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

**(Mark One)**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2020**

**OR**

o **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 x No o

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 x No o

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 | o | Accelerated filer | o |
| Non-accelerated filer | x | Smaller reporting company | o |
| | | Emerging growth company | o |

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. o

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

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 | 349,654,449 shares outstanding as of October 26, 2020 |

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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements reflect, among other things, our current expectations and anticipated results of operations, all of which 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 including forward-looking statements about the impact from the novel coronavirus disease (the "COVID-19 pandemic"). 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. 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. Factors that might materially affect such forward-looking statements include:

- the magnitude, continued duration, geographic reach and ongoing impact on the global economy and capital and credit markets of the COVID-19 pandemic;
- 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;
- 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;
- our ability to keep pace with rapid technological changes that could make our services less competitive or obsolete;
- the United States and international healthcare industry is subject to political, economic and/or regulatory influences and changes, such as healthcare reform, all of which could adversely affect both our customers' and our businesses;
- 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;
- our ability to accurately price our contracts and manage our costs associated with 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;
- any failure to perform services in accordance with contractual requirements, regulatory standards and ethical standards;
- our ability to recruit, retain and motivate key personnel, including the loss of any key executive who becomes seriously ill with COVID-19;
- our ability to access clinical research sites, attract suitable investigators or enroll a sufficient number of patients (including as a result of the COVID-19 pandemic) for our customers' clinical trials;
- any failure by us to comply with numerous privacy laws;
- our dependence on third parties for critical goods and support services, including a significant impact from the COVID-19 pandemic on our suppliers;
- our dependence on our technology network, and the impact from upgrades to the network;
- 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 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;
- our use of biological and hazardous materials, which could violate law or cause injury or death, resulting in liability;
- disruptions to our operations by the occurrence of a natural disaster, pandemic (such as the COVID-19 pandemic), or other catastrophic events;
- international or U.S. economic, currency, political and other risks, such as those from the COVID-19 pandemic;
- economic conditions 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;
- consolidation amongst our customers, and the potential for rationalization of the combined drug development pipeline, resulting in fewer products in clinical development;
- any patent or other intellectual property litigation we might be involved in;
- changes in tax laws, such as U.S. tax reform, or interpretations of existing tax laws;
- 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;
- 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. For further discussion of the risks relating to our business, see 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, 2019.

**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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue | $ 1,233,802 | $ 1,023,864 | $ 3,317,182 | $ 2,984,133 |
| Operating costs and expenses: | | | | |
| Direct costs, exclusive of depreciation and amortization | 433,422 | 369,476 | 1,222,700 | 1,112,181 |
| Reimbursed costs | 335,866 | 241,804 | 810,523 | 688,696 |
| Selling, general and administrative expenses | 249,320 | 226,996 | 734,712 | 681,431 |
| Depreciation and amortization | 71,317 | 66,889 | 206,395 | 197,896 |
| Long-lived asset impairment | 1,414 | — | 1,414 | — |
| Total operating costs and expenses | 1,091,339 | 905,165 | 2,975,744 | 2,680,204 |
| Income from operations | 142,463 | 118,699 | 341,438 | 303,929 |
| Interest expense, net of interest income of $433 and $1,089 for the three months ended September 30, 2020 and 2019, respectively, and $1,996 and $4,383 for the nine months ended September 30, 2020 and 2019, respectively | (49,882) | (85,754) | (165,995) | (229,147) |
| Loss on extinguishment of debt | — | — | (93,534) | — |
| (Loss) gain on investments | (53,100) | (15,106) | 16,649 | (22,716) |
| Other (expense) income, net | (17,153) | 9,157 | (14,097) | (3,158) |
| Income before provision for income taxes | 22,328 | 26,996 | 84,461 | 48,908 |
| Provision for income taxes | 11,169 | 9,044 | 20,682 | 12,387 |
| Income before equity in losses of unconsolidated affiliates | 11,159 | 17,952 | 63,779 | 36,521 |
| Equity in losses of unconsolidated affiliates, net of income taxes | (2,057) | (1,370) | (5,686) | (2,060) |
| Net income | 9,102 | 16,582 | 58,093 | 34,461 |
| Net income attributable to noncontrolling interest | (1,587) | (1,161) | (4,499) | (3,390) |
| Net income attributable to PPD, Inc. | 7,515 | 15,421 | 53,594 | 31,071 |
| Recapitalization investment portfolio consideration | 44,468 | 11,231 | (6,529) | 16,830 |
| Net income attributable to common stockholders of PPD, Inc. | $ 51,983 | $ 26,652 | $ 47,065 | $ 47,901 |
| Earnings per share attributable to common stockholders of PPD, Inc.: | | | | |
| Basic | $ 0.15 | $ 0.10 | $ 0.14 | $ 0.17 |
| Diluted | $ 0.15 | $ 0.09 | $ 0.14 | $ 0.17 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 348,672 | 279,425 | 338,277 | 279,235 |
| Diluted | 354,830 | 281,193 | 343,159 | 280,055 |

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, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net income | $ 9,102 | $ 16,582 | $ 58,093 | $ 34,461 |
| Other comprehensive income (loss), net of tax expense (benefit): | | | | |
| Foreign currency translation | 45,602 | (49,415) | (7,192) | (39,686) |
| Defined benefit plan, net of income taxes of $28 and $26 for the three months ended September 30, 2020 and 2019, respectively, and $85 and $88 for the nine months ended September 30, 2020 and 2019, respectively | 138 | 120 | 380 | 390 |
| Derivative instruments, net of income taxes of $297 and $(756) for the three months ended September 30, 2020 and 2019, respectively, and $(31,300) and $(2,063) for the nine months ended September 30, 2020 and 2019, respectively | 503 | (2,419) | (96,992) | (7,157) |
| Other comprehensive income (loss) | 46,243 | (51,714) | (103,804) | (46,453) |
| Comprehensive income (loss) | 55,345 | (35,132) | (45,711) | (11,992) |
| Comprehensive income attributable to noncontrolling interest | (2,078) | (999) | (5,651) | (4,080) |
| Comprehensive income (loss) attributable to PPD, Inc. | 53,267 | (36,131) | (51,362) | (16,072) |
| Recapitalization investment portfolio consideration | 44,468 | 11,231 | (6,529) | 16,830 |
| Comprehensive income (loss) attributable to common stockholders of PPD, Inc. | $ 97,735 | $ (24,900) | $ (57,891) | $ 758 |

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, 2020 | December 31, 2019 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 803,090 | $ 345,187 |
| Accounts receivable and unbilled services, net | 1,460,374 | 1,326,614 |
| Income taxes receivable | 29,016 | 27,437 |
| Prepaid expenses and other current assets | 122,040 | 119,776 |
| Total current assets | 2,414,520 | 1,819,014 |
| Property and equipment, net | 474,006 | 458,845 |
| Investments in unconsolidated affiliates | 36,501 | 34,028 |
| Investments | 252,606 | 250,348 |
| Goodwill, net | 1,771,106 | 1,764,104 |
| Intangible assets, net | 770,161 | 892,091 |
| Other assets | 157,126 | 156,220 |
| Operating lease right-of-use assets | 165,508 | 181,596 |
| Total assets | $ 6,041,534 | $ 5,556,246 |
| **Liabilities, Redeemable Noncontrolling Interest and Stockholders' Deficit** | | |
| Current liabilities: | | |
| Accounts payable | $ 120,022 | $ 130,060 |
| Accrued expenses: | | |
| Payables to investigators | 384,004 | 322,231 |
| Accrued employee compensation | 328,469 | 263,834 |
| Accrued interest | 18,972 | 44,527 |
| Other accrued expenses | 216,130 | 138,632 |
| Income taxes payable | 11,040 | 15,161 |
| Unearned revenue | 1,048,392 | 1,110,872 |
| Current portion of operating lease liabilities | 48,339 | 45,962 |
| Current portion of long-term debt and finance lease obligations | 36,120 | 35,794 |
| Total current liabilities | 2,211,488 | 2,107,073 |
| Accrued income taxes | 20,609 | 38,465 |
| Deferred tax liabilities | 68,029 | 92,225 |
| Recapitalization investment portfolio liability | 183,288 | 191,678 |
| Long-term operating lease liabilities, less current portion | 134,994 | 153,766 |
| Long-term debt and finance lease obligations, less current portion | 4,233,178 | 5,608,134 |
| Other liabilities | 105,189 | 33,017 |
| Total liabilities | 6,956,775 | 8,224,358 |
| Commitments and contingencies (Note 9) | | |
| Redeemable noncontrolling interest | 35,687 | 30,036 |
| Stockholders' deficit: | | |
| Common stock - $0.01 par value; 2,000,000 and 2,080,000 shares authorized as of September 30, 2020 and December 31, 2019, respectively; 350,291 shares issued and 349,565 shares outstanding as of September 30, 2020, and 280,127 shares issued and 279,426 shares outstanding as of December 31, 2019 | 3,503 | 2,801 |
| Treasury stock, at cost, 726 shares and 701 shares as of September 30, 2020 and December 31, 2019, respectively | (13,268) | (12,707) |
| Additional paid-in-capital | 1,806,607 | 1,983 |
| Accumulated deficit | (2,345,062) | (2,391,321) |
| Accumulated other comprehensive loss | (402,708) | (298,904) |
| Total stockholders' deficit | (950,928) | (2,698,148) |
| Total liabilities, redeemable noncontrolling interest and stockholders' deficit | $ 6,041,534 | $ 5,556,246 |

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, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 58,093 | $ 34,461 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 206,395 | 197,896 |
| Long-lived asset impairment | 1,414 | — |
| Stock-based compensation expense | 16,099 | 11,701 |
| Non-cash operating lease expense | 34,625 | 33,465 |
| Amortization of debt issuance costs, modification costs and debt discounts | 8,263 | 12,162 |
| Non-cash losses (gains) on interest rate swaps | 942 | (7,157) |
| (Gain) loss on investments | (16,649) | 22,716 |
| Deferred income tax expense (benefit) | 5,770 | (11,915) |
| Loss on extinguishment of debt | 93,534 | — |
| Amortization of costs to obtain a contract | 7,973 | 8,533 |
| Other | 5,427 | 1,698 |
| Change in operating assets and liabilities, net of effect of businesses acquired: | | |
| Accounts receivable and unbilled services, net | (148,501) | (46,932) |
| Prepaid expenses and other current assets | 26,908 | (10,059) |
| Other assets | (39,813) | (15,328) |
| Income taxes, net | (23,286) | (7,606) |
| Accounts payable, accrued expenses and other liabilities | 116,503 | 12,546 |
| Operating lease liabilities | (33,165) | (31,639) |
| Unearned revenue | (52,065) | 109,180 |
| Net cash provided by operating activities | 268,467 | 313,722 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (116,418) | (89,398) |
| Acquisition of businesses, net of cash and cash equivalents acquired | 321 | (74,242) |
| Capital contributions paid for investments | (5,382) | (2,792) |
| Distributions received from investments | 19,704 | 190 |
| Investments in unconsolidated affiliates | (10,000) | (30,000) |
| Other | — | 694 |
| Net cash used in investing activities | (111,775) | (195,548) |
| Cash flows from financing activities: | | |
| Purchase of treasury stock | (626) | (2,738) |
| Proceeds from exercise of stock options | 14,272 | 3,625 |
| Borrowing on Revolving Credit Facility | 150,000 | — |
| Repayment of Revolving Credit Facility | (150,000) | — |
| Proceeds from issuance of senior notes | 1,200,000 | 891,000 |
| Redemption of HoldCo Notes | (1,464,500) | — |
| Redemption of OpCo Notes | (1,160,865) | — |
| Payments on long-term debt and finance leases | (32,080) | (28,974) |
| Payment of debt issuance and debt modification costs | (18,525) | (30,142) |
| Payment of contingent consideration for acquisition of business | (4,338) | — |
| Net proceeds from initial public offering | 1,772,960 | — |
| Return of capital and special dividend to stockholders | — | (1,086,000) |
| Net cash provided by (used in) financing activities | 306,298 | (253,229) |
| Effect of exchange rate changes on cash and cash equivalents | (5,087) | (14,613) |
| Net increase (decrease) in cash and cash equivalents | 457,903 | (149,668) |
| Cash and cash equivalents, beginning of the period | 345,187 | 553,066 |
| Cash and cash equivalents, end of the period | $ 803,090 | $ 403,398 |

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)**

| | | PPD, Inc. Stockholders' Deficit | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Common Stock | | | Treasury Stock | | | | |
| | Redeemable Noncontrolling Interest | Shares | Amount | Paid-in-Capital | Shares | Amount | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Deficit |
| 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 |
| Vesting of restricted stock | — | 2 | — | — | — | — | — | — | — |
| Issuance of common stock for stock option exercises | — | 977 | 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) |
| Vesting of restricted stock | — | 7 | — | — | — | — | — | — | — |
| Issuance of common stock for stock option exercises | — | 1,157 | 12 | 16,255 | — | — | — | — | 16,267 |
| Repurchases of common stock | — | — | — | — | 25 | (561) | — | — | (561) |
| Stock-based compensation expense | — | — | — | 16,099 | — | — | — | — | 16,099 |
| Recapitalization investment portfolio consideration | — | — | — | — | — | — | — | (6,529) | (6,529) |
| Issuance of common stock for initial public offering | — | 69,000 | 690 | 1,772,270 | — | — | — | — | 1,772,960 |
| 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

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND REDEEMABLE NONCONTROLLING INTEREST

(unaudited)

(in thousands)

| | | PPD, Inc. Stockholders' Deficit | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Common Stock | | | Treasury Stock | | | | |
| | Redeemable Noncontrolling Interest | Shares | Amount | Paid-in-Capital | Shares | Amount | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Deficit |
| Balance, June 30, 2019 | $ 27,973 | 279,781 | $ 2,797 | $ 964 | 628 | $ (11,162) | $ (307,630) | $ (2,271,841) | $ (2,586,872) |
| Net income | 1,161 | — | — | — | — | — | — | 15,421 | 15,421 |
| Other comprehensive loss | (162) | — | — | — | — | — | (51,714) | — | (51,714) |
| Vesting of restricted stock | — | 5 | — | — | — | — | — | — | — |
| Issuance of common stock for stock option exercises | — | 10 | — | 177 | — | — | — | — | 177 |
| Repurchases of common stock | — | — | — | — | 11 | (206) | — | — | (206) |
| Stock-based compensation expense | — | — | — | 3,178 | — | — | — | — | 3,178 |
| Recapitalization investment portfolio consideration | — | — | — | — | — | — | — | 11,231 | 11,231 |
| Issuance of common stock for acquisition | — | 268 | 4 | 4,997 | — | — | — | — | 5,001 |
| Other | — | — | — | — | — | — | — | (95) | (95) |
| Balance, September 30, 2019 | $ 28,972 | 280,064 | $ 2,801 | $ 9,316 | 639 | $ (11,368) | $ (359,344) | $ (2,245,284) | $ (2,603,879) |
| | | | | | | | | | |
| Balance, December 31, 2018 | $ 24,892 | 279,545 | $ 2,795 | $ 41,685 | 515 | $ (8,933) | $ (312,891) | $ (1,245,077) | $ (1,522,421) |
| Net income | 3,390 | — | — | — | — | — | — | 31,071 | 31,071 |
| Other comprehensive income (loss) | 690 | — | — | — | — | — | (46,453) | — | (46,453) |
| Vesting of restricted stock | — | 11 | — | — | — | — | — | — | — |
| Issuance of common stock for stock option exercises | — | 240 | 2 | 3,623 | — | — | — | — | 3,625 |
| Repurchases of common stock | — | — | — | — | 124 | (2,435) | — | — | (2,435) |
| Stock-based compensation expense | — | — | — | 11,701 | — | — | — | — | 11,701 |
| Recapitalization investment portfolio consideration | — | — | — | — | — | — | — | 16,830 | 16,830 |
| Issuance of common stock for acquisition | — | 268 | 4 | 4,997 | — | — | — | — | 5,001 |
| Modification of stock option awards | — | — | — | (14,703) | — | — | — | — | (14,703) |
| Return of capital and special dividend | — | — | — | (37,987) | — | — | — | (1,048,013) | (1,086,000) |
| Other | — | — | — | — | — | — | — | (95) | (95) |
| Balance, September 30, 2019 | $ 28,972 | 280,064 | $ 2,801 | $ 9,316 | 639 | $ (11,368) | $ (359,344) | $ (2,245,284) | $ (2,603,879) |

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

## 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 new medicines to patients around the world. The Company has been in the drug development services business for more than 30 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 of the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2019, as superseded by, and solely to the extent set forth in, the Company's first Current Report on Form 8-K filed on May 21, 2020 (the "May 2020 Form 8-K"). There have been no significant changes to the Company's significant accounting policies during the first nine months of 2020, except for a change in how the Company's Chief Operating Decision Maker ("CODM") assesses segment performance. See Note 14, "Segments," for additional information.

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 (the "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, 2020 are not necessarily indicative of the results to be expected for the full twelve-month period ending December 31, 2020 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 its May 2020 Form 8-K. The information as of December 31, 2019 in the Company's condensed consolidated balance sheet included herein is derived from the Company's audited consolidated financial statements included in the May 2020 Form 8-K.

***Principles of Consolidation***

The condensed consolidated financial statements include the accounts and operations of the Company. All intercompany balances and transactions have been eliminated in consolidation. Amounts pertaining to the redeemable noncontrolling ownership interest held by a third-party in the operating results and financial position of the Company's indirect majority-owned subsidiary are included as a noncontrolling interest.

***Initial Public Offering***

On February 6, 2020, the Company's common stock began trading on The Nasdaq Global Select Market under the symbol "PPD." On February 10, 2020, the Company completed its initial public offering ("IPO") of its common stock at a price to the public of $27.00 per share. The Company issued and sold 69.0 million shares of common stock in the IPO, including 9.0 million shares of common stock issued pursuant to the full exercise of the underwriters' option to purchase additional shares. The Company raised net proceeds of $1,773.0 million through the IPO, after deducting underwriting discounts and other offering expenses totaling $90.0 million. During the nine months ended September 30, 2020, the Company expensed $4.0 million of costs related to the IPO.

The Company used a portion of the net proceeds from the IPO to (i) redeem $550.0 million in aggregate principal amount of unsecured 7.625%/8.375% Senior PIK Toggle Notes due 2022 (the "Initial HoldCo Notes"), plus accrued and unpaid interest thereon and $5.5 million of redemption premium and (ii) redeem $900.0 million in aggregate principal amount of unsecured 7.75%/8.50% Senior PIK Toggle Notes due 2022 (the "Additional HoldCo Notes" and, together with the Initial HoldCo Notes, the "HoldCo Notes"), plus accrued and unpaid interest thereon and $9.0 million of redemption premium. The redemption of the HoldCo Notes resulted in a loss on extinguishment of debt of $50.1 million. See Note 6, "Long-term Debt and Finance Lease Obligations," for additional information regarding the redemption.

In connection with the IPO, the Company's board of directors adopted and stockholders approved the PPD, Inc. 2020 Omnibus Incentive Plan ("2020 Incentive Plan") to implement a new market-based long-term incentive program to align the Company's executive and management compensation packages with similarly situated public companies. Any awards previously granted under the Eagle Holding Company I 2017 Incentive Plan (the "Eagle I Plan") remain subject to the terms of the Eagle I Plan and the applicable award agreements. During the nine months ended September 30, 2020, 1,211,869 awards, including time-based stock options, restricted stock units and performance stock units, with an aggregate fair value of $27.6 million, were granted under the 2020 Incentive Plan. The fair value of the awards issued under the 2020 Incentive Plan is determined in the same manner as described in the May 2020 Form 8-K, with the exception of the Company's publicly traded stock value being used as the fair value of the Company's common stock. As of September 30, 2020, there were 37,859,068 shares of common stock available for issuance under the 2020 Incentive Plan. No awards were issued under the Eagle I Plan during 2020 and no additional awards will be granted under the Eagle I Plan in the future. See Note 4, "Stock-based Compensation," of the Company's audited consolidated financial statements included in the May 2020 Form 8-K for additional information. Additionally, in connection with the IPO, the Company's Amended and Restated Certificate of Incorporation, among other things, provides that the Company's authorized capital consists of 2.0 billion shares of common stock, par value $0.01 per share and 100.0 million shares of preferred stock, par value $0.01 per share.

During the first quarter of 2020, the Company terminated its cash-based long-term incentive plan (the "LTIP") and accelerated the remaining expense for future service under the plan. The LTIP was terminated to align the long-term compensation package of a certain set of employees to the interests of the Company's stockholders and that offered by similarly situated public companies. These employees started receiving stock-based awards under the 2020 Incentive Plan beginning in May 2020. During the nine months ended September 30, 2020, the Company recorded compensation expense of $22.2 million for the acceleration of expense under the LTIP. The compensation expense was recorded as a component of direct costs and selling, general and administrative ("SG&A") expenses on the condensed consolidated statement of operations.

***Secondary Public Offering***

In September 2020, the Company completed an underwritten secondary public offering of 43.7 million shares of common stock sold primarily by the Company's private equity sponsors (the "Selling Stockholders"), including 5.7 million shares of common stock pursuant to the full exercise of the underwriters' option to purchase additional shares. The Company did not offer any common stock in this transaction and did not receive any proceeds from the sale of the shares of common stock by the Selling Stockholders. The Company incurred costs of $1.9 million in relation to the secondary public offering for the three and nine months ended September 30, 2020 and such costs are recorded as a component of SG&A expenses on the condensed consolidated statement of operations.

***Investment Activity***

During the third quarter of 2020, the Company made an additional investment of $10.0 million in Science 37, Inc. ("Science 37"), a clinical trial company whose virtual model focuses on improving patient access and enrollment and accelerating clinical development. The Company's total investment in Science 37 as of September 30, 2020 was $25.3 million. The investment in Science 37 is accounted for under the equity method of accounting and is classified as investments in unconsolidated affiliates on the condensed consolidated balance sheets. See Note 7, "Investments," of the Company's audited consolidated financial statements included in the May 2020 Form 8-K for additional information on the Company's investments.

***Recently Adopted Accounting Standard***

In August 2018, the Financial Accounting Standards Board issued an accounting standards update to address a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This new guidance was issued to align the accounting for costs incurred to implement a cloud computing arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software. With the adoption of this standard, implementation costs incurred in a cloud computing arrangement that is a service contract are capitalized and presented in the financial statements similar to prepaid expenses related to service contracts. Additionally, expenses associated with capitalized implementation costs are recorded in the same financial statement line item as the fees associated with the hosting element of a cloud computing arrangement. The Company adopted this accounting standards update on January 1, 2020 using the prospective method. The adoption of this accounting standards update did not have a material impact to the Company's condensed consolidated financial statements.

## 2. Revenue

***Performance Obligations***

Revenue recognized from performance obligations partially satisfied in prior periods was $28.4 million and $82.9 million for the three and nine months ended September 30, 2020, respectively, and $35.1 million and $80.4 million for the three and nine months ended September 30, 2019, respectively. These cumulative catch-up adjustments primarily related to (i) contract modifications executed in the current period, which resulted in changes to the transaction price, (ii) changes in transaction price related to variable consideration and (iii) changes in estimates such as estimated total costs.

As of September 30, 2020, the aggregate amounts of transaction price allocated to unsatisfied performance obligations with an original contract term of greater than one year was $7.0 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 or for contracts which are determined to be short-term based on certain termination for convenience provisions.

***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, 2020 | December 31, 2019 |
|---|---|---|
| Accounts receivable | $ 792,784 | $ 726,111 |
| Unbilled services | 675,525 | 609,674 |
| Total accounts receivable and unbilled services | 1,468,309 | 1,335,785 |
| Allowance for doubtful accounts | (7,935) | (9,171) |
| Total accounts receivable and unbilled services, net | $ 1,460,374 | $ 1,326,614 |

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

| (in thousands) | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Unearned revenue | $ 1,048,392 | $ 1,110,872 |

As of September 30, 2020 and December 31, 2019, contract assets of $160.6 million and $178.8 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, 2020 and 2019, the Company recognized revenue of $815.4 million and $653.8 million, respectively, from the balance of unearned revenue outstanding as of January 1, 2020 and January 1, 2019, respectively. Impairments of accounts receivable, unbilled services and contract assets were insignificant during the three and nine months ended September 30, 2020 and 2019.

***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, 2020, one customer accounted for approximately 11% of accounts receivable and unbilled services, net. As of December 31, 2019, two customers each individually accounted for approximately 11% 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, 2020 and 2019.

## 3. Stockholders' Deficit and Redeemable Noncontrolling Interest

***Shares***

**Common Stock**

The following is a summary of the Company's authorized, issued and outstanding shares of common stock as of the periods set forth below:

| **(in thousands)** | **September 30, 2020** | **December 31, 2019** |
|---|---|---|
| Shares authorized | 2,000,000 | 2,080,000 |
| Shares issued | 350,291 | 280,127 |
| | | |
| Shares outstanding: | | |
| Voting | 349,565 | 276,052 |
| Non-voting | — | 3,374 |
| Total shares outstanding | 349,565 | 279,426 |

*Voting, Dividend, and Liquidation Rights of Common Stock*

Each share of common stock is entitled to one vote on all matters to be voted on by the stockholders of the Company holding common stock, including the election of directors. Additionally, the holders of common stock are entitled to dividends on a pro rata basis at such time and in such amounts, if and when declared by the Company's board of directors and are entitled to participate on a pro rata basis in all distributions that may be legally made to the Company's stockholders in connection with a voluntary or involuntary liquidation, dissolution or winding up of the Company. With the completion of the IPO in the first quarter of 2020, all non-voting shares of common stock were converted to voting shares of common stock.

*Stock Split*

In January 2020, the Company filed its Amended and Restated Certificate of Incorporation prior to the IPO which, among other things, effected a 1.8-for-1 stock split of its common stock and increased the authorized number of shares of its common stock to 2.08 billion, which was subsequently reduced to 2.0 billion in connection with the Company's Amended and Restated Certificate of Incorporation filed in February 2020 as part of the IPO. All references to share and per share amounts in the Company's condensed consolidated financial statements for periods prior to the stock split were retrospectively revised to reflect the stock split and increase in authorized shares for all periods presented.

**Preferred Stock**

In connection with the Company's Amended and Restated Certificate of Incorporation filed in February 2020, the Company authorized 100.0 million shares of preferred stock. No shares of preferred stock were issued or outstanding as of September 30, 2020.

***Redeemable Noncontrolling Interest***

The Company owns 60% of its consolidated subsidiary PPD-SNBL K.K. ("PPD-SNBL"). The 40% ownership interest in PPD-SNBL 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 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, 2020 and December 31, 2019, no such events had occurred. See Note 12, "Related Party Transactions," for additional information.

## 4. Business Combinations

The Company accounted for its business combinations below under the acquisition method of accounting and measured at fair value, the identifiable assets acquired and liabilities assumed at the date of acquisition. For each business combination, the Company recorded assets and liabilities representing working capital at their historical costs, which approximate fair value given the short-term nature of the assets and liabilities. The methods used to estimate the fair value of definite-lived intangible assets are consistent with those described in Note 1, “Basis of Presentation and Summary of Significant Accounting Policies,” of the Company’s audited consolidated financial statements included in the May 2020 Form 8-K.

***Acquisition of Synarc***

On September 3, 2019, the Company acquired 100% of the issued and outstanding equity of Synarc, Inc. (“Synarc”), the global site network business of Bioclinica, Inc., expanding its global footprint into China and Latin America and expanding its central nervous system offering in the United States. The purchase price was $48.6 million and was paid with cash on hand.

The accounting for the acquisition is complete. The Company recorded measurement period adjustments including (i) an increase in the purchase price of $3.4 million, (ii) a net decrease in assets of $11.1 million and (iii) a net decrease in liabilities of $2.2 million, resulting in an increase of goodwill of $12.3 million. The goodwill recognized of $13.4 million was primarily the result of anticipated growth through the development of new customers, additional services to existing customers and the assembled workforce. The goodwill was assigned to a reporting unit within the Company’s Clinical Development Services segment. The Company is not able to deduct goodwill for U.S. income tax purposes.

The Company acquired the following definite-lived intangible assets with the acquisition of Synarc:

| | Acquired Intangible Assets (in thousands) | Weighted-Average Amortization Period (in years) |
|---|---|---|
| Customer relationships | $ 2,000 | 15 |
| Know-how/processes | 1,800 | 8 |
| Investigator network | 1,900 | 8 |
| Trade names | 1,400 | 10 |
| Total | $ 7,100 | 10 |

The following table summarizes the consideration and the fair values of identifiable assets acquired and liabilities assumed at the acquisition date (in thousands):

| | | |
|---|---|---|
| Purchase price | $ | 48,635 |
| | | |
| Identifiable assets acquired: | | |
| Cash and cash equivalents | $ | 6,003 |
| Accounts receivable and unbilled services | | 18,819 |
| Prepaid expenses and other current assets | | 1,590 |
| Property and equipment | | 19,273 |
| Intangible assets | | 7,100 |
| Other assets | | 928 |
| Operating lease right-of-use assets | | 1,609 |
| Total identifiable assets acquired | | 55,322 |
| Liabilities assumed: | | |
| Accounts payable | | (2,117) |
| Other accrued expenses | | (4,026) |
| Unearned revenue | | (7,210) |
| Long-term debt and finance lease obligations | | (38) |
| Deferred tax liabilities | | (4,736) |
| Other liabilities | | (330) |
| Operating lease liabilities | | (1,609) |
| Total liabilities assumed | | (20,066) |
| Separately identifiable net assets acquired | | 35,256 |
| Goodwill | | 13,379 |
| Total net assets | $ | 48,635 |

***Acquisition of Medimix***

On July 1, 2019, the Company acquired 100% of the issued and outstanding equity of Medimix International ("Medimix"), a global technology company providing real-world evidence insights and information to the pharmaceutical, diagnostic and medical device industries. The acquisition enhanced the Company's ability to leverage data to provide real-world evidence and insights for customers. The purchase price was $36.8 million, which consisted of $27.5 million of cash, $5.0 million of common stock of the Company and $4.3 million of estimated contingent consideration.

Based on the fair values of identifiable assets acquired and liabilities assumed at the acquisition date, the consideration paid was allocated as follows: (i) $13.5 million to definite-lived intangible assets, (ii) $20.5 million to goodwill and (iii) $2.8 million to other net assets primarily related to net working capital.

As of December 31, 2019, the Company recorded a contingent consideration liability of $9.5 million to be paid based on Medimix meeting certain performance targets through December 31, 2019. The contingent consideration was paid to the seller in July 2020.

The accounting for the acquisition is complete and measurement period adjustments recorded were not material. The goodwill recognized was primarily the result of anticipated growth through the development of new customers, additional services to existing customers and the assembled workforce. The goodwill was assigned to a reporting unit within the Company's Clinical Development Services segment. The majority of goodwill is tax deductible for U.S. income tax purposes.

The Company acquired the following definite-lived intangible assets with the acquisition of Medimix:

| | | **Acquired Intangible Assets (in thousands)** | **Weighted-Average Amortization Period (in years)** |
|---|---|---|---|
| Customer relationships | $ | 7,500 | 13 |
| Trade names | | 900 | 10 |
| Technology/intellectual property | | 5,100 | 8 |
| Total | $ | 13,500 | 11 |

### *Acquisition Costs*

Acquisition costs for the three and nine months ended September 30, 2019 were $1.5 million and $7.1 million, respectively. There were no acquisition costs for the three and nine months ended September 30, 2020. These costs are expensed as incurred and are included on the condensed consolidated statements of operations as a component of SG&A expenses.

## 5. 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, 2019: | | | |
| Goodwill | $ 1,890,815 | $ 1,664,201 | $ 226,614 |
| Accumulated impairment losses | (126,711) | (99,432) | (27,279) |
| Goodwill, net | 1,764,104 | 1,564,769 | 199,335 |
| Activity: | | | |
| Translation adjustments | (5,312) | (5,312) | — |
| Measurement period adjustments for prior acquisition | 12,314 | 12,314 | — |
| Balance at September 30, 2020: | | | |
| Goodwill | 1,897,817 | 1,671,203 | 226,614 |
| Accumulated impairment losses | (126,711) | (99,432) | (27,279) |
| Goodwill, net | $ 1,771,106 | $ 1,571,771 | $ 199,335 |

### *Intangible Assets, Net*

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

| | September 30, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Carrying Amount | Accumulated Amortization | Net | Carrying Amount | Accumulated Amortization | Net |
| Customer relationships | $ 883,459 | $ (455,943) | $ 427,516 | $ 884,788 | $ (415,427) | $ 469,361 |
| Trade names | 370,716 | (151,655) | 219,061 | 372,210 | (139,141) | 233,069 |
| Backlog | 177,294 | (176,464) | 830 | 177,599 | (175,571) | 2,028 |
| Investigator/payer network | 236,617 | (203,866) | 32,751 | 236,082 | (185,478) | 50,604 |
| Technology/intellectual property | 8,600 | (4,022) | 4,578 | 8,600 | (3,319) | 5,281 |
| Know-how/processes | 585,633 | (500,208) | 85,425 | 586,971 | (455,223) | 131,748 |
| Total | $ 2,262,319 | $ (1,492,158) | $ 770,161 | $ 2,266,250 | $ (1,374,159) | $ 892,091 |

Amortization expense was $39.5 million and $118.6 million for the three and nine months ended September 30, 2020, respectively, and $40.1 million and $121.1 million for the three and nine months ended September 30, 2019, respectively. Translation adjustments of approximately $2.6 million were recorded during the nine months ended September 30, 2020, resulting in a decrease to the carrying amount of the Company's definite-lived intangible assets, net. The Company does not have any indefinite-lived intangible assets other than goodwill.

## 6. Long-term Debt and Finance Lease Obligations

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

| (dollars in thousands) | Maturity Date | Effective Rate | Stated Rate | September 30, 2020 | December 31, 2019 |
|---|---|---|---|---|---|
| Term Loan | August 2022 | 3.71% | 3.50% | $ 3,072,112 | $ 3,096,429 |
| 2025 Notes | June 2025 | 4.97% | 4.63% | 500,000 | — |
| 2028 Notes | June 2028 | 5.24% | 5.00% | 700,000 | — |
| OpCo Notes[1] | — | 6.61% | 6.38% | — | 1,125,000 |
| Initial HoldCo Notes[1] | — | 8.92% | 7.63% | — | 550,000 |
| Additional HoldCo Notes[1] | — | 8.90% | 7.75% | — | 900,000 |
| Other debt[1] | — | 1.13% | 1.13% | — | 5,707 |
| Finance lease obligations | Various | Various | Various | 26,635 | 28,726 |
| | | | | 4,298,747 | 5,705,862 |
| Unamortized debt discount | | | | (4,822) | (13,956) |
| Unamortized debt issuance costs | | | | (24,627) | (47,978) |
| Current portion of long-term debt and finance lease obligations | | | | (36,120) | (35,794) |
| Long-term debt and finance lease obligations, less current portion | | | | $ 4,233,178 | $ 5,608,134 |

(1) Effective rate and stated rate are as of December 31, 2019 for the extinguished OpCo Notes, Initial HoldCo Notes, Additional HoldCo Notes and Other debt.

***Revolving Credit Facility***

The Company has a revolving credit facility (the "Revolving Credit Facility") available for use under the credit agreement dated as of August 18, 2015, as amended (the "Credit Agreement"), with a total committed credit of $300.0 million. In March 2020, the Company borrowed $150.0 million from the Revolving Credit Facility as a precautionary measure in order to further strengthen the Company's cash position and to preserve financial flexibility due to the uncertainty in the global markets as a result of the COVID-19 pandemic. In June 2020, the Company repaid the outstanding balance of the Revolving Credit Facility using cash on hand. From time to time, the Company is required to have letters of credit issued on its behalf to provide credit support for guarantees, contractual commitments and insurance policies. As of September 30, 2020 and December 31, 2019, the Company had letters of credit outstanding with an aggregate value of $1.6 million, which reduced available borrowings under the Revolving Credit Facility by such amount. As of September 30, 2020, the Company had available credit under the Revolving Credit Facility of $298.4 million. The Company did not have any borrowings outstanding under the Revolving Credit Facility as of September 30, 2020 and December 31, 2019.

***Issuance of the 2025 Notes and the 2028 Notes***

On June 5, 2020, the Company's indirect wholly-owned subsidiaries, Jaguar Holding Company II and PPD Development, L.P., issued and sold in a private placement $1,200.0 million of unsecured senior notes consisting of (i) $500.0 million aggregate principal amount of 4.625% senior notes due 2025 (the "2025 Notes") and (ii) $700.0 million aggregate principal amount of 5.0% senior notes due 2028 (the "2028 Notes" and, together with the 2025 Notes, the "New Notes"), in each case, under an indenture dated as of June 5, 2020 (the "Indenture"). The 2025 Notes mature on June 15, 2025 and the 2028 Notes mature on June 15, 2028. Interest on the New Notes is payable semi-annually on June 15 and December 15 of each year. The New Notes do not have registration rights. Debt issuance costs of $18.6 million, consisting primarily of underwriters fees and professional fees, were capitalized in connection with the issuance of the New Notes. The net proceeds from the New Notes were used to redeem all outstanding $1,125.0 million aggregate principal amount of unsecured 6.375% senior notes (the "OpCo Notes"), as well as to pay for the redemption premium and accrued interest on the OpCo Notes and debt issuance costs associated with the New Notes.

The Company may redeem, at its option, some or all of the 2025 Notes prior to June 15, 2022, or the 2028 Notes prior to June 15, 2023, at a price equal to 100% of the principal amount of the 2025 Notes and 2028 Notes, plus accrued and unpaid interest, if any, to the redemption date plus a "make-whole" premium. Alternatively, within the same time frames, the Company may redeem up to 40% of the original principal amount of the 2025 Notes or the 2028 Notes, as applicable, with the proceeds of certain equity offerings at a redemption price of 104.625%, in the case of the 2025 Notes, and 105.000%, in the case of the 2028 Notes, of the principal amount of the 2025 Notes or the 2028 Notes, plus accrued and unpaid interest, if any, to the redemption date.

On or after June 15, 2022, in the case of the 2025 Notes, and June 15, 2023, in the case of the 2028 Notes, the Company may redeem some or all of such notes at the redemption prices listed below (expressed as a percentage of the principal amount), plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on June 15 of the years set forth below.

**2025 Notes**

| Period | Redemption Price |
|---|---|
| 2022 | 102.313% |
| 2023 | 101.156% |
| 2024 and thereafter | 100.000% |

**2028 Notes**

| Period | Redemption Price |
|---|---|
| 2023 | 102.500% |
| 2024 | 101.250% |
| 2025 and thereafter | 100.000% |

Upon the occurrence of specific kinds of changes of control events, the holders of the New Notes will have the right to cause the Company to repurchase some or all of the New Notes at 101% of face amount, plus accrued and unpaid interest, if any, to the repurchase date. Additionally, if the Company or its restricted subsidiaries sells assets, under certain circumstances, the Company will be required to make an offer to purchase a specified amount of New Notes equal to the net proceeds of such sale at an offer price in cash at the amount equal to 100% of the principal amount of the New Notes to be redeemed, plus accrued and unpaid interest, if any, to the repurchase date.

The New Notes are unsecured obligations and (i) rank senior in right of payment to all of the Company's existing and future subordinated indebtedness, (ii) rank equally in right of payment with all of the Company's existing and future senior indebtedness, (iii) are effectively subordinated to any of the Company's existing and future secured debt, to the extent of the value of the assets securing such debt and (iv) are structurally subordinated to all of the existing and future liabilities of each of the Company's subsidiaries that do not guarantee the New Notes. The New Notes contain customary covenants including, but not limited to, restrictions on the Company and its restricted subsidiaries' ability to incur additional indebtedness and guarantee indebtedness; pay dividends or make other distributions in respect of, or repurchase or redeem, capital stock; make loans and investments; sell or otherwise dispose of assets; incur liens; enter into transactions with affiliates; enter into agreements restricting the Company's subsidiaries' ability to pay dividends; and consolidate, merge or sell all or substantially all of their assets. Additionally, the Indenture for the New Notes includes certain customary events of default which may require acceleration of payment. Such events of default include nonpayment of principal or interest, failure to pay final judgments in excess of a specified threshold, failure of a guarantee to remain in effect, bankruptcy and insolvency events and cross acceleration, the occurrence of which could result in the principal of and accrued interest on the New Notes to become or be declared due and payable immediately.

***Redemption of OpCo Notes***

On June 5, 2020, the Company redeemed all its outstanding OpCo Notes in accordance with the provisions governing the OpCo Notes indenture for $1,160.9 million, including a redemption premium of $35.9 million. As such, the obligations of the Company under the OpCo Notes indenture were discharged on that date. Also as part of the redemption, the Company wrote off unamortized debt issuance costs related to the OpCo Notes of $7.6 million, and combined with the applicable redemption premium, resulted in a total loss on extinguishment of debt of $43.5 million. The Company redeemed the OpCo Notes with the proceeds received from the Company's New Notes. See Note 10, "Long-term Debt and Finance Lease Obligations," of the Company's audited consolidated financial statements included in the May 2020 Form 8-K for additional information on the OpCo Notes.

***Redemption of HoldCo Notes***

On February 18, 2020, the Company redeemed all of its outstanding HoldCo Notes in accordance with the provisions governing the HoldCo Notes indentures for $1,464.5 million, including a redemption premium of $14.5 million. As such, the obligations of the Company under the HoldCo Notes and such indentures were discharged on that date. Also as part of the redemption, the Company wrote off the unamortized debt discount and deferred debt issuance costs related to the HoldCo Notes of $35.6 million. The Company redeemed the HoldCo Notes with a portion of the net proceeds received from the Company's IPO. See Note 10, "Long-term Debt and Finance Lease Obligations," of the Company's audited consolidated financial statements included in the May 2020 Form 8-K for additional information on the HoldCo Notes.

***Other Debt***

During the first nine months of 2020, the Company repaid its working capital loan with SNBL which was classified as "other debt." See Note 12, "Related Party Transactions," for additional details on the Company's transactions with SNBL.

***Debt Covenants and Default Provisions***

Other than the customary covenants and default provisions related to the New Notes, there were no changes to the debt covenants or default provisions related to the Company's outstanding debt under its Credit Agreement or other obligations during the first nine months of 2020. In June 2020, the Company repaid the outstanding balance of the Revolving Credit Facility and therefore ceased to be subject to the net secured leverage ratio test, as defined in the Credit Agreement. The Company was in compliance with all covenants for all long-term debt arrangements as of September 30, 2020 and December 31, 2019. For additional information on the Company's debt arrangements, debt covenants and default provisions, see Note 10, "Long-term Debt and Finance Lease Obligations," of the Company's audited consolidated financial statements included in the May 2020 Form 8-K.

***Scheduled Maturities of Long-term Debt and Finance Lease Obligations***

As of September 30, 2020, the scheduled maturities of long-term debt and settlement of finance lease obligations for the remainder of 2020, each of the next five years and thereafter were as follows (in thousands):

| **Year** | **Amount** |
|---|---|
| 2020 (remaining three months) | $ 8,969 |
| 2021 | 36,156 |
| 2022 | 3,035,578 |
| 2023 | 3,690 |
| 2024 | 3,530 |
| 2025 | 503,530 |
| Thereafter | 707,294 |
| Total | $ 4,298,747 |

## 7. Income Taxes

On March 27, 2020, the U.S. government passed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") in response to the COVID-19 pandemic. The CARES Act provides wide-ranging economic relief, including significant changes to U.S. business tax provisions. These changes include, in summary, (i) modifications to limitations on the deductibility of net operating losses, (ii) modifications to limitations on the deductibility of business interest, (iii) alternative minimum tax credit acceleration and (iv) the expensing of qualified improvement property. The most significant impact to the Company from the CARES Act relates to the modification to limitations on the deductibility of business interest and the expensing of qualified improvement property. The Company has accounted for the impact of the CARES Act on tax years prior to 2020 within the period ended March 31, 2020 and accounted for the impact on the current tax year in its annual effective tax rate and provision for income taxes for the three and nine months ended September 30, 2020. The Company is continuing to assess the income tax impact of the CARES Act and other legislative changes enacted and being considered by governments around the world in response to the COVID-19 pandemic.

The Company's effective income tax rate was 50.0% and 33.5% for the three months ended September 30, 2020 and 2019, respectively, and 24.5% and 25.3% for the nine months ended September 30, 2020 and 2019, respectively. 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 impacts of a tax rate change in the United Kingdom. The Company's provision for income taxes for the nine months ended September 30, 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 and nine months ended September 30, 2019 was primarily due to the estimated tax effect on the Company's pre-tax income.

As of September 30, 2020 and December 31, 2019, the Company's total unrecognized tax benefits were $21.4 million and $39.7 million, respectively. The decrease to the Company's unrecognized tax benefits during the nine months ended September 30, 2020, was primarily the result of a $13.0 million release as a result of the application of the provisions of the CARES Act. Included in the balance of unrecognized tax benefits as of September 30, 2020 and December 31, 2019, were $14.6 million and $28.8 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 an amount up to $6.4 million within the next 12 months due to the 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 are the 2017 through 2019 tax years for the United States and the 2017 through 2019 tax years for the United Kingdom. Various foreign and state income tax returns are under examination by taxing authorities. The Company does not believe that the outcome of any examination or inquiry will have a material impact on its results of operations, financial condition or cash flows.

## 8. Derivative Instruments and Hedging Activities

The Company has variable rate borrowings under its senior secured term loan outstanding under the Credit Agreement (the "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 qualifying 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 under the Term Loan to fixed rate borrowings based on the fixed interest rate for the interest rate swaps plus the applicable margin on the Term Loan. For those 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 (expense) income, 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.

In February 2020, the Company considered refinancing certain portions of its outstanding debt with new variable rate debt and, in anticipation thereof, the Company entered into three new variable to fixed interest rate swaps with multiple counterparties to hedge future interest rate exposure. At the inception date, the interest rate swaps were designated as cash flow hedges and accounted for in accordance with the aforementioned accounting policy. In February and March 2020, due to, among other factors, difficult and volatile conditions in the credit markets caused by the COVID-19 pandemic, the Company did not enter into the new variable rate debt structure. Therefore, in March 2020, the Company entered into a fixed to variable interest rate swap which reduced the amount of variable rate debt being hedged.

The following table summarizes the material terms of the interest rate swaps outstanding as of September 30, 2020 (dollars in thousands):

| Swap # | Terms | Notional Amount | Fixed Interest Rate | Maturity Date |
|---|---|---|---|---|
| 1 | Variable to fixed | $ 1,500,000 | 1.19% | March 31, 2025 |
| 2 | Variable to fixed | 1,500,000 | 1.22% | March 31, 2025 |
| 3 | Variable to fixed | 500,000 | 1.17% | March 31, 2025 |
| 4 | Fixed to variable | 500,000 | 0.52% | March 31, 2025 |

The Company did not designate the fixed to variable swap as a cash flow hedge for accounting purposes. Simultaneously upon entering into the fixed to variable swap, the Company discontinued cash flow hedge accounting on a variable to fixed swap with the same notional amount and began recording the change in fair value directly in earnings. The unrealized losses recorded in AOCL at the date of discontinuance will be reclassified into (i) interest expense, net, or (ii) other (expense) income, net, for any portion of the originally forecasted transactions deemed not probable to occur, through the original maturity date of the interest rate swap. Going forward, the Company expects the change in fair value of the two undesignated swaps to mostly offset in earnings as the swaps economically offset each other. During the three and nine months ended September 30, 2020, the Company recorded a gain of $0.4 million and a loss of $1.5 million, respectively, in other (expense) income, net, from the settlement and change in the fair value of the undesignated interest rate swaps. Current market conditions, including dislocation in the financial markets and volatility in interest rates due to the COVID-19 pandemic, 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 Company expects to reclassify current unrealized losses of $31.2 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 Term Loan.

The Company recognized the following amounts of pre-tax loss as a component of AOCL during the three and nine months ended September 30, 2020 and 2019:

| (in thousands) | Pre-Tax Loss Recognized in AOCL | | | |
|---|---|---|---|---|
| Derivatives in Cash Flow Hedging Relationships | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Interest rate swaps | $ (4,364) | $ — | $ (142,709) | $ — |

The following table provides the location of the pre-tax (loss) gain reclassified from AOCL into the condensed consolidated statements of operations during the three and nine months ended September 30, 2020 and 2019:

| | | Pre-Tax (Loss) Gain Reclassified from AOCL into Statements of Operations | | | |
|---|---|---|---|---|---|
| | Location of (Loss) Gain Reclassified from AOCL into Statements of Operations | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| (in thousands) | | 2020 | 2019 | 2020 | 2019 |
| Interest rate swaps | Interest expense, net | $ (5,001) | $ 3,175 | $ (4,513) | $ 9,220 |
| Interest rate swaps | Other (expense) income, net | (163) | — | (9,904) | — |

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

| | | September 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| (in thousands) | Balance sheet location | Assets | Liabilities | Assets | Liabilities |
| Derivatives designated as hedging instruments: | | | | | |
| Interest rate swaps | Other accrued expenses | $ — | $ 31,591 | $ — | $ — |
| Interest rate swaps | Other liabilities | — | 83,523 | — | — |
| Derivatives not designated as hedging instruments: | | | | | |
| Interest rate swaps | Prepaid expenses and other current assets | 1,810 | — | — | — |
| Interest rate swaps | Other assets | 2,636 | — | — | — |
| Interest rate swaps | Other accrued expenses | — | 5,088 | — | — |
| Interest rate swaps | Other liabilities | — | 13,479 | — | — |
| | | $ 4,446 | $ 133,681 | $ — | $ — |

The Company considers the fair value of the interest rate swap assets and liabilities to be a Level 2 classification within the fair value hierarchy. See Note 10, “Fair Value Measurements,” for additional information.

## 9. Commitments and Contingencies

The Company records and discloses a liability for pending and threatened litigation matters when an adverse outcome is probable and the amount of the potential liability is reasonably estimable. 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 pertinent matters. Legal costs associated with contingencies are charged to expense as incurred.

The Company is involved in a variety of pending and threatened legal and tax proceedings, claims and litigation that arise from time to time in the ordinary course of business. These actions may be threatened or commenced by various parties, including customers, current or former employees, vendors, government agencies or others. Based on the latest information available, the Company does not expect any pending or threatened legal or tax proceeding, claim or litigation, either individually or in the aggregate, will have a material adverse effect on the business, financial position, results of operations or cash flows of the Company.

## 10. 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, 2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Assets | | | | |
| Investments | $ 2,179 | $ — | $ 250,427 | $ 252,606 |
| Derivative instruments | — | 4,446 | — | 4,446 |
| Total assets | $ 2,179 | $ 4,446 | $ 250,427 | $ 257,052 |
| | | | | |
| Liabilities | | | | |
| Derivative instruments | $ — | $ 133,681 | $ — | $ 133,681 |
| Recapitalization investment portfolio liability | — | — | 198,207 | 198,207 |
| Total liabilities | $ — | $ 133,681 | $ 198,207 | $ 331,888 |

| As of December 31, 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Investments | $ 1,895 | $ — | $ 248,453 | $ 250,348 |
| Total assets | $ 1,895 | $ — | $ 248,453 | $ 250,348 |
| | | | | |
| Liabilities | | | | |
| Contingent consideration | $ — | $ — | $ 9,489 | $ 9,489 |
| Recapitalization investment portfolio liability | — | — | 191,678 | 191,678 |
| Total liabilities | $ — | $ — | $ 201,167 | $ 201,167 |

**Fair Value Investments**

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

| | Quantitative Information About Level 3 Fair Value Measurements for September 30, 2020 | | | |
|---|---|---|---|---|
| **Description** | **Fair Value** | **Valuation Technique** | **Unobservable Input** | **Range of Rates** |
| Fair value option investments | $241,203 | Market evaluation/pricing models | Discount for lack of marketability | 17.5% - 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, 2019 | | | |
|---|---|---|---|---|
| **Description** | **Fair Value** | **Valuation Technique** | **Unobservable Input** | **Range of Rates** |
| Fair value option investments | $243,067 | Market evaluation/pricing models | Discount for lack of marketability | 10.0% - 30.0% |
| | | Recent acquisition transactions | Discount for lack of control | 20.0% - 35.0% |

See Note 7, "Investments," of the Company's audited consolidated financial statements included in the May 2020 Form 8-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) were as follows:

| (in thousands) | 2020 | 2019 |
|---|---|---|
| Balance as of January 1, | $ 248,453 | $ 256,124 |
| Recognized fair value gain (loss) | 16,296 | (14,757) |
| Cash distributions received | (19,704) | (190) |
| Capital contributions paid | 5,382 | 2,792 |
| Balance as of September 30, | $ 250,427 | $ 243,969 |

**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) were as follows:

| (in thousands) | 2020 | 2019 |
|---|---|---|
| Balance as of January 1, | $ 191,678 | $ 198,524 |
| Recapitalization investment portfolio consideration change in value | 6,529 | (16,830) |
| Balance as of September 30, | $ 198,207 | $ 181,694 |

The recapitalization investment portfolio liability balance includes a current liability of $14.9 million which is recorded as part of other accrued expenses on the accompanying condensed consolidated balance sheets.

**Contingent Consideration**

During the third quarter of 2020, the Company paid the contingent consideration liability of $9.5 million due to the seller in connection with its 2019 acquisition of Medimix. See Note 4, "Business Combinations," for additional information on the Medimix acquisition.

*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 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, 2020 Carrying Amount | September 30, 2020 Estimated Fair Value | December 31, 2019 Carrying Amount | December 31, 2019 Estimated Fair Value |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | $ 803,090 | $ 803,090 | $ 345,187 | $ 345,187 |
| Liabilities: | | | | |
| Term Loan | 3,072,112 | 3,067,503 | 3,096,429 | 3,111,911 |
| 2025 Notes | 500,000 | 516,240 | — | — |
| 2028 Notes | 700,000 | 730,422 | — | — |
| OpCo Notes | — | — | 1,125,000 | 1,164,566 |
| Initial HoldCo Notes | — | — | 550,000 | 559,873 |
| Additional HoldCo Notes | — | — | 900,000 | 915,120 |
| Other debt | — | — | 5,707 | 5,707 |

*Cash and Cash Equivalents* - The carrying amount approximates fair value due to the short-term maturity of these financial instruments (less than three months). The Company considers the fair value of cash and cash equivalents to be a Level 1 classification within the fair value hierarchy.

*Term Loan* - The estimated fair value of the Term Loan 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 Term Loan to be a Level 2 classification within the fair value hierarchy.

*2025 Notes, 2028 Notes, OpCo Notes and HoldCo Notes* - The estimated fair values of the 2025 Notes and the 2028 Notes are 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 values of the 2025 Notes and 2028 Notes to be a Level 2 classification within the fair value hierarchy. The estimated fair values of the Company's previously outstanding OpCo Notes and HoldCo Notes were determined in the same manner as the 2025 Notes and 2028 Notes.

*Other Debt* - The carrying amount of the previously outstanding other debt approximated fair value due to the nature of the obligation.

## 11. Accumulated Other Comprehensive Loss

The balances of AOCL, net of tax, were as follows for the three and nine months ended September 30, 2020 and 2019:

| (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) |

| (in thousands) | Foreign Currency Translation | Derivative Instruments | Defined Benefit Plan | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|
| Balance as of June 30, 2019 | $ (321,547) | $ 13,351 | $ 566 | $ (307,630) |
| OCL before reclassifications | (49,415) | — | — | (49,415) |
| Amounts reclassified from AOCI | — | (2,419) | 120 | (2,299) |
| Net (OCL) or OCI | (49,415) | (2,419) | 120 | (51,714) |
| Balance as of September 30, 2019 | $ (370,962) | $ 10,932 | $ 686 | $ (359,344) |

| (in thousands) | Foreign Currency Translation | Derivative Instruments | Defined Benefit Plan | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|
| Balance as of December 31, 2018 | $ (331,276) | $ 18,089 | $ 296 | $ (312,891) |
| (OCL) or OCI before reclassifications | (39,686) | — | 26 | (39,660) |
| Amounts reclassified from AOCI | — | (7,157) | 364 | (6,793) |
| Net (OCL) or OCI | (39,686) | (7,157) | 390 | (46,453) |
| Balance as of September 30, 2019 | $ (370,962) | $ 10,932 | $ 686 | $ (359,344) |

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:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|
| Details about AOCL or AOCI Components | 2020 | 2019 | 2020 | 2019 | Affected line item in statements of operations |
| (Losses) gains on derivative instruments: | | | | | |
| Interest rate swaps | $ (5,001) | $ 3,175 | $ (4,513) | $ 9,220 | Interest expense, net |
| Interest rate swaps | (163) | — | (9,904) | — | Other (expense) income, net |
| Income tax benefit (expense) | 1,588 | (756) | 3,863 | (2,063) | Provision for income taxes |
| Total net of income tax | $ (3,576) | $ 2,419 | $ (10,554) | $ 7,157 | |
| | | | | | |
| Defined benefit plan: | | | | | |
| Amortization of actuarial loss | $ (166) | $ (146) | $ (487) | $ (452) | Other (expense) income, net |
| Income tax benefit | 28 | 26 | 85 | 88 | Provision for income taxes |
| Total net of income tax | $ (138) | $ (120) | $ (402) | $ (364) | |

## 12. Related Party Transactions

***Majority Sponsor Transactions***

The Company was party to consulting services agreements with affiliates of The Carlyle Group Inc. (“Carlyle”) and affiliates of Hellman & Friedman LLC (“H&F” and, together with Carlyle, the “Majority Sponsors”) under which the Company paid the Majority Sponsors a fee for consulting services provided to the Company as well as reimbursements for out-of-pocket expenses incurred in conjunction with such services. The consulting services agreements terminated pursuant to their terms upon completion of the Company’s IPO on February 10, 2020. The Company incurred consulting and out-of-pocket expenses for services rendered under the consulting agreement of $0.9 million for the three months ended September 30, 2019, and $0.4 million and $2.9 million for the nine months ended September 30, 2020 and 2019, respectively. These expenses are recorded as a component of SG&A expenses on the condensed consolidated statements of operations.

Affiliates of one of the Majority Sponsors had investments in the Term Loan totaling $12.7 million and $78.0 million, respectively, as of September 30, 2020 and December 31, 2019. The amounts paid to the relevant affiliates for the Term Loan for the respective periods were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| Interest paid | $ 114 | $ 1,002 | $ 1,511 | $ 3,023 |
| Principal paid | 33 | 210 | 408 | 633 |

***SNBL Transactions***

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, 2020 and 2019, the Company incurred expenses for services rendered under the services agreement of $0.2 million and $0.3 million, respectively. For the nine months ended September 30, 2020 and 2019, the Company incurred expenses under the services agreement of $0.8 million and $0.9 million, respectively. The expenses are recorded as a component of SG&A expenses on the condensed consolidated statements of operations. As of September 30, 2020 and December 31, 2019, the Company owed SNBL $0.3 million for services rendered under the services agreement. Additionally, as of December 31, 2019, PPD-SNBL owed SNBL $5.7 million related to a working capital loan. During the first nine months of 2020, the Company repaid the balance of this working capital loan. This loan was previously classified as long-term debt on the condensed consolidated balance sheets and as “other debt” in Note 6, “Long-term Debt and Finance Lease Obligations.”

## 13. 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:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands, except per share data)** | **2020** | **2019** | **2020** | **2019** |
| **Numerator:** | | | | |
| Net income | $ 9,102 | $ 16,582 | $ 58,093 | $ 34,461 |
| Net income attributable to noncontrolling interest | (1,587) | (1,161) | (4,499) | (3,390) |
| Recapitalization investment portfolio consideration | 44,468 | 11,231 | (6,529) | 16,830 |
| Net income attributable to common stockholders of PPD, Inc. | $ 51,983 | $ 26,652 | $ 47,065 | $ 47,901 |
| **Denominator:** | | | | |
| Basic weighted-average common shares outstanding | 348,672 | 279,425 | 338,277 | 279,235 |
| Effect of dilutive stock options and restricted stock units | 6,158 | 1,768 | 4,882 | 820 |
| Diluted weighted-average common shares outstanding | 354,830 | 281,193 | 343,159 | 280,055 |
| **Earnings per share:** | | | | |
| Basic | $ 0.15 | $ 0.10 | $ 0.14 | $ 0.17 |
| Diluted | $ 0.15 | $ 0.09 | $ 0.14 | $ 0.17 |

See Note 3, "Stockholders' Deficit and Redeemable Noncontrolling Interest," for additional information related to shares and Note 2, "Recapitalization Transaction," of the Company's audited consolidated financial statements included in the May 2020 Form 8-K for additional information related to the recapitalization investment portfolio consideration.

Potential common shares outstanding that are considered anti-dilutive are excluded from the computation of diluted EPS. Potential common shares related to stock options and other awards under share-based compensation programs may be determined to be anti-dilutive based on the application of the treasury stock method and are also anti-dilutive in periods when the Company incurs a net loss.

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, are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| Anti-dilutive equity awards | 320 | 311 | 469 | 537 |

## 14. 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 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 laboratory 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. During the first quarter of 2020, the CODM began assessing performance and making resource allocation decisions based on total segment revenue, including direct, third-party pass-through and out-of-pocket revenue and segment operating income, including reimbursed costs. Previously, certain revenue amounts were not allocated to segments, whereas following the change, all revenue and reimbursed costs are allocated to the respective segment. As a result, the Company has updated its segment presentation and all prior period information has been recast to reflect the change in the measurement of segment performance measures.

Segment operating income is segment revenue less segment direct costs, segment reimbursed costs and segment SG&A expenses. Segment operating income excludes certain unallocated direct costs and SG&A expenses, depreciation and amortization and other nonrecurring expenses or income consistent with the information reviewed by the CODM. 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:

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| Segment revenue: | | | | |
| Clinical Development Services | $ 1,008,639 | $ 846,068 | $ 2,694,775 | $ 2,488,773 |
| Laboratory Services | 225,163 | 177,796 | 622,407 | 495,360 |
| Total segment revenue | 1,233,802 | 1,023,864 | 3,317,182 | 2,984,133 |
| Segment direct costs: | | | | |
| Clinical Development Services | 330,281 | 287,538 | 922,737 | 871,753 |
| Laboratory Services | 102,355 | 79,445 | 279,154 | 227,171 |
| Total segment direct costs | 432,636 | 366,983 | 1,201,891 | 1,098,924 |
| Segment reimbursed costs: | | | | |
| Clinical Development Services | 309,117 | 220,873 | 730,872 | 633,466 |
| Laboratory Services | 26,749 | 20,931 | 79,651 | 55,230 |
| Total segment reimbursed costs | 335,866 | 241,804 | 810,523 | 688,696 |
| Segment SG&A expenses: | | | | |
| Clinical Development Services | 137,984 | 130,576 | 415,334 | 391,551 |
| Laboratory Services | 23,283 | 19,648 | 66,929 | 58,551 |
| Total segment SG&A expenses | 161,267 | 150,224 | 482,263 | 450,102 |
| Segment operating income: | | | | |
| Clinical Development Services | 231,257 | 207,081 | 625,832 | 592,003 |
| Laboratory Services | 72,776 | 57,772 | 196,673 | 154,408 |
| Total segment operating income | 304,033 | 264,853 | 822,505 | 746,411 |
| | | | | |
| Operating costs and expenses not allocated to segments: | | | | |
| Direct costs | 786 | 2,493 | 20,809 | 13,257 |
| SG&A expenses | 88,053 | 76,772 | 252,449 | 231,329 |
| Depreciation and amortization | 71,317 | 66,889 | 206,395 | 197,896 |
| Long-lived asset impairment | 1,414 | — | 1,414 | — |
| Income from operations | $ 142,463 | $ 118,699 | $ 341,438 | $ 303,929 |

## 15. 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. Revenues by geographic location are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| Revenue: | | | | |
| North America | $ 737,234 | $ 541,841 | $ 1,869,533 | $ 1,568,767 |
| Latin America | 39,589 | 35,184 | 130,210 | 113,777 |
| Europe, Middle East and Africa | 331,996 | 334,924 | 965,606 | 992,095 |
| Asia-Pacific | 124,983 | 111,915 | 351,833 | 309,494 |
| Revenue | $ 1,233,802 | $ 1,023,864 | $ 3,317,182 | $ 2,984,133 |

## 16. Other (Expense) Income, Net

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| Other (expense) income, net: | | | | |
| Foreign currency (losses) gains, net | $ (17,509) | $ 10,700 | $ (3,055) | $ (1,435) |
| Interest rate swap gains (losses) | 209 | — | (11,398) | — |
| Other income | 365 | 684 | 954 | 2,584 |
| Other expense | (218) | (2,227) | (598) | (4,307) |
| Total other (expense) income, net | $ (17,153) | $ 9,157 | $ (14,097) | $ (3,158) |

## 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, 2019, as superseded by, and solely to the extent set forth in, our first Current Report on Form 8-K filed on May 21, 2020 (the "May 2020 Form 8-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, including the impact from the COVID-19 pandemic and other factors set forth in other sections of this Quarterly Report on Form 10-Q, as well as the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2019. For important information regarding these forward-looking statements, please see "Special Note Regarding Forward-Looking Statements."*

***Company Overview***

We are a leading provider of drug development services to the biopharmaceutical industry, focused on helping our customers bring their new medicines to patients around the world. We have been in the drug development business for more than 30 years, providing a comprehensive suite of clinical development and laboratory services to pharmaceutical, biotechnology, medical device, government organizations and other industry participants. We have deep experience across a broad range of rapidly growing areas of drug development and engage 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 our customers. Our company is currently organized and managed around two reportable segments, Clinical Development Services and Laboratory Services. See Part I, Item 1, "Business," in our Annual Report on Form 10-K for the year ended December 31, 2019, as superseded by, and only to the extent set forth in our May 2020 Form 8-K, for additional information on our Clinical Development Services and Laboratory Services segments.

Our purpose and mission are to improve health by helping our customers deliver life-changing therapies. We pursue our purpose and mission through our clinical development and laboratory services and our strategy to bend the cost and time curve of drug development and optimize value for our customers. Our customers benefit from accelerated time to market because it results in lengthened periods of market exclusivity, and our real-world evidence solutions support the superior efficacy and value of their novel therapies. We believe our medical, scientific and drug development expertise, along with our innovative technologies and knowledge of global regulatory requirements, help our customers accelerate the development of safe and effective therapeutics and maximize returns on their research and development ("R&D") investments.

***Initial Public Offering***

On February 6, 2020, our common stock began trading on The Nasdaq Global Select Market under the symbol "PPD". On February 10, 2020, we completed our initial public offering ("IPO") of our common stock at a price to the public of $27.00 per share. We issued and sold 69.0 million shares of common stock in the IPO, including 9.0 million shares of common stock issued pursuant to the full exercise of the underwriters' option to purchase additional shares. We raised net proceeds of $1,773.0 million through the IPO, after deducting underwriting discounts and other offering expenses totaling $90.0 million.

We used a portion of the net proceeds from the IPO to (i) redeem $550.0 million in aggregate principal amount of unsecured 7.625%/8.375% Senior PIK Toggle Notes (the "Initial HoldCo Notes"), plus accrued and unpaid interest thereon and $5.5 million of redemption premium and (ii) redeem $900.0 million in aggregate principal amount of unsecured 7.75%/8.50% Senior PIK Toggle Notes (the "Additional HoldCo Notes" and, together with the Initial HoldCo Notes, the "HoldCo Notes"), plus accrued and unpaid interest thereon and $9.0 million of redemption premium. The redemption of the HoldCo Notes resulted in a total loss on extinguishment of debt of $50.1 million.

***Issuance of New Notes and Redemption of OpCo Notes***

On June 5, 2020, we issued $1,200.0 million of unsecured senior notes consisting of (i) $500.0 million aggregate principal amount of 4.625% senior notes due 2025 (the "2025 Notes") and (ii) $700.0 million aggregate principal amount of 5.0% senior notes due 2028 (the "2028 Notes" and, together with the 2025 Notes, the "New Notes"). We used the proceeds from the issuance of the New Notes to redeem $1,125.0 million in aggregate principal amount of unsecured 6.375% senior notes (the "OpCo Notes"), plus accrued and unpaid interest thereon and a $35.9 million redemption premium. The redemption of the OpCo Notes resulted in a total loss on extinguishment of debt of $43.5 million.

***Secondary Public Offering***

In September 2020, we completed an underwritten secondary public offering of 43.7 million shares of common stock, including 5.7 million shares of common stock pursuant to the full exercise of the underwriters' option to purchase additional shares, sold primarily by our private equity sponsors (the "Selling Stockholders"). We did not offer any common stock in this transaction and did not receive any proceeds from the sale of the shares of common stock by the Selling Stockholders. We incurred costs of $1.9 million in relation to the secondary public offering for the three and nine months ended September 30, 2020.

***COVID-19 Pandemic***

In March 2020, the World Health Organization declared COVID-19 a global pandemic that has resulted in travel and business disruption and volatile conditions in the capital and credit markets and overall economy. Globally, governments have implemented travel bans, stay at home or total lock-down mandates and other social distancing measures to combat the spread of COVID-19. In response to the global pandemic, we have created a pandemic response committee of company leaders, including our chief medical officer, to help manage our response to the pandemic focused on (i) the health and safety of our employees and patients and (ii) business continuity, preserving the integrity of the work we do for our customers, including support for vaccines and anti-viral therapies for COVID-19. To implement social distancing measures and maximize work productivity, we have enacted several measures, including limiting personnel in our facilities, with remote-capable employees throughout our company working remotely, and introduced COVID-19 testing for employees in critical patient facing roles. We have also significantly limited domestic and international travel of our employees.

To date, the COVID-19 pandemic has impacted our business across both our Clinical Development Services and Laboratory Services segments. The impacts include the ability of our employees to visit hospitals and other clinical research sites to conduct monitoring and other critical site visits and patient recruitment and enrollment activities as part of services offered within our Clinical Development Services segment, as well as a temporary shutdown of our Phase I clinics beginning in March 2020. Furthermore, we have had customers delay new studies and/or pause ongoing studies or certain activities thereof, such as patient recruitment, patient enrollment, site visits and site monitoring, impacting our Clinical Development Services segment. Additionally, at the onset of the pandemic, our Laboratory Services segment experienced limited reductions in central lab services due to delays in clinical trial activity that impacted sample volumes.

Beginning in the second quarter of 2020, as travel restrictions were lifted and phased reopenings began in jurisdictions in which we operate, we reopened a limited number of our offices and also allowed business-critical travel to occur, including employee visits to hospitals and other clinical research sites, as well as the activation of new sites. We also began a phased reopening of all of our Phase I clinics, with such phased reopenings resulting in reduced domiciling of patients for clinical trials as compared to pre-pandemic levels. Due to safety measures we implemented shortly following the onset of the COVID-19 pandemic, our laboratory facilities have continued to operate at near full capacity during the pandemic. While we saw improvements over the course of the second and third quarters of 2020 in relation to fewer customers delaying new or ongoing studies, steady improvements in site-based activities and the return of pre-pandemic testing volumes at our central labs, these delays have impacted and will continue to impact the timing and extent to which backlog has and will convert to revenue.

In response to the COVID-19 pandemic, we have taken measures to mitigate the impact of the aforementioned factors across both of our segments. Such mitigation activities include, but are not limited to, (i) winning new awards for services to help our customers treat or combat the spread of COVID-19 with anti-viral therapies and vaccines, which includes more than 125 COVID-19 related awards as of September 30, 2020 across both of our segments, (ii) the continued adoption of digital and virtual strategies and (iii) cost reduction strategies, including reducing travel and related expenses, limiting increases in employee headcount in certain non-billable areas, voluntary and limited temporary involuntary employee furloughs and reduced working hours. We may also implement other cost mitigation or reduction measures in the future depending on the progression of the COVID-19 pandemic and the resulting impacts to our business.

We do not yet know nor can we predict the full extent of the impact the COVID-19 pandemic will have on our business, financial condition, results of operations or the global economy as a whole, as the ultimate impact of the pandemic is highly uncertain and subject to change. While the COVID-19 pandemic has impacted our business and results of operations, we have been able to partially offset the financial impact due to the mitigation activities discussed above. However, the operational and financial impacts from COVID-19 could significantly increase in the future due to the magnitude, continued duration, geographic reach, ongoing impact on the global economy and capital and credit markets, and current travel and other restrictions relating to the pandemic. In addition, we might not be able to mitigate future impacts as we have done to date.

Furthermore, federal, state and local governments have implemented, and may implement in the future, economic and other stimulus measures to support individuals and businesses impacted by the COVID-19 pandemic, and while we have utilized such measures where applicable, there can be no assurance that such measures will benefit us or otherwise offset any or all of the financial impacts from the COVID-19 pandemic. To date, such measures have not been material to our results of operations.

If the pandemic continues for an extended period or worsens, such as a second global wave, governments' actions to contain the spread of COVID-19 are ineffective and/or there is a significant delay in the development or distribution of an effective vaccine, these factors could result in a material negative impact on our business, growth, reputation, prospects, financial condition, results of operations (including components of our financial results), cash flows and liquidity. Such impacts could include, but are not limited to, additional customer delays or cancellations of awarded services, reductions in R&D drug development pipelines which could result in lower growth to our industry, additional costs related to restructuring activities, non-cash impairments of goodwill and other long-lived assets, decreases in the value of our investments, loss of hedge accounting and restrictions on our ability to obtain additional financing, if needed, or refinancing of our senior secured credit facilities.

We are closely monitoring the changing landscape with respect to the COVID-19 pandemic and taking actions to manage our business and support our employees, patients and customers. We will continue to evaluate the nature and extent of the impact 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.

***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 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 81.8% and 82.6% of revenue for the three months ended September 30, 2020 and 2019, respectively, and 81.2% and 83.4% of revenue for the nine months ended September 30, 2020 and 2019, respectively, with the remainder generated from our Laboratory Services segment.

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, 2020 and 2019. Our top 10 customers accounted for approximately 55.6% and 46.0% of our revenue for the three months ended September 30, 2020 and 2019, respectively, and 52.3% and 45.2% for the nine months ended September 30, 2020 and 2019, 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, selling, general and administrative ("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 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, among others. 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. Historically, we have assessed backlog and net authorizations on a basis which excluded indirect revenues and the impact of Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606") on direct revenue ("Historical Basis"). Starting in the first quarter of 2020, we also began to assess backlog and net authorizations on 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 noted elsewhere in this Quarterly Report on Form 10-Q, due to the COVID-19 pandemic, we have had customers delay new studies and/or pause ongoing studies or certain activities thereof, such as patient recruitment, patient enrollment, site visits and site monitoring. These delays have impacted and will continue to impact the timing and extent to which backlog has and will convert to revenue. We have not adjusted backlog to remove the backlog associated with these studies as our customers for these studies have not canceled or notified us of their intent to cancel these studies and because we cannot estimate the length of delay. As a result of these and other factors, 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 have included new business awards associated with COVID-19 in our net authorizations and backlog.

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.

***Net Authorizations and Backlog***

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

| | Historical Basis | | ASC 606 Basis | |
|---|---|---|---|---|
| **(dollars in millions)** | **2020** | **2019** | **2020** | **2019** |
| Net authorizations | $ 1,200.3 | $ 900.2 | $ 1,764.5 | $ 1,158.7 |
| Backlog | 7,890.4 | 6,805.7 | 11,720.1 | 9,896.6 |
| Backlog conversion | 11.8% | 11.8% | 11.0% | 10.5% |
| Net book-to-bill | 1.35x | 1.14x | 1.43x | 1.13x |

The increase in net authorizations and backlog in 2020 for the metrics above as compared to the same period in the prior year was primarily due to a higher number of, and win rate on, competitive decisions (which represents the total dollar amount of new business on which we bid), new business awards related to the COVID-19 pandemic and favorable net foreign currency fluctuations, partially offset by higher cancellations.

***Acquisitions***

On September 3, 2019, we acquired 100% of the issued and outstanding equity of Synarc, Inc. (“Synarc”), the global site network of Bioclinica, Inc., expanding our global footprint into China and Latin America and expanding our central nervous system offering in the United States. Additionally, on July 1, 2019, we acquired 100% of the issued and outstanding equity of Medimix International (“Medimix”), a global technology company that provides real-world evidence insights and information to the pharmaceutical, diagnostic and medical device industries. See Note 4, “Business Combinations,” to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information.

***Incremental Public Company Expenses***

As a new public company, we have and will incur additional expenses on an ongoing basis that we did not incur as a private company. Those costs include additional director and officer liability insurance expenses, as well as third-party and internal resources related to accounting, auditing, Sarbanes-Oxley Act compliance, legal, investor and public relations expenses and additional stock-based compensation expense as we align our long-term incentive plan with other comparable public company plans. These costs are expected to generally be SG&A expenses.

## Results of Operations

We have included the results of operations of acquired companies in our condensed consolidated results of operations from the date of their respective acquisitions, which impacts the comparability of our results of operations when comparing results for the three and nine months ended September 30, 2020 to the three and nine months ended September 30, 2019. We have noted in the discussion below, to the extent meaningful and quantifiable, the impact on the comparability of our condensed consolidated results of operations to prior year results due to the inclusion of acquired companies when comparing the three and nine months ended September 30, 2020 to the three and nine months ended September 30, 2019.

During the first quarter of 2020, our Chief Operating Decision Maker began assessing performance and making resource allocation decisions based on total segment revenue, including direct and indirect revenue, and segment operating income, including reimbursed costs. Previously, certain revenue amounts were not allocated to segments, whereas following the change, all revenue and reimbursed costs are allocated to the respective segment. As a result, we have updated our segment presentation and all prior period information has been recast to reflect the change in the measurement of segment performance measures.

***Three Months Ended September 30, 2020 versus Three Months Ended September 30, 2019***

*Consolidated Results of Operations*

***Revenue***

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** | **Change** | |
| Revenue | $ 1,233,802 | $ 1,023,864 | $ 209,938 | 20.5% |

Revenue increased $209.9 million, or 20.5%, to $1,233.8 million for the three months ended September 30, 2020 as compared to the same period in 2019. Revenue increased (i) 19.4% 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 2020, including awards and associated revenue for COVID-19 work, (ii) 0.4% from inorganic growth due to our acquisition of Synarc and (iii) 0.7% from the favorable impact from foreign currency exchange rates.

***Direct Costs***

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** | **Change** | |
| Direct costs, exclusive of depreciation and amortization | $ 433,422 | $ 369,476 | $ 63,946 | 17.3% |
| % of revenue | 35.1% | 36.1% | | |

Direct costs increased $63.9 million to $433.4 million for the three months ended September 30, 2020 as compared to the same period in 2019. The increase in direct costs was primarily due to (i) a $54.4 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases, (ii) a $9.0 million increase in laboratory supply costs from the growth in revenue, (iii) a $4.3 million increase from the acquisition of Synarc and (iv) a 0.3% increase from the unfavorable impact from foreign currency exchange rates. The increase in direct costs was partially offset by a reduction in certain project delivery costs. As a percentage of revenue, direct costs decreased to 35.1% for the three months ended September 30, 2020 as compared to 36.1% in the same period in 2019 primarily due to the factors identified above.

***Reimbursed Costs***

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** | **Change** | |
| Reimbursed costs | $ 335,866 | $ 241,804 | $ 94,062 | 38.9% |
| % of revenue | 27.2% | 23.6% | | |

Reimbursed costs increased $94.1 million to $335.9 million for the three months ended September 30, 2020 as compared to the same period in 2019. 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 1.5% increase from the unfavorable impact of 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 will 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 27.2% for the three months ended September 30, 2020 as compared to 23.6% in the same period in 2019 primarily due to the factors identified above.

***Selling, General and Administrative Expenses***

| **(dollars in thousands)** | **Three Months Ended September 30,** | | **Change** | |
|---|---|---|---|---|
| | **2020** | **2019** | | |
| Selling, general and administrative expenses | $ 249,320 | $ 226,996 | $ 22,324 | 9.8% |
| % of revenue | 20.2% | 22.2% | | |

SG&A expenses increased $22.3 million to $249.3 million for the three months ended September 30, 2020 as compared to the same period in 2019. The increase in SG&A expenses was primarily due to (i) a $19.7 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases, (ii) a $2.1 million increase from the acquisition of Synarc and (iii) a 0.4% 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 as a result of COVID-19 related cost reduction measures. As a percentage of revenue, SG&A expenses decreased to 20.2% for the three months ended September 30, 2020 as compared to 22.2% in the same period in 2019 primarily due to the factors identified above as well as our efforts to effectively leverage our SG&A function.

***Interest Expense, Net***

| **(in thousands)** | **Three Months Ended September 30,** | |
|---|---|---|
| | **2020** | **2019** |
| Interest expense, net | $ 49,882 | $ 85,754 |

Interest expense, net, was $49.9 million for the three months ended September 30, 2020 as compared to $85.8 million in the same period in 2019. The decrease in interest expense was primarily related to the redemption of our HoldCo Notes, the lower interest rate on our New Notes as compared to the redeemed OpCo Notes and a decrease in the interest rate on our term loan under our senior secured credit facilities, partially offset by the impact from unfavorable interest rate swaps.

***Loss on Investments***

| **(in thousands)** | **Three Months Ended September 30,** | |
|---|---|---|
| | **2020** | **2019** |
| Loss on investments | $ (53,100) | $ (15,106) |

Loss on investments was $53.1 million for the three months ended September 30, 2020 as compared to a loss of $15.1 million in the same period in 2019. The losses for both periods were primarily a result of changes in the fair values of the net asset values of our investments, partially offset by changes to the discounts on certain investments during the current year and prior year. The decrease in net asset value for the three months ended September 30, 2020 reflects primarily a decrease in the trading stock price of one of the underlying investments of a limited partnership during the quarter.

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 investments of the limited partnerships, including the volatility of trading stock prices of any 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 (Expense) Income, Net***

| **(in thousands)** | **Three Months Ended September 30,** | |
|---|---|---|
| | **2020** | **2019** |
| Other (expense) income, net | $ (17,153) | $ 9,157 |

Other expense, net, was $17.2 million for the three months ended September 30, 2020 as compared to other income, net, of $9.2 million in the same period in 2019. Foreign exchange rate movement resulted in transaction and re-measurement losses of $17.5 million for the three months ended September 30, 2020 and transaction and re-measurement gains of $10.7 million in the same period in 2019.

| ***Provision for Income Taxes*** | **Three Months Ended September 30,** | |
|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** |
| Provision for income taxes | $ 11,169 | $ 9,044 |
| Effective income tax rate | 50.0% | 33.5% |

Our provision for income taxes was $11.2 million, resulting in an effective income tax rate of 50.0%, for the three months ended September 30, 2020 as compared to a provision of $9.0 million, or an effective income tax rate of 33.5%, in the same period in 2019. 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 our domestic and foreign jurisdictions and the impacts of a tax rate change in the United Kingdom. Our provision for income taxes for the three months ended September 30, 2019 was primarily due to the estimated tax effect on our pre-tax income.

*Segment Results of Operations*

Clinical Development Services and Laboratory Services segment revenue, segment direct costs, segment reimbursed costs, segment SG&A expenses and segment operating income for the three months ended September 30, 2020 and 2019 are detailed below.

**Clinical Development Services**

| | **Three Months Ended September 30,** | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** | **Change** | |
| Segment revenue | $ 1,008,639 | $ 846,068 | $ 162,571 | 19.2% |
| Segment direct costs | 330,281 | 287,538 | 42,743 | 14.9 |
| Segment reimbursed costs | 309,117 | 220,873 | 88,244 | 40.0 |
| Segment SG&A expenses | 137,984 | 130,576 | 7,408 | 5.7 |
| Segment operating income | $ 231,257 | $ 207,081 | $ 24,176 | 11.7 |

*Segment Revenue*

Clinical Development Services' revenue was $1,008.6 million for the three months ended September 30, 2020, an increase of $162.6 million as compared to the same period in 2019. Revenue increased (i) 18.0% from organic volume 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 2020, including awards and associated revenue for COVID-19 work, (ii) 0.7% from the favorable impact from foreign currency exchange rates and (iii) 0.5% from inorganic growth due to the acquisition of Synarc. 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 $330.3 million for the three months ended September 30, 2020, an increase of $42.7 million as compared to the same period in 2019. The increase in direct costs was primarily due to (i) a $42.9 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases, (ii) a $4.3 million increase from the acquisition of Synarc and (iii) a 0.2% increase from the unfavorable impact from foreign currency exchange rates. The increase in direct costs was partially offset by a reduction in certain project delivery costs.

*Segment Reimbursed Costs*

Clinical Development Services' reimbursed costs were $309.1 million for the three months ended September 30, 2020, an increase of $88.2 million as compared to the same period in 2019. 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 1.5% 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 will 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 $138.0 million for the three months ended September 30, 2020, an increase of $7.4 million as compared to the same period in 2019. The increase in SG&A expenses was primarily due to (i) compensation increases, (ii) the impact of the acquisition of Synarc and (iii) a 0.5% 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 as a result of COVID-19 related cost reduction measures.

**Laboratory Services**

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** | **Change** | |
| Segment revenue | $ 225,163 | $ 177,796 | $ 47,367 | 26.6% |
| Segment direct costs | 102,355 | 79,445 | 22,910 | 28.8 |
| Segment reimbursed costs | 26,749 | 20,931 | 5,818 | 27.8 |
| Segment SG&A expenses | 23,283 | 19,648 | 3,635 | 18.5 |
| Segment operating income | $ 72,776 | $ 57,772 | $ 15,004 | 26.0 |

*Segment Revenue*

Laboratory Services' revenue was $225.2 million for the three months ended September 30, 2020, an increase of $47.4 million as compared to the same period in 2019. Revenue increased from organic volume growth across the majority of 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 2020, 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.

*Segment Direct Costs*

Laboratory Services' direct costs were $102.4 million for the three months ended September 30, 2020, an increase of $22.9 million as compared to the same period in 2019. The increase in direct costs was primarily due to (i) a $13.4 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases and (ii) a $9.0 million increase in laboratory supply costs associated with the growth in revenue.

*Segment Reimbursed Costs*

Laboratory Services' reimbursed costs were $26.7 million for the three months ended September 30, 2020, an increase of $5.8 million as compared to the same period in 2019. Reimbursed costs increased primarily due to the increase in revenue, as well as higher shipping costs and the general timing of costs incurred across our portfolio of work.

*Segment SG&A Expenses*

Laboratory Services' SG&A expenses were $23.3 million for the three months ended September 30, 2020, an increase of $3.6 million as compared to the same period in 2019. The increase in SG&A expenses was primarily due to a $3.6 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases.

***Nine Months Ended September 30, 2020 versus Nine Months Ended September 30, 2019***

*Consolidated Results of Operations*

***Revenue***

| (dollars in thousands) | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 | Change | |
|---|---|---|---|---|
| Revenue | $ 3,317,182 | $ 2,984,133 | $ 333,049 | 11.2% |

Revenue increased $333.0 million, or 11.2%, to $3,317.2 million for the nine months ended September 30, 2020 as compared to the same period in 2019. Revenue increased 10.3% from organic volume growth across our business due to higher opening backlog at the beginning of the year as compared to the prior year and overall growth in new business awards during 2020, including awards and associated revenue for COVID-19 work. Additionally, revenue increased 1.0% from inorganic growth primarily due to our acquisitions of Synarc and Medimix (the “2019 Acquisitions”).

***Direct Costs***

| (dollars in thousands) | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 | Change | |
|---|---|---|---|---|
| Direct costs, exclusive of depreciation and amortization | $ 1,222,700 | $ 1,112,181 | $ 110,519 | 9.9% |
| % of revenue | 36.9% | 37.3% | | |

Direct costs increased $110.5 million to $1,222.7 million for the nine months ended September 30, 2020 as compared to the same period in 2019. The increase in direct costs was due to (i) a $98.1 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases, (ii) an $8.5 million increase in compensation costs related to the acceleration of remaining expenses under the terminated cash-based long-term incentive plan (“LTIP”), (iii) a $21.5 million increase from the impact of the 2019 Acquisitions and (iv) a $17.9 million increase in laboratory supply costs from the growth in revenue. The increase in direct costs was partially offset by (i) a decrease in certain project delivery costs, including media-related costs for patient recruitment services, (ii) the impacts of limited voluntary and involuntary temporary furloughs of certain employees as a result of COVID-19 related cost reduction measures and (iii) a 0.8% decrease from the favorable impact from foreign currency exchange rates. As a percentage of revenue, direct costs decreased to 36.9% for the nine months ended September 30, 2020 as compared to 37.3% in the same period in 2019 primarily due to the factors identified above.

***Reimbursed Costs***

| (dollars in thousands) | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 | Change | |
|---|---|---|---|---|
| Reimbursed costs | $ 810,523 | $ 688,696 | $ 121,827 | 17.7% |
| % of revenue | 24.4% | 23.1% | | |

Reimbursed costs increased $121.8 million to $810.5 million for the nine months ended September 30, 2020 as compared to the same period in 2019. 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 will 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 increase in reimbursed costs was partially offset by a 0.4% decrease from the favorable impact from foreign currency exchange rates. As a percentage of revenue, reimbursed costs increased to 24.4% for the nine months ended September 30, 2020 as compared to 23.1% in the same period in 2019 primarily due to the factors identified above.

***Selling, General and Administrative Expenses***

| (dollars in thousands) | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 | Change | |
|---|---|---|---|---|
| Selling, general and administrative expenses | $ 734,712 | $ 681,431 | $ 53,281 | 7.8% |
| % of revenue | 22.1% | 22.8% | | |

SG&A expenses increased $53.3 million to $734.7 million for the nine months ended September 30, 2020 as compared to the same period in 2019. The increase in SG&A expenses was primarily due to (i) a $51.0 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases, (ii) a $10.5 million increase from the impact of the 2019 Acquisitions, (iii) an $8.1 million increase in technology costs related to software licensing and cloud services and (iv) a $3.0 million increase in compensation costs related to the acceleration of remaining expense under the terminated cash-based LTIP. The increase in SG&A expenses was partially offset by lower travel and associated expenses as a result of COVID-19 related cost reduction measures and a 0.6% decrease from the favorable impact from foreign currency exchange rates. As a percentage of revenue, SG&A expenses decreased to 22.1% for the nine months ended September 30, 2020 as compared to 22.8% in the same period in 2019 primarily due to the factors identified above as well as our efforts to effectively leverage our SG&A function.

| ***Interest Expense, Net*** | **Nine Months Ended September 30,** | |
|---|---|---|
| **(in thousands)** | **2020** | **2019** |
| Interest expense, net | $ 165,995 | $ 229,147 |

Interest expense, net, was $166.0 million for the nine months ended September 30, 2020 as compared to $229.1 million in the same period in 2019. The decrease in interest expense was primarily related to the redemption of our HoldCo Notes, the lower interest rate on our New Notes as compared to the redeemed OpCo Notes and a decrease in the interest rate on our term loan under our senior secured credit facilities, partially offset by the impact from unfavorable interest rate swaps.

| ***Loss on Extinguishment of Debt*** | **Nine Months Ended September 30,** | |
|---|---|---|
| **(in thousands)** | **2020** | **2019** |
| Loss on extinguishment of debt | $ (93,534) | $ — |

Loss on extinguishment of debt was $93.5 million for the nine months ended September 30, 2020. The loss resulted from the early extinguishment of our HoldCo and 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. There was no loss on extinguishment of debt for the nine months ended September 30, 2019.

| ***Gain (Loss) on Investments*** | **Nine Months Ended September 30,** | |
|---|---|---|
| **(in thousands)** | **2020** | **2019** |
| Gain (loss) on investments | $ 16,649 | $ (22,716) |

Gain on investments was $16.6 million for the nine months ended September 30, 2020 as compared to a loss of $22.7 million in the same period in 2019. The gain and loss for the current year and prior year, respectively, was primarily a result of changes in the fair values of the net asset values of our investments, partially offset by changes to the discounts on certain investments for the current year and 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 investments of the limited partnerships, including the volatility of stock prices of any 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 Expense, Net*** | **Nine Months Ended September 30,** | |
|---|---|---|
| **(in thousands)** | **2020** | **2019** |
| Other expense, net | $ (14,097) | $ (3,158) |

Other expense, net, was $14.1 million for the nine months ended September 30, 2020 as compared to other expense, net, of $3.2 million in the same period in 2019. Foreign exchange rate movement resulted in transaction and re-measurement losses of $3.1 million for the nine months ended September 30, 2020 and transaction and re-measurement losses of $1.4 million in the same period in 2019. Undesignated interest rate swap activity resulted in losses of $11.4 million for the nine months ended September 30, 2020 and no losses or gains for the nine months ended September 30, 2019.

| ***Provision for Income Taxes*** | **Nine Months Ended September 30,** | |
|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** |
| Provision for income taxes | $ 20,682 | $ 12,387 |
| Effective income tax rate | 24.5% | 25.3% |

Our provision for income taxes was $20.7 million, resulting in an effective income tax rate of 24.5%, for the nine months ended September 30, 2020 as compared to a provision of $12.4 million, or an effective income tax rate of 25.3%, in the same period in 2019. Our provision for income taxes for the nine months ended September 30, 2020 was primarily due to the estimated tax effect on our pre-tax income. Our provision for income taxes for the nine months ended September 30, 2019 was primarily due to the estimated tax effect on our pre-tax income.

*Segment Results of Operations*

Clinical Development Services and Laboratory Services segment revenue, segment direct costs, segment reimbursed costs, segment SG&A expenses and segment operating income for the nine months ended September 30, 2020 and 2019 are detailed below.

**Clinical Development Services**

| | **Nine Months Ended September 30,** | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** | **Change** | |
| Segment revenue | $ 2,694,775 | $ 2,488,773 | $ 206,002 | 8.3% |
| Segment direct costs | 922,737 | 871,753 | 50,984 | 5.8 |
| Segment reimbursed costs | 730,872 | 633,466 | 97,406 | 15.4 |
| Segment SG&A expenses | 415,334 | 391,551 | 23,783 | 6.1 |
| Segment operating income | $ 625,832 | $ 592,003 | $ 33,829 | 5.7 |

*Segment Revenue*

Clinical Development Services' revenue was $2,694.8 million for the nine months ended September 30, 2020, an increase of $206.0 million as compared to the same period in 2019. Revenue increased 7.3% 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 year as compared to the prior year and overall growth in new business awards during 2020, including awards and associated revenue for COVID-19 work and 1.2% from inorganic growth due to the 2019 Acquisitions. The increase in revenue was partially offset by a 0.2% decrease from the unfavorable 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 2019.

*Segment Direct Costs*

Clinical Development Services' direct costs were $922.7 million for the nine months ended September 30, 2020, an increase of $51.0 million as compared to the same period in 2019. The increase in direct costs was primarily due to a $59.1 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases and a $21.5 million increase from the impact of the 2019 Acquisitions. The increase in direct costs was partially offset by (i) a decrease in certain project delivery costs, including media-related costs for patient recruitment services, (ii) the impacts of limited voluntary and involuntary temporary furloughs of certain employees as a result of COVID-19 related cost reduction measures and (iii) a 1.0% decrease from the favorable impact from foreign currency exchange rates.

*Segment Reimbursed Costs*

Clinical Development Services' reimbursed costs were $730.9 million for the nine months ended September 30, 2020, an increase of $97.4 million as compared to the same period in 2019. 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 will 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 increase in reimbursed costs was partially offset by a 0.4% decrease from the favorable impact from foreign currency exchange rates.

*Segment SG&A Expenses*

Clinical Development Services' SG&A expenses were $415.3 million for the nine months ended September 30, 2020, an increase of $23.8 million as compared to the same period in 2019. The increase in SG&A expenses was primarily due to a $25.0 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases and a $10.5 million increase from the impact of the 2019 Acquisitions. The increase in SG&A expenses was partially offset by lower travel and associated expenses as a result of COVID-19 related cost reduction measures and a 0.8% decrease from the favorable impact from foreign currency exchange rates.

**Laboratory Services**

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** | **Change** | |
| Segment revenue | $ 622,407 | $ 495,360 | $ 127,047 | 25.6% |
| Segment direct costs | 279,154 | 227,171 | 51,983 | 22.9 |
| Segment reimbursed costs | 79,651 | 55,230 | 24,421 | 44.2 |
| Segment SG&A expenses | 66,929 | 58,551 | 8,378 | 14.3 |
| Segment operating income | $ 196,673 | $ 154,408 | $ 42,265 | 27.4 |

*Segment Revenue*

Laboratory Services' revenue was $622.4 million for the nine months ended September 30, 2020, an increase of $127.0 million as compared to the same period in 2019. Revenue increased from organic volume growth across all our laboratory services in part due to higher opening backlog at the beginning of the year as compared to the prior year and overall growth in new business awards during 2020, including awards and associated revenue for COVID-19 work. The higher opening backlog was primarily due to increased net authorizations across all of our labs businesses in 2019.

*Segment Direct Costs*

Laboratory Services' direct costs were $279.2 million for the nine months ended September 30, 2020, an increase of $52.0 million as compared to the same period in 2019. The increase in direct costs was primarily due to a $32.8 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases and a $17.9 million increase in laboratory supply costs associated with the growth in revenue.

*Segment Reimbursed Costs*

Laboratory Services' reimbursed costs were $79.7 million for the nine months ended September 30, 2020, an increase of $24.4 million as compared to the same period in 2019. Reimbursed costs increased primarily due to the increase in revenue, as well as higher shipping costs and the general timing of costs incurred across our portfolio of work.

*Segment SG&A Expenses*

Laboratory Services' SG&A expenses were $66.9 million for the nine months ended September 30, 2020, an increase of $8.4 million as compared to the same period in 2019. The increase in SG&A expenses was primarily due to a $9.2 million increase from growth in employee headcount to support current growth in revenue as well as compensation increases.

## 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 and 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.

While we have not seen a significant impact to our liquidity and capital resources as a result of the COVID-19 pandemic to date, we continue to monitor and assess the impact and have already taken certain measures to preserve those resources. For example, in June 2020, we issued $1,200.0 million of New Notes, and used the proceeds to redeem our previously outstanding OpCo Notes. We expect this transaction to lower our interest expense and cash paid for interest in the future. Additionally, in March 2020, we borrowed $150.0 million under our revolving credit facility as a precautionary measure in order to further strengthen our cash position and to preserve financial flexibility due to the uncertainty in the global markets as a result of the COVID-19 pandemic. In June 2020, we repaid the $150.0 million borrowed under the revolving credit facility, using cash on hand. In addition, we may implement future measures to preserve or increase cash on-hand and create financial flexibility. For example, we may look to obtain additional financing or engage in refinancing our variable rate long-term debt outstanding under our senior secured credit facilities. However, due to the ongoing impact of the COVID-19 pandemic on the capital and credit markets, we might not be able to successfully obtain additional financing or refinancing of our senior secured credit facilities on reasonable terms and within a reasonable time period acceptable to us, or at all.

The following table presents key measures of our liquidity on the dates set forth below:

| **(in thousands)** | **September 30, 2020** | **December 31, 2019** |
|---|---|---|
| Cash and cash equivalents: | | |
| Cash held in the United States | $ 523,257 | $ 135,917 |
| Cash held in foreign locations | 279,833 | 209,270 |
| Total | $ 803,090 | $ 345,187 |
| | | |
| Revolving Credit Facility availability (net of letters of credit) | $ 298,370 | $ 298,370 |

As a result of our recapitalization in 2017, we incurred certain future obligations associated with potential additional recapitalization consideration. We do not expect the payment of the recapitalization investment portfolio liability to impact our future liquidity or capital resources as the right for the pre-closing holders to receive any such payment depends upon receipt of future cash proceeds from the applicable portion of the investment portfolio. We have classified in long-term liabilities the portion of the investment portfolio we estimate to be payable beyond the next 12 months, net of taxes and other expenses, to the pre-closing holders. Future payments will be required to be made, if and when, cash proceeds are received and are payable under the recapitalization transaction merger agreement. During the three and nine months ended September 30, 2020 and 2019, we did not make any cash distributions related to the recapitalization investment portfolio liability. The Company expects to make a cash distribution related to the recapitalization investment portfolio liability of approximately $14.9 million during the fourth quarter of 2020. The expected cash distribution has been recorded as a component of other accrued expenses on the condensed consolidated balance sheet included elsewhere in this Quarterly Report on Form 10-Q. See Note 2, "Recapitalization Transaction," of our audited consolidated financial statements included in our May 2020 Form 8-K for additional information.

We expect to continue funding our operations from existing cash, cash flows from operations and, if necessary or appropriate, borrowings under our revolving credit facility, which is currently undrawn. We believe that these sources of liquidity will be sufficient to fund our operations and service our debt and interest for the foreseeable future, as well as address impacts from the COVID-19 pandemic. 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 revolving credit facility or additional long-term financing. We may seek to take advantage of market opportunities to refinance existing variable rate debt instruments with new debt instruments at interest rates, maturities and terms we deem attractive. We may also, from time to time at our sole discretion, purchase, redeem or retire our existing debt instruments, through tender offers, in privately negotiated or open market transactions, or otherwise.

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 related to the COVID-19 pandemic and in Part II, Item 1A, “Risk Factors,” included elsewhere in this Quarterly Report on Form 10-Q, as well as factors described under “Indemnification and Insurance,” within Part I, Item 1, “Business,” Part I, Item 1A, “Risk Factors,” within Part II, Item 7, “Contractual Obligations and Commercial Commitments,” “Critical Accounting Policies and Estimates” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” of our Annual Report on Form 10-K for the year ended December 31, 2019, as superseded by, and solely to the extent set forth in, our May 2020 Form 8-K.

***Indebtedness***

On June 5, 2020, Jaguar Holding Company II and PPD Development, L.P. (collectively, the “Issuers”), issued in a private placement the 2025 Notes and 2028 Notes. The 2025 Notes mature on June 15, 2025, and the 2028 Notes mature on June 15, 2028. Interest on the New Notes is payable semi-annually on June 15 and December 15 of each year. The Issuers can redeem the New Notes, at their option, in whole at any time or in part from time to time, upon notice, at the various redemption prices (expressed as a percentage of principal amount) or a “make-whole” premium, plus accrued and unpaid interest, if any, to the redemption date. The New Notes do not have registration rights. See Note 6, “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 on the New Notes.

As of September 30, 2020 and December 31, 2019, we had total long-term debt and finance lease obligations outstanding of approximately $4,298.7 million and $5,705.9 million, respectively. Other than the customary covenants and default provisions related to the issuance of the New Notes, there were no changes to the debt covenants or default provisions related to our outstanding debt under the credit agreement governing our senior secured credit facilities (the “Credit Agreement”) or other obligations during the first nine months of 2020. In June 2020, we repaid in full the outstanding balance of our revolving credit facility and therefore we were not subject to a net secured leverage ratio test, as defined in the Credit Agreement, as of September 30, 2020. We were in compliance with all covenants for all long-term debt arrangements as of September 30, 2020 and December 31, 2019. See Note 6, “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 on our long-term debt and finance lease obligations.

***Cash Flows***

| ***Cash flows from operating activities*** | **Nine Months Ended September 30,** | |
|---|---|---|
| **(in thousands)** | **2020** | **2019** |
| Net cash provided by operating activities | $ 268,467 | $ 313,722 |

The decrease in operating cash flows of $45.3 million was due to a $163.6 million decrease in cash from the changes in operating assets and liabilities, partially offset by a $118.3 million increase in net income and non-cash reconciling items. The change in operating assets and liabilities was primarily due to period over period fluctuations in the timing of collections and payments, with the use of cash for net accounts receivable (defined as the sum of period-end balances of accounts receivable and unbilled services net of unearned revenue), other assets and income taxes being unfavorable and the source of cash from prepaid expenses and other current assets and accounts payable, accrued expenses and other liabilities being favorable.

The net increase in net income and non-cash reconciling items was primarily due to (i) the overall growth of the business, (ii) our gain on investments, (iii) a loss on the extinguishment of debt related to the redemption of the HoldCo and OpCo Notes and (iv) deferred income tax expense.

The change in the use of cash for net accounts receivable of $262.8 million for the nine months ended September 30, 2020 was largely due to the growth in revenue during the first nine months of 2020, as well as the timing in the receipt of collections and contractual billings under our contracts. Other changes to cash flows from operating activities include a $16.6 million decrease in cash paid for interest and a $10.3 million net increase in cash paid for income taxes during the nine months ended September 30, 2020 as compared to the same period in 2019. Cash paid for interest decreased primarily due to a lower interest rate on on our term loan for the nine months ended September 30, 2020, as well as the redemption of the HoldCo Notes and OpCo Notes, 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 redemption of the HoldCo Notes and lower interest rate on our New Notes as compared to the redeemed OpCo Notes. Net cash paid for income taxes increased primarily as a result of lower foreign tax refunds received during the nine months ended September 30, 2020 as compared to the same period in 2019.

| ***Cash flows from investing activities*** | Nine Months Ended September 30, | |
|---|---|---|
| **(in thousands)** | **2020** | **2019** |
| Net cash used in investing activities | $ (111,775) | $ (195,548) |

The decrease in cash used during the nine months ended September 30, 2020 was primarily due to (i) the 2019 Acquisitions in the prior year as compared to no acquisitions in the current year, (ii) a decrease in cash paid for investments in unconsolidated affiliates in the current year as compared to the same period in the prior year and (iii) net distributions received from investments in the current year, partially offset by an increase in purchases of property and equipment in the current year. Cash paid for investments in unconsolidated affiliates for the nine months ended September 30, 2020 and 2019 was $10.0 million and $30.0 million, respectively. Cash paid for property and equipment was $116.4 million and $89.4 million for the nine months ended September 30, 2020 and 2019, respectively. The increase in cash paid for property and equipment was primarily due to the timing of payments and year over year growth in the business, including investments in our Laboratory Services segment. Additionally, distributions (net of capital contributions) received from investments was $14.3 million for the nine months ended September 30, 2020 as compared to capital contributions (net of distributions) paid of $2.6 million for the same period in 2019.

| ***Cash flows from financing activities*** | Nine Months Ended September 30, | |
|---|---|---|
| **(in thousands)** | **2020** | **2019** |
| Net cash provided by (used in) financing activities | $ 306,298 | $ (253,229) |

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 New 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 New Notes. Additionally, we received cash proceeds of $14.3 million related to the exercise of stock options, made payments of $32.1 million on our other long-term debt and finance leases and paid $4.3 million for the initial contingent consideration recorded related to our acquisition of Medimix.

During the nine months ended September 30, 2019, cash used in financing activities was primarily due to a $1,086.0 million return of capital and special cash dividend paid to our stockholders, partially offset by the cash proceeds received from the issuance of $891.0 million of Additional HoldCo Notes. We used cash of $30.1 million for payments of debt issuance and debt modification costs associated with the issuance of the Additional HoldCo Notes and modification of the Initial HoldCo Notes. Additionally, we made payments of $29.0 million on our long-term debt and finance leases.

***Contractual Obligations and Commercial Commitments***

Our contractual obligations and commercial commitments have been updated for our redemption of the OpCo Notes and HoldCo Notes and our issuance of the New Notes. Other than those changes to our long-term debt arrangements, there have been no material changes, outside of the ordinary course of business, to our contractual obligations and commercial commitments as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

As of September 30, 2020, future minimum payments on all our long-term debt, including interest, for the remainder of 2020, and years subsequent to December 31, 2020 were as follows:

| **(in thousands)** | **2020 (remaining three months)** | **2021-2022** | **2023-2024** | **2025-Thereafter** | **Total** |
|---|---|---|---|---|---|
| Long-term debt, including interest[(1)] | $ 65,686 | $ 3,354,534 | $ 116,250 | $ 1,331,434 | $ 4,867,904 |

(1) We may be required to make mandatory prepayments of principal on the term loan outstanding under our senior secured credit facilities in future years based on our cash flows in those years. Future interest expense on our indebtedness is calculated assuming a blended rate of 3.9%. The table above assumes that the amounts will remain outstanding until maturity, with minimum payments occurring as currently scheduled and no future borrowings, and does not include the impact of our interest rate swaps entered into during the first quarter of 2020.

### *Off-balance Sheet Arrangements*

We have no off-balance sheet arrangements.

### *Critical Accounting Policies and Estimates*

Our accounting policies are more fully described in Note 1, “Basis of Presentation and Summary of Significant Accounting Policies,” of our May 2020 Form 8-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, including facts and circumstances related to the 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.

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 2019 annual goodwill impairment test, of our eight reporting units with goodwill allocated, one reporting unit’s estimate of the fair value did not exceed its respective carrying value by a substantial margin. This reporting unit had recorded goodwill of $30.0 million as of the goodwill impairment testing date. The percentage by which the reporting unit’s estimated fair value exceeded carrying value was 22.0%. Certain portions of this reporting unit and another reporting unit were negatively impacted by the COVID-19 pandemic and to the extent that the impacts are significant or that they result in a change to long-term outlook, such could trigger an impairment to these reporting units in the future.

Given the present uncertainty surrounding the global economy due to the COVID-19 pandemic, including but not limited to stock price volatility of the overall market, the volatility of our stock price as well as that of our competitors and current and future impacts to our operations from the COVID-19 pandemic, it is possible that we could experience a non-cash impairment loss of a portion of our goodwill or other long-lived assets in the future. While no goodwill impairment charges were recorded during the three or nine months ended September 30, 2020, 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 Annual Report on Form 10-K for the year ended December 31, 2019, as superseded by, and solely to the extent set forth in, our May 2020 Form 8-K. There were no significant changes to our critical accounting policies and estimates during the nine months ended September 30, 2020.

### *Recently Adopted Accounting Standard*

A recently adopted accounting standard relevant to our condensed consolidated financial statements is described more fully in the “Recently Adopted Accounting Standard” section in Note 1, “Basis of Presentation,” to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

*Recently Adopted Accounting Standard*

| Date | Title | Effective Date |
|---|---|---|
| August 2018 | Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract | Adopted January 1, 2020 |

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the three and nine months ended September 30, 2020, 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 Annual Report on Form 10-K for the year ended December 31, 2019, other than the effects of the COVID-19 pandemic on the global economy and overall capital and credit markets. Additionally, in February 2020, we considered refinancing certain portions of our outstanding debt with new variable rate debt and, in anticipation thereof, we entered into three new variable to fixed interest rate swaps to hedge future interest rate exposure. The three swaps have a notional value of $3.5 billion, with an effective date of March 31, 2020 and a termination date of March 31, 2025. In March 2020, we entered into a fixed to variable interest rate swap with a notional value of $0.5 billion, with identical effective and termination dates, that offset one of the three February 2020 variable to fixed interest rate swaps, as we had not yet entered into the new variable rate debt structure. See Note 6, “Long-term Debt and Finance Lease Obligations” and Note 8, “Derivative Instruments and Hedging Activities,” to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information on impacts to our market risks.

## 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 have been 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 our 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, 2019 except as disclosed below. Refer to Part 1, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2019 for a detailed discussion of risk factors affecting us.

***Our operations might be affected by the occurrence of natural disasters, pandemics, such as the COVID-19 pandemic, or other catastrophic events.***

We depend on our customers, investigators, laboratories and other facilities for the continued operation of our business. While we maintain disaster recovery and business continuity plans, they might not adequately protect us. Despite any precautions we take for natural disasters or other catastrophic events, these events, including terrorist attacks, hurricanes, fires, floods, ice and snowstorms and pandemics, such as the COVID-19 pandemic, may result in interruptions in our ability to provide services to our customers. Disruptions in the infrastructure, laboratory, clinic or office closures, mandatory stay at home orders or other social distancing measures caused by events such as natural disasters, or other “acts of god,” the outbreak of war, the escalation of hostilities and acts of terrorism or pandemics, such as the COVID-19 pandemic, particularly involving countries and cities in which we have laboratories, clinics or offices, could adversely affect our businesses. Although we carry business interruption insurance policies and typically have provisions in our contracts that protect us from certain events, our coverage might not respond or be adequate to compensate us for all losses that may occur, including those relating to the COVID-19 pandemic. Any natural disaster or catastrophic event, such as the COVID-19 pandemic, affecting us or our customers, investigators or payers could have a significant negative impact on our operations or financial performance.

To date, the COVID-19 pandemic has impacted our business across both our Clinical Development Services and Laboratory Services segments. The impacts include the ability of our employees to visit hospitals and other clinical research sites to conduct monitoring and other critical site visits and patient recruitment and enrollment activities as part of services offered within our Clinical Development Services segment, as well as a temporary shutdown of our Phase I clinics beginning in March 2020. Furthermore, we have had customers delay new studies and/or pause ongoing studies or certain activities thereof, such as patient recruitment, patient enrollment, site visits and site monitoring, impacting our Clinical Development Services segment. Additionally, at the onset of the pandemic, our Laboratory Services segment experienced limited reductions in central lab services due to delays in clinical trial activity that impacted sample volumes.

Beginning in the second quarter of 2020, as travel restrictions were lifted and phased reopenings began in jurisdictions in which we operate, we reopened a limited number of our offices and also allowed business-critical travel to occur, including employee visits to hospitals and other clinical research sites, as well as the activation of new sites. We also began a phased reopening of all of our Phase I clinics, with such phased reopening resulting in reduced domiciling of patients for clinical trials as compared to pre-pandemic levels. Due to safety measures we implemented shortly following the onset of the COVID-19 pandemic, our laboratory facilities continued to operate at near full capacity during the pandemic. While we saw improvements over the course of the second and third quarters of 2020 in relation to fewer customers delaying new or ongoing studies, steady improvements in site-based activities and the return of pre-pandemic testing volumes at our central labs, these delays have impacted and will continue to impact the timing and extent to which backlog has and will convert to revenue.

We do not yet know nor can we predict the full extent of the impact the COVID-19 pandemic will have on our business, results of operations, financial condition or the global economy as a whole, as the ultimate impact of the pandemic is highly uncertain and subject to change. While the COVID-19 pandemic has impacted our business and results of operations, we have been able to partially offset the financial impact due to the mitigation activities discussed elsewhere in this Quarterly Report on Form 10-Q. However, the operational and financial impacts from COVID-19 could significantly increase in the future due to the magnitude, continued duration, geographic reach, ongoing impact on the global economy and capital and credit markets, and current travel and other restrictions relating to the COVID-19 pandemic. In addition, we might not be able to mitigate future impacts as we have done to date.

Furthermore, federal, state and local governments have implemented economic and other stimulus measures to support individuals and businesses impacted by the COVID-19 pandemic, and while we have utilized such measures where applicable there can be no assurance that such measures will benefit us or otherwise offset any or all of the financial impacts from the COVID-19 pandemic. To date, such measures have not been material to our results of operations.

If the pandemic continues for an extended period or worsens, such as a second global wave, governments' actions to contain the spread of COVID-19 were to be ineffective and/or there is a significant delay in the development or distribution of an effective vaccine, these factors could result in a material negative impact on our business, growth, reputation, prospects, financial condition, results of operations (including components of our financial results), cash flows and liquidity. Such impacts could include, but are not limited to, additional customer delays or cancellations of awarded services, reductions in research and development drug development pipelines which could result in lower growth to the clinical research organization industry, additional costs related to restructuring activities, non-cash impairments of goodwill and other long-lived assets, decreases in the value of our investments, loss of hedge accounting and restrictions on our ability to obtain additional financing, if needed, or refinancing of our senior secured credit facilities.

***Our business is subject to international and U.S. economic, currency, political and other risks, including those caused by the COVID-19 pandemic, that could negatively affect our business, results of operations, financial condition and/or cash flows.***

We provide services globally and have business operations in numerous countries throughout the world. Because we provide our services worldwide, our business is subject to risks associated with doing business internationally, including risks associated with a global pandemic such as the COVID-19 pandemic. Revenue from our non-U.S. operations represented approximately 43.8% of our revenue for the nine months ended September 30, 2020 and 47.1% of our revenue for the year ended December 31, 2019. We anticipate that we will continue to perform a significant portion of our services through our international operations. Our U.S. and international operations are subject to risks and uncertainties inherent in operating in these regions, including:

- conducting a clinical trial in multiple countries is complex, and issues in one country can affect the progress of the trial in other countries and result in delays or cancellation of contracts, including delays and other issues caused by the COVID-19 pandemic;
- the United States or foreign countries could enact legislation or impose regulations, including unfavorable labor regulations, tax policies or economic sanctions, that could have an adverse effect on our ability to conduct business in or expatriate profits from the countries in which we operate;
- the complexities of operating within multiple tax jurisdictions, including potentially negative consequences from changes in tax laws or from current and future tax examinations;
- foreign countries are expanding or might expand their regulatory framework with respect to patient informed consent or other aspects of the conduct of clinical trials, which could delay or inhibit our ability to conduct trials in such countries, including changes that may be enacted or result from the COVID-19 pandemic;
- the regulatory or judicial authorities of foreign countries might not enforce legal rights and recognize business procedures in a manner to which we are accustomed or would reasonably expect;
- changes in political and economic conditions might lead to changes in the business environment in which we operate, such as the current changes caused by the COVID-19 pandemic, including those to protect the general population and patient safety in clinical trials;
- actual or perceived risk of infection relating to COVID-19 or otherwise might impact the willingness of patients to enroll in clinical trials and to visit clinics, hospitals and other clinical research sites for procedures associated with the conduct of clinical trials, which in turn could have an adverse effect on our ability to conduct business in relevant countries and regions;
- changes in foreign currency exchange rates, including the impact of contractual provisions that shift the risk of unfavorable movement in certain exchange rates to us;
- potential violations of existing or newly enacted laws may cause difficulties in staffing and managing international operations;
- customers in foreign countries may have longer payment cycles, and it may be more difficult to collect receivables in those countries;
- political unrest could interrupt our services, endanger our personnel or cause project delays or loss of clinical trial material or results; and
- any failure by us to comply with foreign regulations or restrictions or become aware of and acknowledge changes in foreign regulations or restrictions, including changes in foreign regulations or restrictions due to the COVID-19 pandemic, which could result in the delay of a clinical trial.

These risks and uncertainties could negatively impact our ability to, among other things, perform large, global projects for our customers. Furthermore, our ability to manage these risks and uncertainties could be affected by U.S. laws and could have an adverse impact on our business, results of operations, financial condition and/or cash flows.

***Difficult and volatile conditions in the capital and credit markets and in the overall economy, including those caused by the COVID-19 pandemic, could materially adversely affect our business, financial position, results of operations and/or cash flows.***

Our business, financial position, results of operations and/or cash flows could be materially adversely affected by difficult conditions and volatility in the capital and credit markets and changes in national or global economic conditions including, but not limited to, inflation, interest rates, the negative impacts caused by pandemics, including the COVID-19 pandemic, and the effects of governmental initiatives to manage economic conditions. Difficult conditions in these markets and the overall economy affect our business and operations in a number of ways. For example:

- as a result of the COVID-19 pandemic, customers may delay or cancel clinical trials (i) to protect patient safety, (ii) as a result of government restrictions, (iii) to limit impacts on healthcare systems and (iv) due to concerns regarding the ability of hospitals and other clinical research sites to conduct clinical trials safely, efficiently and effectively;
- if a significant percentage of our workforce is unable to work, including because of illness, travel or government restrictions in connection with the COVID-19 pandemic, our operations may be negatively impacted;
- as a result of the COVID-19 pandemic, we temporarily shut down our Phase I clinics beginning in March 2020 and begun a phased reopening during the second quarter and continued during the third quarter of 2020, with such phased reopening resulting in reduced domiciling of patients for clinical trials as compared to pre-pandemic levels. Depending on the future duration, severity and impacts of the COVID-19 pandemic, we may have to again shut down one or all of our Phase I clinics and also shut down (or delay reopening) 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;
- market conditions, including those caused by the COVID-19 pandemic, could result in our key customers experiencing financial difficulties and/or electing to limit spending or delay payment of invoices, or become unable to pay invoices, which in turn could result in decreased revenues, cash flows and earnings for us;
- under difficult market conditions there can be no assurance that borrowings under our senior secured credit facilities would be available or sufficient, and in such a case, we might not be able to successfully obtain additional financing or refinancing of our senior secured credit facilities on reasonable terms and within a reasonable time period acceptable to us, or at all, which could also impact our hedge accounting on our variable rate debt; and
- in order to respond to market conditions, we may need to seek waivers of various provisions in the credit agreement governing our senior secured credit facilities, and we might not be able to obtain such waivers on reasonable terms, if at all.

***If we are unable to recruit, retain and motivate key personnel, our business could be adversely affected.***

Our success depends on the collective performance, contribution and expertise of our senior management team and other key personnel throughout our businesses, including qualified management, professional, operational, scientific, technical and business development personnel. There is significant competition for qualified personnel in the biopharmaceutical and related services industries, particularly personnel with advanced degrees and those with significant experience and expertise. The loss of any key executive, including if he or she becomes seriously ill with COVID-19 or otherwise, or our inability to continue to recruit, retain and motivate key personnel and replace departed personnel in a timely fashion, may adversely impact our ability to compete effectively and grow our business and negatively affect our ability to meet our short- and long-term financial and operational objectives.

***We depend on third parties for critical goods and support services.***

We depend on third parties for a variety of goods and support services that are critical to us. These third-party providers include, but are not limited to, software and other technology providers, transportation and travel providers, suppliers of study drugs for clinical trials, couriers, customs brokers, drug depots and distributors, suppliers of licensing agreements, investigator meeting planners, suppliers of kits, reagents, contractors and other supplies used by our laboratory segments and equipment maintenance providers. The failure of any of these third parties to adequately provide goods or services to us or to comply with relevant laws and regulations could have a material adverse effect on our reputation, business, results of operations, financial condition and/or cash flows. While we have not seen an adverse impact from the COVID-19 pandemic on the third parties that we rely on to provide goods and services, there can be no guarantee that a significant impact to our third-party providers will not occur in the future.

***Our business depends on the efficient and uninterrupted operation of our information and communication systems, including systems we use to deliver services to our customers, and failures in, breach of, or unauthorized access to or use of these systems or data contained therein may materially limit our operations and result in significant harm to our business.***

Our success depends on the security and efficient and uninterrupted operation of our information and communication systems, including information and communication systems maintained by third parties on our behalf, and we expect to increase our reliance on these and similar systems over time. As the breadth, complexity and reliance on information systems grows, we will be increasingly exposed to the risks inherent in the development, deployment, operation, use and reliance on these systems, including:

- disruption, impairment or failure of data centers, telecommunications facilities or other key infrastructure platforms;
- security breaches of, cyber-attacks on and other failures or malfunctions in our critical application systems or their associated hardware; and
- excessive costs, delays or other deficiencies in systems development and deployment.

The occurrence of these risks could impede the processing of data, the delivery of services to our customers and the day-to-day management and operation of our business and could result in the corruption, loss, disclosure or unauthorized access to proprietary, confidential or other data, which in turn could result in diminished internal and external reporting capabilities, impaired ability to process transactions, harm to our control environment, diminished employee productivity and unanticipated increases in costs.

While we maintain disaster recovery plans, they might not adequately protect us. Despite any precautions we take, damage from cybersecurity attacks, computer viruses, fire, floods, hurricanes, power loss, telecommunications failures, break-ins and similar events at our facilities or those of our suppliers could result in interruptions in the flow of data to our servers and from our servers to our customers. Corruption or loss of data could result in the need to repeat a trial at no cost to our customer, but at significant cost to us, and may result in the termination of a contract and/or damage to our reputation. Additionally, significant delays in system enhancements and improvements, or inadequate performance of the systems once they are completed, could damage our reputation and harm our business. Although we carry insurance, our coverage might not respond or be adequate to compensate us for all losses that may occur.

Unauthorized disclosure of or access to sensitive or confidential data, including confidential information of our customers, whether through third-party attack, system failure, employee negligence, fraud or misappropriation, could significantly damage our business. We have been, and expect we will continue to be, subject to attempts to gain unauthorized access to or through our information systems, whether by our employees or third parties, including by cyber-attack from computer programmers or hackers who deploy viruses, worms or other malicious software programs. To date, these attacks have not had a material impact on our operations or financial results. However, attacks in the future could result in fines, negative publicity, significant remediation costs, liability and/or damage to our reputation, and could have a material adverse effect on our business, results of operations, financial condition and/or cash flows. In addition, any insurance coverage we have might not respond or be sufficient to cover us against claims or penalties imposed by the federal government or state governments related to security breaches, cyber-attacks and other related breaches.

Our ability to serve customers effectively depends on the reliability of our technology network and we depend on information systems to perform many critical business needs. During the fourth quarter of 2020, we expect to complete the transition of our existing human capital management, financial management and general ledger systems to an integrated enterprise resource planning ("ERP") system. The implementation and maintenance of a new ERP system has required and may continue to require significant financial and/or human capital resources. Furthermore, despite extensive planning, system testing and training for our employees, we could experience disruptions in our business operations in the future because of the project's complexity and we may not fully optimize the ERP as planned. The potential consequences could include project and other delays, loss of information, diminished internal and external reporting capabilities, impaired ability to process transactions, harm to our internal control environment, diminished employee productivity and unanticipated increases in costs, all of which could result in material adverse effects on our business, results of operations, financial condition and/or cash flows.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## 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.

| | | | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| Exhibit Number | Exhibit Description | Filed Herewith | 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 | X | - | - | - | - |
| 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 | X | - | - | - | - |
| 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 | X | - | - | - | - |
| 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 | X | - | - | - | - |
| 101.INS | XBRL Instance Document | X | - | - | - | - |
| 101.SCH | XBRL Taxonomy Extension Schema Document | X | - | - | - | - |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | X | - | - | - | - |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | X | - | - | - | - |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | X | - | - | - | - |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | X | - | - | - | - |

# 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, 2020.

**PPD, Inc.**

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

**Exhibit 31.1**

**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)) 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. 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
   c. 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, 2020

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

**Exhibit 31.2**

**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)) 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. 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
   c. 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, 2020 | By: | /s/ Christopher G. Scully |
| | | | Christopher G. Scully |
| | | | Executive Vice President and Chief Financial Officer |
| | | | (Principal Financial Officer) |

**Exhibit 32.1**

**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, 2020 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, 2020 | By: | /s/ David Simmons |
| | | | David Simmons |
| | | | Chairman and Chief Executive Officer |
| | | | (Principal Executive Officer) |

**Exhibit 32.2**

**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, 2020 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, 2020 | By: | /s/ Christopher G. Scully |
| | | | Christopher G. Scully |
| | | | Executive Vice President and Chief Financial Officer |
| | | | (Principal Financial Officer) |