-IV clinical trial management, medical communications and various peri- and post-approval services. The Laboratory Services segment provides comprehensive services to its customers including bioanalytical, vaccine sciences, good manufacturing practice, central lab and biomarker testing. Both segments provide services to pharmaceutical, biotechnology, medical device, government organizations and other industry participants.

The Company's CODM assesses segment performance and makes resource allocation decisions based on segment revenues and segment operating income. The CODM reviews the Company's assets on a consolidated basis and does not assess performance or make operating decisions based on segment assets.

Information on reportable segment revenue and segment operating income, including a reconciliation of segment operating income to consolidated income from operations, for the respective periods were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Segment revenue:				
Clinical Development Services	\$ 1,270,613	\$ 1,008,639	\$ 3,688,200	\$ 2,694,775
Laboratory Services	290,183	225,163	826,448	622,407
Total segment revenue	1,560,796	1,233,802	4,514,648	3,317,182
Segment direct costs:				
Clinical Development Services	397,416	330,281	1,130,521	922,737
Laboratory Services	129,785	102,355	368,741	279,154
Total segment direct costs	527,201	432,636	1,499,262	1,201,891
Segment reimbursed costs:				
Clinical Development Services	399,687	309,117	1,229,773	730,872
Laboratory Services	33,671	26,749	100,931	79,651
Total segment reimbursed costs	433,358	335,866	1,330,704	810,523
Segment SG&A expenses:				
Clinical Development Services	206,644	137,984	574,069	415,334
Laboratory Services	31,217	23,283	88,651	66,929
Total segment SG&A expenses	237,861	161,267	662,720	482,263
Segment operating income:				
Clinical Development Services	266,866	231,257	753,837	625,832
Laboratory Services	95,510	72,776	268,125	196,673
Total segment operating income	362,376	304,033	1,021,962	822,505
Operating costs and expenses not allocated to segments:				
Direct costs	2,489	786	8,248	20,809
SG&A expenses	97,763	88,053	296,867	252,449
Depreciation and amortization	74,028	71,317	227,426	206,395
Long-lived asset impairment	—	1,414	1,584	1,414
Income from operations	\$ 188,096	\$ 142,463	\$ 487,837	\$ 341,438

13. Entity-wide Information by Geographic Location

The table below presents certain entity-wide information about the Company's operations by geographic location. The Company allocates revenues to geographic locations based on where the services are performed. Total revenues by geographic location for the respective periods were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
North America	\$ 977,628	\$ 737,234	\$ 2,766,477	\$ 1,869,533
Latin America	41,220	39,589	135,236	130,210
Europe, Middle East and Africa	396,285	331,996	1,170,669	965,606
Asia-Pacific	145,663	124,983	442,266	351,833
Revenue	\$ 1,560,796	\$ 1,233,802	\$ 4,514,648	\$ 3,317,182

14. Other Income (Expense), Net

The components of other income (expense), net, for the respective periods were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Other income (expense), net:				
Foreign currency gains (losses), net	\$ 20,773	\$ (17,509)	\$ 16,008	\$ (3,055)
Interest rate swap (losses) gains	(69)	209	598	(11,398)
Other income	351	365	1,029	954
Other expense	(33)	(218)	(243)	(598)
Total other income (expense), net	<u>\$ 21,022</u>	<u>\$ (17,153)</u>	<u>\$ 17,392</u>	<u>\$ (14,097)</u>

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020 (our “2020 Form 10-K”). This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors set forth in other sections of this Quarterly Report on Form 10-Q, as well as the risk factors set forth in our 2020 Form 10-K. For important information regarding these forward-looking statements, please see “Special Note Regarding Forward-Looking Statements,” located elsewhere in this Quarterly Report on Form 10-Q.

When we use the terms “PPD,” the “company,” “we,” “us” or “our” in this Quarterly Report on Form 10-Q, we mean PPD, Inc. and its subsidiaries on a consolidated basis, unless the context indicates otherwise.

Company Overview

We are a leading provider of drug development services to the biopharmaceutical industry, focused on helping our customers bring their medicines and other treatments to patients around the world. We have been in the drug development services business for 35 years, providing a comprehensive suite of clinical development and laboratory services to pharmaceutical, biotechnology, medical device and government organizations, as well as other industry participants. We have deep experience across a broad range of rapidly growing areas of the drug development industry and engage with our customers through a variety of commercial models, including both full-service and functional service partnerships and other offerings tailored to address the specific needs of our customers. We have two reportable segments, Clinical Development Services and Laboratory Services. For a description of our service offerings within our segments, see Part I, Item 1, “Business,” in our 2020 Form 10-K.

Merger Agreement

On April 15, 2021, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) by and among us, Thermo Fisher Scientific Inc., a company organized under the laws of Delaware (“Thermo Fisher”) and Powder Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Thermo Fisher (“Merger Sub”) pursuant to which we will be, subject to the terms and conditions of the Merger Agreement, merged with and into Merger Sub, with PPD continuing as the surviving corporation and a wholly owned subsidiary of Thermo Fisher. Under, and subject to, the terms of the Merger Agreement, our stockholders will have the right to receive \$47.50 per share in cash, without interest and less any applicable withholding tax, for each share of our common stock upon the closing of the proposed merger. Our board of directors have unanimously approved the Merger Agreement and the transactions contemplated thereby and stockholders holding in aggregate approximately 60% of the issued and outstanding shares of our common stock duly executed and delivered to Thermo Fisher a written consent, adopting and approving the Merger Agreement and the transactions contemplated thereby.

On July 16, 2021, we and Thermo Fisher each received a request for additional information and documentary materials (collectively, the “Second Request”) from the U.S. Federal Trade Commission (“FTC”), in connection with the FTC’s review of the proposed merger. The effect of the Second Request is to extend the waiting period imposed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), until the 30th day after substantial compliance by us and Thermo Fisher with the Second Request, unless the waiting period is terminated earlier by the FTC. As of October 22, 2021, both we and Thermo Fisher had certified substantial compliance with the Second Request. The consummation of the proposed merger remains subject to the satisfaction or, to the extent permitted by law, waiver of customary closing conditions, including approvals under the HSR Act and certain other competition and foreign direct investment laws. Subject to such closing conditions, we continue to expect the proposed merger to close by the end of 2021. Third-party costs incurred related to the proposed merger during the three and nine months ended September 30, 2021 were \$1.9 million and \$13.4 million, respectively, and are recorded as a component of selling, general and administrative (“SG&A”) expenses on the condensed consolidated statements of operations.

New Credit Agreement

On January 13, 2021, together with our indirect wholly-owned subsidiary, PPD Development, L.P. (the “Co-Borrower”), we entered into and closed a new (i) \$3,050.0 million aggregate principal amount senior secured first-lien term loan facility issued at 99.5% of face value, or a discount of 0.5%, maturing in January 2028 (the “New Term Loan”) and (ii) \$600.0 million committed principal amount senior secured first-lien revolving credit facility maturing in January 2026 (the “New Revolving Credit Facility”), under our new credit agreement dated as of January 13, 2021 (the “New Credit Agreement”). The proceeds from the New Term Loan were used to extinguish our previously outstanding \$3,064.0 million senior secured term loan entered into on August 18, 2015 (the “2015 Term Loan”) under the credit agreement dated as of the same date, as amended (the “2015 Credit Agreement”). At the same time, we also extinguished our previously outstanding \$300.0 million senior secured revolving credit facility (the “2015 Revolving Credit Facility”). The total loss on extinguishment of debt associated with the extinguishments of the 2015 Term Loan and 2015 Revolving Credit Facility was \$10.7 million.

COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a global pandemic which resulted in travel and business disruption and volatile conditions in the capital and credit markets and overall economy. Globally, governments implemented travel bans, stay at home or total lock-down mandates and other social distancing measures to combat the spread of COVID-19, which have begun, in certain areas, to be partially or fully lifted during 2021. Additionally, in 2021, the global economy has, with certain setbacks, begun reopening and there has been wider distribution of vaccines to treat COVID-19. In response to the global pandemic, we created and continue to maintain a pandemic response committee of company leaders, including our chief medical officer, to help manage our response. Our company has been and continues to be focused on (i) the health and safety of our employees and the patients we recruit/enroll and (ii) business continuity, preserving the integrity of the work we do for our customers, such as providing support for vaccines and anti-viral therapies for COVID-19. In addition, to maximize employee safety and work productivity, we have (i) continued to maintain certain health and safety measures for all employees, (ii) provided COVID-19 testing for employees in critical patient-facing and laboratory roles and (iii) supported employees in obtaining COVID-19 vaccinations. During the first nine months of 2021, we began to lift certain travel restrictions for our employees and reopened offices in certain jurisdictions including the U.S. and the U.K., providing the option for our remote enabled employees to return to the office. Certain of our offices outside of the U.S. remained closed for remote enabled employees but are being evaluated for reopening using country-specific health and safety criteria.

During the first nine months of 2021, the pandemic primarily impacted our Clinical Development Services segment. While we continued to experience improvements in operating metrics during the first nine months of 2021, the impact of the pandemic continued to limit the ability of our employees to visit certain hospitals and other clinical research sites to conduct monitoring and other activities and patient recruitment and enrollment activities. Our Laboratory Services segment continued to operate at full capacity during the first nine months of 2021. Where necessary, we continue to take measures to mitigate the impact of the pandemic across our business.

We are closely monitoring the changing landscape with respect to the pandemic, including with respect to potential infection surges and the emergence of new variants of the virus, and taking actions to manage our business and support our employees, customers and the patients we recruit/enroll. Depending on the future duration, severity and impacts of the pandemic, we may have to shut down one or all of our Phase I clinics or shut down one or more of our laboratories, other clinics or offices due to patient safety, government restrictions, illness or other impacts in connection with the COVID-19 pandemic. We will continue to evaluate the nature and extent of the impact of the pandemic to our business, results of operations, financial condition and liquidity. For further discussion of the risks related to our business and the COVID-19 pandemic, see Part II, Item 1A, “Risk Factors,” included elsewhere in this Quarterly Report on Form 10-Q and Part I, Item 1A, “Risk Factors,” included in our 2020 Form 10-K.

Sources of Revenue

Revenue is comprised of direct, third-party pass-through and out-of-pocket revenue from providing services to our customers. Direct revenue represents revenue associated with the direct services provided under our contracts. Third-party pass-through and out-of-pocket revenue (collectively, “indirect revenue”) represents the reimbursement by customers of third-party pass-through and out-of-pocket costs incurred by us under our contracts.

We record the reimbursement of indirect revenue and the related costs incurred as revenue and reimbursed costs, respectively, on the condensed consolidated statements of operations. These reimbursed costs are included as revenue as we (i) are the principal in the relationship, (ii) are primarily responsible for the services provided by third parties and (iii) significantly integrate the services of the third parties with our own services in delivering a combined output to the customer.

We assess our revenue based on our primary business segments, Clinical Development Services and Laboratory Services. Our Clinical Development Services segment represented 81.4% and 81.8% of revenue for the three months ended September 30, 2021 and 2020, respectively, and 81.7% and 81.2% of revenue for the nine months ended September 30, 2021 and 2020, respectively, with the remainder generated from Laboratory Services.

We have a diverse customer mix, with no one customer accounting for more than 10% of our revenue for the three and nine months ended September 30, 2021 or 2020. Our top 10 customers accounted for approximately 51.8% and 55.6% of our revenue for the three months ended September 30, 2021 and 2020, respectively, and 51.1% and 52.3% for the nine months ended September 30, 2021 and 2020, respectively. Based on the diversity of our customer base, we do not believe we have significant customer concentration risk. We do not have any significant product revenues.

Operating Costs and Expenses

Our operating costs and expenses primarily consist of direct costs, reimbursed costs, SG&A expenses and depreciation and amortization.

Direct Costs

Direct costs represent costs for providing services to customers. Direct costs primarily include labor-related costs, such as compensation and benefits for employees providing services, an allocation of facility and information technology costs, supply costs, costs for certain media-related services for patient recruitment, stock-based compensation expense, other overhead costs and offsetting research and development (“R&D”) incentive credits. Direct costs typically increase or decrease with changes in revenue and may fluctuate significantly from period to period as a percentage of revenue due to staff labor utilization, project labor mix, the type of services, changes to the timing of work performed and project inefficiencies, among other factors.

Reimbursed Costs

Reimbursed costs include third-party pass-through and out-of-pocket costs which are generally reimbursable by our customers at cost. Third-party pass-through and out-of-pocket costs include, but are not limited to, payments to investigators, payments for the use of third-party technology, shipping costs and travel costs related to the performance of services. Third-party pass-through and out-of-pocket costs are incurred across both of our reportable segments.

Because services associated with reimbursed costs are generally provided by us without profit or mark-up and fluctuate from period to period without being important to our underlying performance over the full term of a contract, these costs do not have a significant impact on our income from operations. While fluctuations from period to period are not meaningful over the full term of a contract, actual and estimated reimbursed costs can impact revenue recognized, consolidated income from operations and segment operating income throughout the duration of a contract.

Selling, General and Administrative Expenses

SG&A expenses represent costs of business development, administrative and support functions. SG&A expenses primarily include compensation and benefits for employees, costs related to employees performing administrative tasks, stock-based compensation expense, sales, marketing and promotional expenses, employee recruiting and relocation expenses, employee training costs, travel costs, an allocation of facility and information technology costs and other overhead costs.

Depreciation and Amortization

Depreciation and amortization represents the costs charged for our property and equipment and intangible assets. We record depreciation and amortization on property and equipment using the straight-line method, based on the estimated useful lives of the respective assets. We depreciate leasehold improvements over the shorter of the lease term or the estimated useful lives of the improvements. We amortize software developed or obtained for internal use over the estimated useful life of the software or term of the licensing agreement. Amortization expense primarily comes from acquired definite-lived intangible assets. We amortize definite-lived intangible assets using either the straight-line method or sum-of-the-years digits method over the estimated useful lives of the assets.

How We Assess the Performance of Our Business

We manage and assess our business based on segment performance and allocate resources utilizing segment revenues and segment operating income. We also assess the performance of our reported consolidated business using a number of metrics including backlog and net authorizations. We primarily assess backlog and net authorizations on (i) a basis which excludes indirect revenues and the impact of Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”) on direct revenue (“Historical Basis”) and (ii) an ASC 606 total direct and indirect revenue basis (“ASC 606 Basis”). Our discussion of backlog and net authorizations below is applicable to both of the aforementioned backlog and net authorization metrics.

Our backlog represents anticipated revenue for work not yet completed or performed (i) under signed contracts, letters of intent and, in some cases, awards that are supported by other forms of written communication and (ii) where there is sufficient or reasonable certainty about the customer’s ability and intent to fund and commence the services within six months. Backlog and backlog conversion (defined as quarterly revenue for the period divided by opening backlog for that period) vary from period to period depending upon new authorizations, contract modifications, cancellations and the amount of revenue recognized under

existing contracts. We adjust backlog for foreign currency fluctuations and exclude from backlog revenue that has been recognized as revenue in our statements of operations.

Although an increase in backlog will generally result in an increase in future revenue to be recognized over time (depending on future contract modifications, contract cancellations and other adjustments), an increase in backlog at a particular point in time does not necessarily correspond to an increase in revenue during a particular period. The timing and extent to which backlog will result in revenue depends on many factors, including the timing of commencement of work, the rate at which we perform services, scope changes, cancellations, delays, receipt of regulatory approvals and the nature, duration, size, complexity and phase of the studies. Our contracts generally have terms ranging from several months to several years. In addition, delayed projects remain in backlog unless they are canceled. As a result of these and other factors, including those from the impact of the COVID-19 pandemic, our backlog might not be a reliable indicator of future revenue and we might not realize all or any part of the revenue from the authorizations in backlog as of any point in time. Once work begins, we recognize revenue over the life of the contract as we perform services under such contract.

We add new authorizations to backlog based on the aforementioned criteria for backlog. Net authorizations represent new business awards, net of award or contract modifications, contract cancellations, foreign currency fluctuations and other adjustments. New authorizations vary from period to period depending on numerous factors, including customer authorization volume, sales performance and overall health of the biopharmaceutical industry, among others. New authorizations have varied and will continue to vary significantly from quarter to quarter and from year to year. In addition to net authorizations, we also assess net book-to-bill, which represents the amount of net authorizations for the period divided by revenue recognized in that period. We have included new business awards associated with COVID-19 in our net authorizations and backlog. The dynamics of such awards differ from those of more traditional studies and therefore we have adjusted the amount of such new business awards in net authorizations and backlog.

Net Authorizations and Backlog

The following table provides selected information related to our net authorizations and backlog as of and for the three months ended September 30:

(dollars in millions)	Historical Basis		ASC 606 Basis	
	2021	2020	2021	2020
Net authorizations	\$ 1,352.7	\$ 1,200.3	\$ 2,253.3	\$ 1,764.5
Backlog	9,492.5	7,890.4	14,592.0	11,720.1
Backlog conversion	12.2 %	11.8 %	11.2 %	11.0 %
Net book-to-bill	1.19x	1.35x	1.44x	1.43x

The increase in net authorizations and backlog in 2021 for the metrics above as compared to the same period in the prior year was primarily due to continued growth in new business awards, including awards related to the COVID-19 pandemic, and fewer award cancellations, partially offset by unfavorable net foreign currency fluctuations.

Foreign Currency

A large portion of our revenues and expenses are denominated in foreign currencies and our condensed consolidated financial statements are reported in United States dollars. As such, changes in foreign currency exchange rates can significantly affect our results of operations. The revenue and expenses of our foreign operations are generally denominated in local currencies and translated into United States dollars for financial reporting purposes. Therefore, exchange rate fluctuations will affect the translation of foreign results into United States dollars for purposes of reporting consolidated results of operations. We believe that reporting results of operations that disclose the effects of foreign currency rate fluctuations on certain financial results, where meaningful, can facilitate analysis of period to period comparisons.

Consolidated Results of Operations

Three Months Ended September 30, 2021 versus Three Months Ended September 30, 2020

Consolidated Results of Operations

Revenue (dollars in thousands)	Three Months Ended September 30,		Change	
	2021	2020		
Revenue	\$ 1,560,796	\$ 1,233,802	\$ 326,994	26.5 %

Revenue increased \$327.0 million, or 26.5%, to \$1,560.8 million for the three months ended September 30, 2021 as compared to the same period in 2020. Revenue increased (i) 25.9% from organic volume growth across our business due to higher opening backlog at the beginning of the period as compared to the prior year and overall growth in new business awards during 2021, (ii) from awards and associated revenue for certain COVID-19 work which has a higher mix of indirect revenue and (iii) 0.6% from the favorable impact from foreign currency exchange rates.

Direct Costs

(dollars in thousands)	Three Months Ended September 30,			Change
	2021	2020		
Direct costs, exclusive of depreciation and amortization	\$ 529,690	\$ 433,422	\$ 96,268	22.2 %
% of revenue	33.9 %	35.1 %		

Direct costs increased \$96.3 million to \$529.7 million for the three months ended September 30, 2021 as compared to the same period in 2020. The increase in direct costs was primarily due to (i) a \$49.4 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases including stock-based compensation expense, (ii) a \$32.6 million increase in contract labor and certain project delivery costs, (iii) an \$11.1 million increase in laboratory supply costs in connection with the growth in revenue and (iv) a 0.8% increase from the unfavorable impact from foreign currency exchange rates. As a percentage of revenue, direct costs decreased to 33.9% for the three months ended September 30, 2021 as compared to 35.1% in the same period in 2020 primarily due to the factors identified above.

Reimbursed Costs

(dollars in thousands)	Three Months Ended September 30,			Change
	2021	2020		
Reimbursed costs	\$ 433,358	\$ 335,866	\$ 97,492	29.0 %
% of revenue	27.8 %	27.2 %		

Reimbursed costs increased \$97.5 million to \$433.4 million for the three months ended September 30, 2021 as compared to the same period in 2020. Reimbursed costs increased primarily due to the increase in revenue, including growth related to certain awards of work for COVID-19 which have significant reimbursed costs. The increase in reimbursed costs was also impacted by the general timing of costs incurred across our portfolio of work, which vary over the course of clinical trials due to (i) the timing of the work performed, (ii) scope changes and (iii) the complexity and phase of the study, among other factors. As a percentage of revenue, reimbursed costs increased to 27.8% for the three months ended September 30, 2021 as compared to 27.2% in the same period in 2020 primarily due to the factors identified above. The impact from foreign currency exchange rates was insignificant.

Selling, General and Administrative Expenses

(dollars in thousands)	Three Months Ended September 30,			Change
	2021	2020		
Selling, general and administrative expenses	\$ 335,624	\$ 249,320	\$ 86,304	34.6 %
% of revenue	21.5 %	20.2 %		

SG&A expenses increased \$86.3 million to \$335.6 million for the three months ended September 30, 2021 as compared to the same period in 2020. The increase in SG&A expenses was primarily due to (i) a \$74.0 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases including stock-based compensation expense, (ii) a \$6.4 million increase in technology costs primarily related to software licensing, (iii) a \$1.9 million increase in third-party costs incurred related to the proposed merger with Thermo Fisher and (iv) a 0.8% increase from the unfavorable impact from foreign currency exchange rates. As a percentage of revenue, SG&A expenses increased to 21.5% for the three months ended September 30, 2021 as compared to 20.2% in the same period in 2020 primarily due to the factors identified above.

Depreciation and Amortization

(in thousands)	Three Months Ended September 30,		
	2021	2020	
Depreciation and amortization	\$ 74,028	\$ 71,317	

Depreciation and amortization was \$74.0 million for the three months ended September 30, 2021 as compared to \$71.3 million in the same period in 2020. The increase in depreciation and amortization expense primarily relates to the impact from our laboratory facility expansions partially offset by a decrease due to the timing of amortization of certain definite-lived intangible assets.

Interest Expense, Net

(in thousands)	Three Months Ended September 30,	
	2021	2020
Interest expense, net	\$ (46,231)	\$ (49,882)

Interest expense, net, was \$46.2 million for the three months ended September 30, 2021 as compared to \$49.9 million in the same period in 2020. The decrease in interest expense was primarily due to a \$7.6 million reduction related to a decrease in the variable interest rate on our New Term Loan as compared to our extinguished 2015 Term Loan, partially offset by an increase of \$3.5 million from the unfavorable net impact of our interest rate swaps.

Gain (Loss) on Investments

(in thousands)	Three Months Ended September 30,	
	2021	2020
Gain (loss) on investments	\$ 18,971	\$ (53,100)

Gain on investments was \$19.0 million for the three months ended September 30, 2021 as compared to a loss of \$53.1 million in the same period in 2020. The gains and losses for both periods were primarily a result of changes in the fair values of the net asset values of our investments, which included changes in the publicly traded stock prices of certain underlying holdings within our investments in limited partnerships.

The gains or losses from our investments will likely continue to fluctuate from period to period primarily based on the changes in fair value of the underlying holdings of the limited partnerships, including the volatility of stock prices underlying publicly traded investments within the partnerships, and changes in the discounts applied to such investments for our lack of control and lack of marketability, where applicable.

Other Income (Expense), Net

(in thousands)	Three Months Ended September 30,	
	2021	2020
Other income (expense), net	\$ 21,022	\$ (17,153)

Other income, net, was \$21.0 million for the three months ended September 30, 2021 as compared to other expense, net, of \$17.2 million in the same period in 2020. Foreign exchange rate movement resulted in transaction and re-measurement gains of \$20.8 million for the three months ended September 30, 2021 and losses of \$17.5 million in the same period in 2020.

Provision for Income Taxes

(dollars in thousands)	Three Months Ended September 30,	
	2021	2020
Provision for income taxes	\$ 39,993	\$ 11,169
Effective income tax rate	22.0 %	50.0 %

Our provision for income taxes was \$40.0 million, resulting in an effective income tax rate of 22.0%, for the three months ended September 30, 2021 as compared to a provision of \$11.2 million, or an effective income tax rate of 50.0%, in the same period in 2020. Our provision for income taxes for the three months ended September 30, 2021 was primarily due to the estimated tax effect on our pre-tax income. Our provision for income taxes for the three months ended September 30, 2020 was primarily due to the estimated tax on our distribution of pre-tax income among domestic and foreign jurisdictions and the impact of statutory rate changes in the United Kingdom.

Equity in Earnings (Losses) of Unconsolidated Affiliates, Net of Income Taxes

(in thousands)	Three Months Ended September 30,	
	2021	2020
Equity in earnings (losses) of unconsolidated affiliates, net of income taxes	\$ 27,250	\$ (2,057)

Equity in earnings (losses) of unconsolidated affiliates, net of income taxes, was income of \$27.3 million for the three months ended September 30, 2021 as compared to a loss of \$2.1 million in the same period in 2020. The income for the current period was due to the gain recorded for the dilution of our ownership in one of our unconsolidated affiliates, partially offset by the operating losses of our unconsolidated affiliates. The loss in the prior period was due to the operating losses of our unconsolidated affiliates.

Segment Results of Operations

Clinical Development Services and Laboratory Services segment results for the three months ended September 30, 2021 and 2020 are detailed below.

<i>Clinical Development Services</i> (dollars in thousands)	Three Months Ended September 30,		Change	
	2021	2020		
Segment revenue	\$ 1,270,613	\$ 1,008,639	\$ 261,974	26.0 %
Segment direct costs	397,416	330,281	67,135	20.3
Segment reimbursed costs	399,687	309,117	90,570	29.3
Segment SG&A expenses	206,644	137,984	68,660	49.8
Segment operating income	\$ 266,866	\$ 231,257	\$ 35,609	15.4

Segment Revenue

Clinical Development Services' revenue was \$1,270.6 million for the three months ended September 30, 2021, an increase of \$262.0 million as compared to the same period in 2020. Revenue increased (i) 25.2% from organic volume growth primarily from our Phase II-IV clinical trial management services as a result of higher opening backlog at the beginning of the period as compared to the prior year and overall growth in new business awards during 2021, (ii) from awards and associated revenue for certain COVID-19 work which has a higher mix of indirect revenue and (iii) 0.8% from the favorable impact from foreign currency exchange rates.

Segment Direct Costs

Clinical Development Services' direct costs were \$397.4 million for the three months ended September 30, 2021, an increase of \$67.1 million as compared to the same period in 2020. The increase in direct costs was primarily due to (i) a \$34.4 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases, (ii) a \$30.4 million increase in contract labor and certain project delivery costs and (iii) a 0.9% increase from the unfavorable impact from foreign currency exchange rates.

Segment Reimbursed Costs

Clinical Development Services' reimbursed costs were \$399.7 million for the three months ended September 30, 2021, an increase of \$90.6 million as compared to the same period in 2020. Reimbursed costs increased primarily due to the increase in revenue, including growth related to certain awards of work for COVID-19 which have significant reimbursed costs. The increase in reimbursed costs was also impacted by the general timing of costs incurred across our portfolio of work, which vary over the course of clinical trials due to (i) the timing of the work performed, (ii) scope changes and (iii) the complexity and phase of the study, among other factors. The impact from foreign currency exchange rates was insignificant.

Segment SG&A Expenses

Clinical Development Services' SG&A expenses were \$206.6 million for the three months ended September 30, 2021, an increase of \$68.7 million as compared to the same period in 2020. The increase in SG&A expenses was primarily due to (i) a \$58.4 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases and (ii) a 1.0% increase from the unfavorable impact from foreign currency exchange rates.

<i>Laboratory Services</i> (dollars in thousands)	Three Months Ended September 30,		Change	
	2021	2020		
Segment revenue	\$ 290,183	\$ 225,163	\$ 65,020	28.9 %
Segment direct costs	129,785	102,355	27,430	26.8
Segment reimbursed costs	33,671	26,749	6,922	25.9
Segment SG&A expenses	31,217	23,283	7,934	34.1
Segment operating income	\$ 95,510	\$ 72,776	\$ 22,734	31.2

Segment Revenue

Laboratory Services' revenue was \$290.2 million for the three months ended September 30, 2021, an increase of \$65.0 million as compared to the same period in 2020. Revenue increased from organic volume growth across all our laboratory services in part due to higher opening backlog at the beginning of the period as compared to the prior year and overall growth in new business awards during 2021, including awards and associated revenue for COVID-19 work. The higher opening backlog was primarily due to increased net authorizations across all of our lab businesses in 2020 as compared to 2019. The impact from foreign currency exchange rates was insignificant.

Segment Direct Costs

Laboratory Services' direct costs were \$129.8 million for the three months ended September 30, 2021, an increase of \$27.4 million as compared to the same period in 2020. The increase in direct costs was primarily due to a \$13.2 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases, and an \$11.1 million increase in laboratory supply costs in connection with the growth in revenue. The impact from foreign currency exchange rates was insignificant.

Segment Reimbursed Costs

Laboratory Services' reimbursed costs were \$33.7 million for the three months ended September 30, 2021, an increase of \$6.9 million as compared to the same period in 2020. Reimbursed costs increased primarily due to (i) the increase in revenue, (ii) higher shipping costs and (iii) the general timing of costs incurred across our portfolio of work. The impact from foreign currency exchange rates was insignificant.

Segment SG&A Expenses

Laboratory Services' SG&A expenses were \$31.2 million for the three months ended September 30, 2021, an increase of \$7.9 million as compared to the same period in 2020. The increase in SG&A expenses was primarily due to an \$8.0 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases. The impact from foreign currency exchange rates was insignificant.

Nine Months Ended September 30, 2021 versus Nine Months Ended September 30, 2020

Consolidated Results of Operations

Revenue

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020		
Revenue	\$ 4,514,648	\$ 3,317,182	\$ 1,197,466	36.1 %

Revenue increased \$1,197.5 million, or 36.1%, to \$4,514.6 million for the nine months ended September 30, 2021 as compared to the same period in 2020. Revenue increased (i) 34.7% from organic volume growth across our business due to higher opening backlog at the beginning of the period as compared to the prior year and overall growth in new business awards during 2021, (ii) from awards and associated revenue for certain COVID-19 work which has a higher mix of indirect revenue and (iii) 1.4% from the favorable impact from foreign currency exchange rates. The higher opening backlog was primarily due to increased net authorizations across our business in 2020 as compared to 2019.

Direct Costs

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020		
Direct costs, exclusive of depreciation and amortization	\$ 1,507,510	\$ 1,222,700	\$ 284,810	23.3 %
% of revenue	33.4 %	36.9 %		

Direct costs increased \$284.8 million to \$1,507.5 million for the nine months ended September 30, 2021 as compared to the same period in 2020. The increase in direct costs was primarily due to (i) a \$161.4 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases including stock-based compensation expense, (ii) an \$89.4 million increase in contract labor and certain project delivery costs, (iii) a \$35.5 million increase in laboratory supply costs in connection with the growth in revenue and (iv) a 2.0% increase from the unfavorable impact from foreign currency exchange rates. As a percentage of revenue, direct costs decreased to 33.4% for the nine months ended September 30, 2021 as compared to 36.9% in the same period in 2020 primarily due to the increase in indirect revenue included as part of revenue which does not have a corresponding impact on direct costs.

Reimbursed Costs

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020		
Reimbursed costs	\$ 1,330,704	\$ 810,523	\$ 520,181	64.2 %
% of revenue	29.5 %	24.4 %		

Reimbursed costs increased \$520.2 million to \$1,330.7 million for the nine months ended September 30, 2021 as compared to the same period in 2020. Reimbursed costs increased primarily due to the increase in revenue, including growth related to certain awards of work for COVID-19 which have significant reimbursed costs, and a 1.9% increase from the unfavorable impact from foreign currency exchange rates. The increase in reimbursed costs was also impacted by the general timing of costs incurred across our portfolio of work, which vary over the course of clinical trials due to (i) the timing of the work performed, (ii) scope changes and (iii) the complexity and phase of the study, among other factors. As a percentage of revenue, reimbursed costs increased to 29.5% for the nine months ended September 30, 2021 as compared to 24.4% in the same period in 2020 primarily due to the factors identified above as well as the increase in indirect revenue included as part of revenue which has a corresponding impact on reimbursed costs.

Selling, General and Administrative Expenses

(dollars in thousands)	Nine Months Ended September 30,			Change
	2021	2020		
Selling, general and administrative expenses	\$ 959,587	\$ 734,712	\$ 224,875	30.6 %
% of revenue	21.3 %	22.1 %		

SG&A expenses increased \$224.9 million to \$959.6 million for the nine months ended September 30, 2021 as compared to the same period in 2020. The increase in SG&A expenses was primarily due to (i) a \$179.5 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases including stock-based compensation expense, (ii) a \$15.9 million increase in technology costs primarily related to software licensing, (iii) a \$13.4 million increase in third-party costs incurred related to the proposed merger with Thermo Fisher and (iv) a 1.8% increase from the unfavorable impact from foreign currency exchange rates. As a percentage of revenue, SG&A expenses decreased to 21.3% for the nine months ended September 30, 2021 as compared to 22.1% in the same period in 2020 primarily due to (i) lower travel and associated expenses and (ii) the increase in indirect revenue included as part of revenue which does not have a corresponding impact on SG&A expenses.

Depreciation and Amortization

(in thousands)	Nine Months Ended September 30,	
	2021	2020
Depreciation and amortization	\$ 227,426	\$ 206,395

Depreciation and amortization was \$227.4 million for the nine months ended September 30, 2021 as compared to \$206.4 million in the same period in 2020. The increase in depreciation and amortization expense primarily relates to (i) the impact from our laboratory facility expansions, (ii) new purchased and internally developed software and (iii) amortization expense for the acceleration of the useful life of certain intangible asset trade names, partially offset by a decrease due to the timing of amortization of certain definite-lived intangible assets.

Interest Expense, Net

(in thousands)	Nine Months Ended September 30,	
	2021	2020
Interest expense, net	\$ (139,577)	\$ (165,995)

Interest expense, net, was \$139.6 million for the nine months ended September 30, 2021 as compared to \$166.0 million in the same period in 2020. The decrease in interest expense was primarily due to (i) a \$25.0 million reduction related to a decrease in the variable interest rate on our New Term Loan as compared to our extinguished 2015 Term Loan, (ii) a \$15.4 million reduction as a result of the redemption of our unsecured Senior PIK Toggle Notes (the "HoldCo Notes") as part of our initial public offering ("IPO") during the first quarter of 2020 and (iii) the impact from the lower interest rate on our unsecured senior notes that were refinanced during the second quarter of 2020, partially offset by an increase of \$20.5 million from the unfavorable net impact of our interest rate swaps.

Loss on Extinguishment of Debt

(in thousands)	Nine Months Ended September 30,	
	2021	2020
Loss on extinguishment of debt	\$ (10,677)	\$ (93,534)

Loss on extinguishment of debt was \$10.7 million for the nine months ended September 30, 2021 as compared to \$93.5 million in the same period in 2020. The loss in the current period resulted from the write off of our previously recorded unamortized debt discount and deferred debt issuance costs related to the extinguishments of our 2015 Term Loan and 2015 Revolving Credit Facility. The loss in the prior period resulted from the early extinguishment of our HoldCo Notes and the early extinguishment of our unsecured senior notes (the "OpCo Notes") and consisted of redemption premiums of \$50.4 million and the write off of our unamortized debt discount and deferred debt issuance costs of \$43.1 million.

(Loss) Gain on Investments (in thousands)	Nine Months Ended September 30,	
	2021	2020
(Loss) gain on investments	\$ (28,127)	\$ 16,649

Loss on investments was \$28.1 million for the nine months ended September 30, 2021 as compared to a gain of \$16.6 million in the same period in 2020. The losses and gains for both periods were primarily a result of changes in the fair values of the net asset values of our investments, which included changes in the publicly traded stock prices of certain underlying holdings within our investments in limited partnerships, partially offset by changes to the discount rate on certain investments in the prior year.

The gains or losses from our investments will likely continue to fluctuate from period to period primarily based on the changes in fair value of the underlying holdings of the limited partnerships, including the volatility of stock prices underlying publicly traded investments within the partnerships, and changes in the discounts applied to such investments for our lack of control and lack of marketability, where applicable.

Other Income (Expense), Net (in thousands)	Nine Months Ended September 30,	
	2021	2020
Other income (expense), net	\$ 17,392	\$ (14,097)

Other income, net, was \$17.4 million for the nine months ended September 30, 2021 as compared to other expense, net, of \$14.1 million in the same period in 2020. Foreign exchange rate movement resulted in transaction and re-measurement gains of \$16.0 million for the nine months ended September 30, 2021 and losses of \$3.1 million in the same period in 2020. Interest rate swap hedging activity resulted in gains of \$0.6 million for the nine months ended September 30, 2021 and losses of \$11.4 million in the same period in 2020.

Provision for Income Taxes (dollars in thousands)	Nine Months Ended September 30,	
	2021	2020
Provision for income taxes	\$ 81,421	\$ 20,682
Effective income tax rate	24.9 %	24.5 %

Our provision for income taxes was \$81.4 million, resulting in an effective income tax rate of 24.9% for the nine months ended September 30, 2021 as compared to a provision of \$20.7 million, or an effective income tax rate of 24.5%, in the same period in 2020. Our provision for income taxes for the nine months ended September 30, 2021 and 2020 was primarily due to the estimated tax effect on our pre-tax income.

Equity in Earnings (Losses) of Unconsolidated Affiliates, Net of Income Taxes (in thousands)	Nine Months Ended September 30,	
	2021	2020
Equity in earnings (losses) of unconsolidated affiliates, net of income taxes	\$ 22,488	\$ (5,686)

Equity in earnings (losses) of unconsolidated affiliates, net of income taxes, was income of \$22.5 million for the nine months ended September 30, 2021 as compared to a loss of \$5.7 million in the same period in 2020. The income for the current period was due to the gain recorded for the dilution of our ownership in one of our unconsolidated affiliates, partially offset by the operating losses of our unconsolidated affiliates. The loss in the prior period was due to the operating losses of our unconsolidated affiliates.

Segment Results of Operations

Clinical Development Services and Laboratory Services segment results for the nine months ended September 30, 2021 and 2020 are detailed below.

Clinical Development Services (dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020		
Segment revenue	\$ 3,688,200	\$ 2,694,775	\$ 993,425	36.9 %
Segment direct costs	1,130,521	922,737	207,784	22.5
Segment reimbursed costs	1,229,773	730,872	498,901	68.3
Segment SG&A expenses	574,069	415,334	158,735	38.2
Segment operating income	\$ 753,837	\$ 625,832	\$ 128,005	20.5

Segment Revenue

Clinical Development Services' revenue was \$3,688.2 million for the nine months ended September 30, 2021, an increase of \$993.4 million as compared to the same period in 2020. Revenue increased (i) 35.4% from organic volume growth primarily from our Phase II-IV clinical trial management services as a result of higher opening backlog at the beginning of the period as compared to the prior year and overall growth in new business awards during 2021, (ii) from awards and associated revenue for certain COVID-19 work which has a higher mix of indirect revenue and (iii) 1.5% from the favorable impact from foreign currency exchange rates. The higher opening backlog was primarily due to increased net authorizations for our Phase II-IV clinical trial management services in 2020 as compared to 2019.

Segment Direct Costs

Clinical Development Services' direct costs were \$1,130.5 million for the nine months ended September 30, 2021, an increase of \$207.8 million as compared to the same period in 2020. The increase in direct costs was primarily due to (i) a \$126.4 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases, (ii) an \$82.4 million increase in contract labor and certain project delivery costs and (iii) a 2.3% increase from the unfavorable impact from foreign currency exchange rates.

Segment Reimbursed Costs

Clinical Development Services' reimbursed costs were \$1,229.8 million for the nine months ended September 30, 2021, an increase of \$498.9 million as compared to the same period in 2020. Reimbursed costs increased primarily due to the increase in revenue, including growth related to certain awards of work for COVID-19 which have significant reimbursed costs, and a 1.9% increase from the unfavorable impact from foreign currency exchange rates. The increase in reimbursed costs was also impacted by the general timing of costs incurred across our portfolio of work, which vary over the course of clinical trials due to (i) the timing of the work performed, (ii) scope changes and (iii) the complexity and phase of the study, among other factors.

Segment SG&A Expenses

Clinical Development Services' SG&A expenses were \$574.1 million for the nine months ended September 30, 2021, an increase of \$158.7 million as compared to the same period in 2020. The increase in SG&A expenses was primarily due to (i) a \$144.0 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases and (ii) a 2.3% increase from the unfavorable impact from foreign currency exchange rates. The increase in SG&A expenses was partially offset by lower travel and associated expenses.

Laboratory Services (dollars in thousands)	Nine Months Ended September 30,		Change	
	2021	2020		
Segment revenue	\$ 826,448	\$ 622,407	\$ 204,041	32.8 %
Segment direct costs	368,741	279,154	89,587	32.1
Segment reimbursed costs	100,931	79,651	21,280	26.7
Segment SG&A expenses	88,651	66,929	21,722	32.5
Segment operating income	\$ 268,125	\$ 196,673	\$ 71,452	36.3

Segment Revenue

Laboratory Services' revenue was \$826.4 million for the nine months ended September 30, 2021, an increase of \$204.0 million as compared to the same period in 2020. Revenue increased (i) 31.9% from organic volume growth across all our laboratory services in part due to higher opening backlog at the beginning of the period as compared to the prior year and overall growth in new business awards during 2021, (ii) awards and associated revenue for COVID-19 work and (iii) 0.9% from the favorable impact from foreign currency exchange rates. The higher opening backlog was primarily due to increased net authorizations across all of our lab businesses in 2020 as compared to 2019.

Segment Direct Costs

Laboratory Services' direct costs were \$368.7 million for the nine months ended September 30, 2021, an increase of \$89.6 million as compared to the same period in 2020. The increase in direct costs was primarily due to (i) a \$44.8 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases and (ii) a \$35.5 million increase in laboratory supply costs in connection with the growth in revenue and (iii) a 1.1% increase from the unfavorable impact from foreign currency exchange rates.

Segment Reimbursed Costs

Laboratory Services' reimbursed costs were \$100.9 million for the nine months ended September 30, 2021, an increase of \$21.3 million as compared to the same period in 2020. Reimbursed costs increased primarily due to (i) the increase in revenue, (ii) higher shipping costs, (iii) the general timing of costs incurred across our portfolio of work and (iv) a 2.3% increase from the unfavorable impact from foreign currency exchange rates.

Segment SG&A Expenses

Laboratory Services' SG&A expenses were \$88.7 million for the nine months ended September 30, 2021, an increase of \$21.7 million as compared to the same period in 2020. The increase in SG&A expenses was primarily due to a \$20.4 million increase from growth in employee headcount to support current and anticipated growth in revenue, as well as compensation increases, and a 0.6% increase from the unfavorable impact from foreign currency exchange rates.

Liquidity and Capital Resources

Overview

We assess our liquidity in terms of our ability to generate adequate amounts of cash to meet current and future needs. We have historically funded our operations with cash flows from operations. We have historically used long-term debt and cash on hand to fund acquisitions and make special cash dividends or distributions to our stockholders. Our expected primary cash uses on a short-term and long-term basis are for repayment of debt, interest payments, working capital, capital expenditures, geographic or service offering expansion, acquisitions, investments and other general corporate purposes. We do not expect to declare any dividends on our common stock in the foreseeable future. We hold our cash balances in the United States and numerous locations throughout the rest of the world. As of September 30, 2021, we had \$1,172.7 million of cash and cash equivalents of which \$509.8 million was held by our foreign subsidiaries.

In January 2021, we successfully completed a refinancing of our variable rate long-term debt that was outstanding under our 2015 Credit Agreement, as well as increased the size of our revolving credit facility from \$300.0 million to \$600.0 million. Also in January 2021, we entered into a new finance lease agreement for our existing laboratory facilities in Virginia. The new lease agreement replaced the prior operating lease agreements for certain existing facilities, consolidated multiple operating leases into one new lease agreement and extended the term of the lease for the facilities. See Note 4, "Long-term Debt and Finance Lease Obligations," to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information.

Contractual and Other Obligations

We have incurred contractual and other obligations in the ordinary course of running our business and as a result of the recapitalization of our company in 2017. Excluding the obligations we have or will incur in the ordinary course of running our business, our primary short-term and long-term obligations include (i) payments on our long-term debt and related interest, (ii) payments on our operating and finance leases, (iii) future capital calls on our investments, (iv) purchase obligations and commitments related to planned capital expenditures and (v) obligations as a result of the recapitalization of our company in 2017.

As required under the recapitalization transaction merger agreement, during the nine months ended September 30, 2021, we made cash distributions of approximately \$12.8 million for the payment of a portion of the recapitalization investment portfolio liability from the cash proceeds received from the recapitalization investment portfolio. No distributions for the recapitalization investment portfolio liability were made during the nine months ended September 30, 2020. As of September 30, 2021, the recapitalization investment portfolio liability was \$169.7 million.

Other than (i) the extinguishments of our 2015 Term Loan and 2015 Revolving Credit Facility, (ii) entering into our New Credit Agreement and (iii) our new finance lease agreement for one of our laboratory facilities as discussed elsewhere in this Quarterly Report on Form 10-Q, there have been no material changes, outside of the ordinary course of business, to our contractual and other obligations as previously disclosed in our 2020 Form 10-K. See our 2020 Form 10-K for additional discussion of our material cash requirements.

We expect to continue funding our operations and contractual and other obligations from existing cash, cash flows from operations and, if necessary or appropriate, borrowings under our New Revolving Credit Facility, which remains undrawn. Based on current conditions, we believe that these sources of liquidity will be sufficient to fund our operations and meet our contractual obligations and other requirements in the short and long-term. From time to time, we evaluate potential acquisitions, investments and other growth and strategic opportunities that might require use of existing cash, borrowings under our New Revolving Credit Facility or additional long-term financing. While we believe we have sufficient liquidity to fund our operations for the foreseeable future, our sources of liquidity could be affected by factors described above and Part II, Item 1A, "Risk Factors," included elsewhere in this Quarterly Report on Form 10-Q as well as under "Indemnification and Insurance," within Part I, Item 1, "Business;" Part I, Item 1A, "Risk Factors;" "Critical Accounting Policies and Estimates," within Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations;" and Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in our 2020 Form 10-K.

Cash Flows

<i>Cash flows from operating activities</i> (in thousands)	Nine Months Ended September 30,	
	2021	2020
Net cash provided by operating activities	\$ 586,393	\$ 268,467

The increase in operating cash flows of \$317.9 million was due to a \$150.9 million increase in cash from the changes in operating assets and liabilities and a \$167.0 million increase in net income and non-cash reconciling items. The increase in net income was primarily due to the overall cash earnings growth of the business. The change in operating assets and liabilities was primarily due to period over period fluctuations in the timing of collections and payments, with the change in cash from (i) net accounts receivable (defined as the sum of period-end balances of accounts receivable and unbilled services net of unearned revenue), (ii) accounts payable, accrued expenses and other liabilities, (iii) other assets and (iv) income taxes being favorable and the change in cash for prepaid expenses and other current assets being unfavorable.

The change in cash for net accounts receivable of \$79.1 million for the nine months ended September 30, 2021 was largely due to the growth in revenue during the first nine months of 2021, as well as the favorable timing in the receipt of collections and contractual billings under our contracts. Other changes to cash flows from operating activities include a \$72.5 million decrease in cash paid for interest and a \$31.8 million net increase in cash paid for income taxes during the nine months ended September 30, 2021 as compared to the same period in 2020. Cash paid for interest decreased primarily due to (i) the redemption of our HoldCo Notes in the first quarter of 2020, (ii) the timing of cash paid for interest and lower interest rate associated with our unsecured senior notes which were refinanced in 2020 and (iii) a decrease in the variable interest rate for interest paid on our New Term Loan as compared to our extinguished 2015 Term Loan. The decrease in cash paid for interest was partially offset by an increase in interest paid on our interest rate swaps. We expect our cash paid for interest to continue to decrease going forward due to the lower interest rate on our New Term Loan as compared to the extinguished 2015 Term Loan and a lower interest rate on our unsecured senior notes. Net cash paid for income taxes increased due to higher actual and estimated taxable income as well as the timing of income tax payments made during the nine months ended September 30, 2021 as compared to the same period in 2020.

<i>Cash flows from investing activities</i> (in thousands)	Nine Months Ended September 30,	
	2021	2020
Net cash used in investing activities	\$ (98,528)	\$ (111,775)

The decrease in cash used during the nine months ended September 30, 2021 was primarily due to the timing of purchases and payments for property and equipment partially offset by a net cash outflow for our investments in the current year as compared to a net cash inflow for investments in the prior year. Cash paid for property and equipment was \$88.2 million and \$116.4 million for the nine months ended September 30, 2021 and 2020, respectively. We used net cash of \$8.7 million for investments in the current year and received net cash of \$4.3 million for investments in the prior year. The change in cash for investments was due to the general timing of capital contributions, distributions received and investments in unconsolidated affiliates which may vary significantly from period to period.

Cash flows from financing activities
(in thousands)

	Nine Months Ended September 30,	
	2021	2020
Net cash (used in) provided by financing activities	\$ (70,552)	\$ 306,298

During the nine months ended September 30, 2021, cash used in financing activities was primarily related to the extinguishment of our 2015 Credit Agreement and the entering into of our New Credit Agreement. Net cash proceeds of \$3,034.8 million received for the New Term Loan were offset by (i) \$3,064.0 million of cash used in the extinguishment of the 2015 Term Loan and (ii) \$24.1 million for payments of debt issuance costs associated with the issuance of the New Credit Agreement. Additionally, we made payments of \$12.8 million for a recapitalization investment portfolio distribution and received cash proceeds of \$16.1 million related to the exercise of stock options. Payments for long-term debt and finance leases were \$18.1 million.

During the nine months ended September 30, 2020, cash provided by financing activities was primarily due to cash proceeds of \$1,773.0 million from our IPO, net of IPO costs paid. A portion of the IPO net proceeds were used to redeem our HoldCo Notes, which included \$1,450.0 million of principal and a \$14.5 million redemption premium. Additionally, in June 2020, we issued \$1,200.0 million of unsecured senior notes, which was used to redeem our OpCo Notes, including \$1,125.0 million of principal and a \$35.9 million redemption premium. We used cash of \$18.5 million for payments of debt issuance costs associated with the issuance of the unsecured senior notes. Payments for long-term debt and finance leases were \$32.1 million. Additionally, we received cash proceeds of \$14.3 million related to the exercise of stock options.

Indebtedness

On January 13, 2021, together with the Co-Borrower, we entered into and closed on the New Term Loan and the New Revolving Credit Facility under the New Credit Agreement. Borrowings under the New Term Loan bear interest at a rate equal to, at our option of either (a) Adjusted LIBOR plus a margin of 2.00% with an “Adjusted LIBOR floor” of 0.50% or (b) Base Rate plus a margin of 1.00%, with a “Base Rate floor” of 1.50%. Loans under the New Revolving Credit Facility bear interest at a rate equal to, at our option of either (a) Adjusted LIBOR plus a margin of 1.75% with an “Adjusted LIBOR floor” of 0.00% or (b) Base Rate plus a margin of 0.75% with a “Base Rate floor” of 1.00%. Pricing on each of the New Term Loan and New Revolving Credit Facility included a 25 basis point step-down to the respective interest rate margins upon the achievement and maintenance of a total net leverage ratio of 3.75:1.00 or lower which was achieved during the quarter ended September 30, 2021. In addition to paying interest on any outstanding principal under the New Revolving Credit Facility, we are required to pay a commitment fee on the unused portion, payable quarterly in arrears. Interest on the New Term Loan was based on Adjusted LIBOR as of September 30, 2021. Principal payments on the New Term Loan are payable on the last business day of each quarter.

As of September 30, 2021, we had total long-term debt and finance lease obligations outstanding of approximately \$4,292.0 million, as well as \$598.4 million of availability under our New Revolving Credit Facility, after giving effect to outstanding letters of credit. Other than the customary covenants and default provisions related to the New Credit Agreement, there were no changes to the debt covenants or default provisions related to our outstanding debt or other obligations during the first nine months of 2021. We were in compliance with all covenants for all long-term debt arrangements as of September 30, 2021 and December 31, 2020. For additional information on our debt and finance lease arrangements, debt covenants and default provisions, see Note 4, “Long-term Debt and Finance Lease Obligations,” to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q and Note 9, “Long-term Debt and Finance Lease Obligations,” of our audited consolidated financial statements included in our 2020 Form 10-K.

Critical Accounting Policies and Estimates

Our accounting policies are more fully described in Note 1, “Basis of Presentation and Summary of Significant Accounting Policies,” in our audited consolidated financial statements included in our 2020 Form 10-K. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We monitor estimates and assumptions on a continuous basis and update these estimates and assumptions as facts and circumstances change and new information is obtained. Actual results could differ materially from those estimates and assumptions.

We perform our annual impairment test of goodwill during the fourth quarter of each year, or more frequently if impairment indicators arise, which requires significant judgment. As of the date of our 2020 annual goodwill impairment test, of our eight reporting units with goodwill allocated, two reporting units’ estimate of their fair value did not exceed their respective carrying value by a substantial margin. These reporting units had recorded goodwill of \$261.5 million and \$30.0 million, respectively, as of the goodwill impairment testing date. The percentage by which the reporting units’ estimated fair values exceeded carrying value was 19.3% and 23.1%, respectively.

Key assumptions that drive the estimated fair values for the reporting units are our risk adjusted discounted cash flows and market comparable information for our industry. The fair value of a reporting unit could be negatively impacted by future events and circumstances. Such events or circumstances include a future decline in our results of operations, a decline in the valuation of biopharmaceutical company stocks, a significant slowdown in the worldwide economy, the impact of the COVID-19 pandemic on the biopharmaceutical industry, failure to meet the performance projections included in our forecasts of future operating results, loss of key customers and a reduction in R&D spending or outsourcing by biopharmaceutical companies, among other events and circumstances. Additionally, certain revenue streams of these reporting units were negatively impacted during the three and nine months ended September 30, 2021 by the COVID-19 pandemic, due to delays of new studies and/or pauses to ongoing studies or certain activities thereof, and to the extent that the impacts are significant in the future or result in a change to the long-term outlook, such impacts could trigger an impairment to these reporting units in the future. While no impairment charges were recorded during the three or nine months ended September 30, 2021, future goodwill or other long-lived asset impairment, if any, could have a material impact on our results of operations.

We discussed the accounting policies that we believe are most critical to the portrayal of our results of operations and financial condition and require management's most difficult, subjective and complex judgments in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our 2020 Form 10-K. There were no significant changes to our critical accounting policies and estimates during the nine months ended September 30, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the three and nine months ended September 30, 2021, there were no material changes to our quantitative and qualitative disclosures about market risk as compared to the quantitative and qualitative disclosures about market risk described in our 2020 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are party to legal proceedings incidental to our business. While management currently believes the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our condensed consolidated financial statements, all litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our financial condition and results of operations.

Item 1A. Risk Factors

There have been no significant changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020 except as disclosed below. Refer to Part 1, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2020 for a detailed discussion of risk factors affecting us.

Uncertainties associated with the transaction with Thermo Fisher Scientific Inc. could adversely affect our business, results of operations and/or financial condition.

On April 15, 2021, we entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among us, Thermo Fisher Scientific Inc., a company organized under the laws of Delaware ("Thermo Fisher") and Powder Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Thermo Fisher ("Merger Sub") pursuant to which we will be, subject to the terms and conditions of the Merger Agreement, merged with and into Merger Sub, with PPD continuing as the surviving corporation and a wholly owned subsidiary of Thermo Fisher (the "Merger").

On July 16, 2021, we and Thermo Fisher each received a request for additional information and documentary materials (collectively, the "Second Request") from the U.S. Federal Trade Commission ("FTC"), in connection with the FTC's review of the Merger. The effect of the Second Request is to extend the waiting period imposed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") until the 30th day after substantial compliance by us and Thermo Fisher with the Second Request, unless the waiting period is terminated earlier by the FTC. As of October 22, 2021, both we and Thermo Fisher had certified substantial compliance with the Second Request.

The consummation of the Merger remains subject to the satisfaction or, to the extent permitted by law, waiver of customary closing conditions, including approvals under the HSR Act and certain other competition and foreign direct investment laws. The regulatory agencies from which certain of these clearances will be sought have broad discretion in administering the governing regulations. As a condition to their clearance of the Merger, agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of the parties' business. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the consummation of the Merger. The parties to the Merger Agreement may not receive the necessary approvals for the transaction or receive them within the expected timeframe. In addition, the Merger may fail to close for other reasons.

The announcement and pendency of the Merger, as well as any delays in the expected timeframe, could cause disruption and create uncertainties, which could have an adverse effect on our business, results of operations and financial condition, regardless of whether the Merger is completed. These risks include, but are not limited to:

- an adverse effect on our relationships with vendors, customers, and employees, including if our vendors, customers or others attempt to negotiate changes in existing business relationships, consider entering into business relationships with parties other than us, delay or defer decisions concerning their business with us, or terminate their existing business relationships with us during the pendency of the Merger;
- a diversion of a significant amount of management time and resources towards the completion of the Merger;
- being subject to certain restrictions on the conduct of our business;
- possibly foregoing certain business opportunities that we might otherwise pursue absent the proposed Merger;
- difficulties attracting and retaining key employees;
- the magnitude and duration of the COVID-19 pandemic and its impact on the global economy and financial market conditions and our business, results of operations and financial condition; and
- general competitive, economic, political and market conditions and fluctuations.

Failure to complete the Merger could adversely affect our business and the market price of our shares of common stock.

The closing of the Merger may not occur. The Merger Agreement contains certain termination rights for us and Thermo Fisher, including, among others, the right to terminate the Merger Agreement (i) by mutual written consent of us, Thermo Fisher and Merger Sub and (ii) by us or Thermo Fisher if the Merger has not been consummated on or before the Outside Date (as such term is defined in, and as may be extended pursuant to the terms of, the Merger Agreement). If the Merger Agreement is terminated under certain circumstances, we may be required to pay Thermo Fisher a termination fee. Payment of this termination fee may require us to use available cash that would otherwise be used for general purposes or strategic initiatives, which could adversely affect our business, results of operations and/or financial condition. Additionally, if the Merger is not completed, our ongoing business may be adversely affected and we would be subject to a number of risks, including: (i) adverse reactions from the financial markets, including negative impacts on our stock price; (ii) adverse reactions from our customers, regulators and employees; (iii) payment of certain costs relating to the Merger, including legal, accounting and financial advisor fees; (iv) the limitations on us to take certain specified actions during the pendency of the Merger and (v) the fact that matters relating to the Merger require substantial commitments of time and resources by management which could have otherwise been devoted to ongoing operations and other opportunities that may have been beneficial to us as an independent company.

The Merger Agreement contains provisions that limit our ability to pursue alternatives to the Merger.

Under the Merger Agreement, we are restricted from soliciting, initiating or knowingly encouraging or facilitating alternative acquisition proposals from third parties and/or from providing non-public information to third parties in response to any inquiries regarding, or the submission of any proposal or offer that constitutes, or would reasonably be expected to lead to, any Company Takeover Proposal (as defined in the Merger Agreement). These provisions could discourage a third party that may have an interest in acquiring all or a significant part of our business from considering or proposing that acquisition, even if such third party were prepared to pay consideration with a higher value than the value of the consideration agreed to in the Merger.

Potential litigation instituted against us and our directors challenging the proposed Merger may prevent the Merger from becoming effective within the expected timeframe or at all.

Potential litigation related to the Merger may result in injunctive or other relief prohibiting, delaying or otherwise adversely affecting our ability to complete the Merger. Such relief may prevent the Merger from becoming effective within the expected timeframe or at all. In addition, defending against such claims may be expensive and divert management's attention and resources, which could adversely affect our business.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or furnished as a part of this report and are incorporated herein by reference.

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	-	-	-	Filed Herewith
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	-	-	-	Filed Herewith
32.1 [^]	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	-	-	-	Furnished Herewith
32.2 [^]	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	-	-	-	Furnished Herewith
101.INS	Inline XBRL Instance Document - the Instance Document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document	-	-	-	Filed Herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	-	-	-	Filed Herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	-	-	-	Filed Herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	-	-	-	Filed Herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	-	-	-	Filed Herewith
101.PRE	Inline Taxonomy Extension Presentation Linkbase Document	-	-	-	Filed Herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	-	-	-	Filed Herewith

[^] Furnished herewith. The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of PPD, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized on October 28, 2021.

PPD, Inc.

By: /s/ Christopher G. Scully
Name: Christopher G. Scully
Title: Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as Principal Financial Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, David Simmons, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PPD, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2021

By: /s/ David Simmons

David Simmons

Chairman and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Christopher G. Scully, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PPD, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2021

By: /s/ Christopher G. Scully

Christopher G. Scully

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PPD, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Simmons, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 28, 2021

By: /s/ David Simmons
David Simmons
Chairman and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PPD, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher G. Scully, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 28, 2021

By: /s/ Christopher G. Scully

Christopher G. Scully

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)