

Second Quarter 2010 Earnings

July 29, 2010

COVANCE.



Safe Harbor

Statements contained in this press release, which are not historical facts, such as statements about prospective earnings, savings, revenue, operations, revenue and earnings growth and other financial results are forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements including the statements contained herein regarding anticipated trends in the Company's business are based largely on management's expectations and are subject to and qualified by risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, without limitation, competitive factors, outsourcing trends in the pharmaceutical industry, levels of industry research and development spending, the Company's ability to continue to attract and retain qualified personnel, the fixed price nature of contracts or the loss of large contracts, risks associated with acquisitions and investments, the Company's ability to increase order volume, the pace of translation of orders into revenue in late-stage development services, fluctuations in currency exchange rates, and other factors described in the Company's filings with the Securities and Exchange Commission including its Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. The Company undertakes no duty to update any forward looking statement to conform the statement to actual results or changes in the Company's expectations.

Covance Overview of Services

Early Development

- Nonclinical Laboratories (non-human testing)
 - Toxicology
 - Chemistry
- Clinical Pharmacology (early human trials)
- Research Products
- Discovery Services

Late-Stage Development

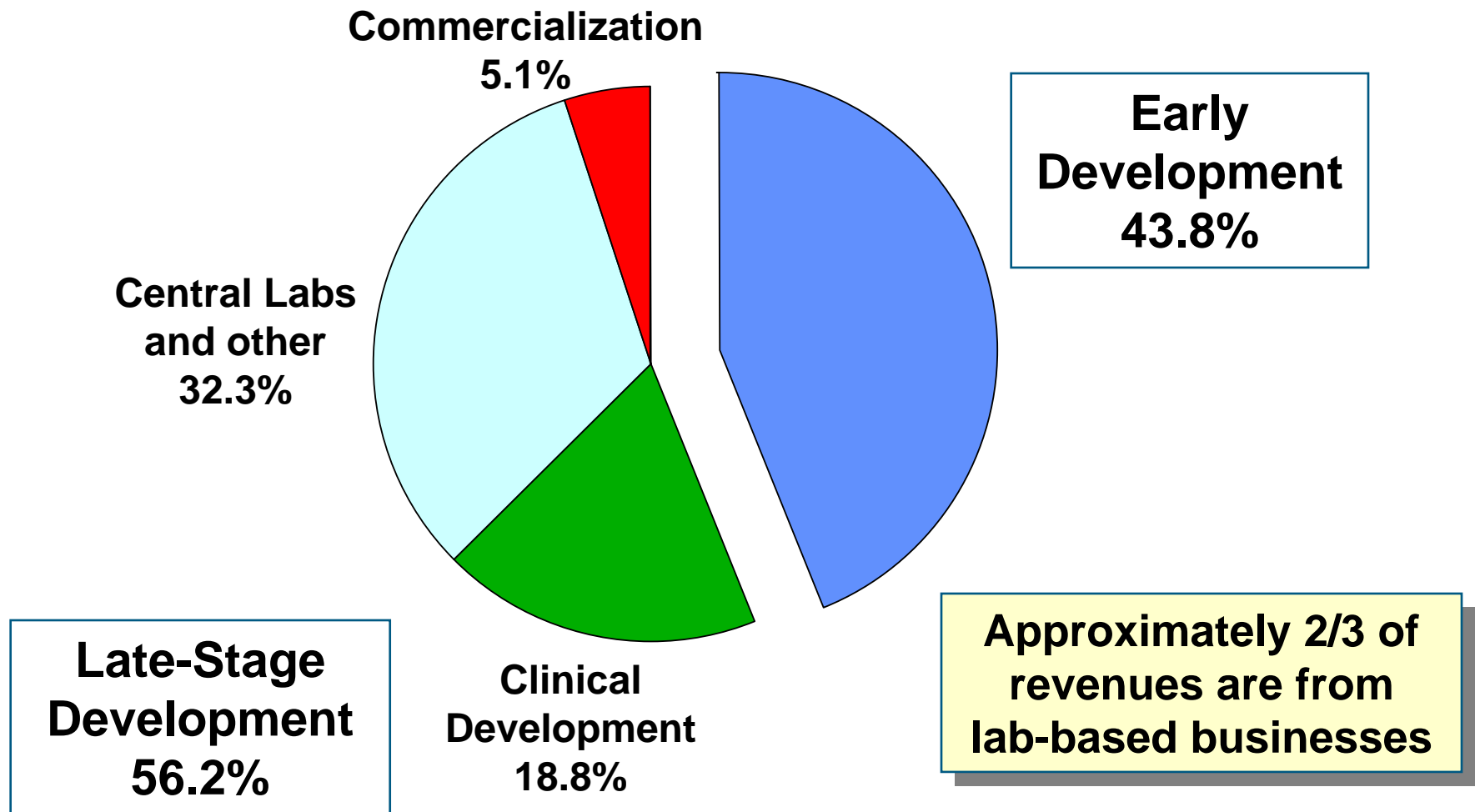
- Central Laboratories
- Clinical Development (Phase IIb/III human testing)
- Commercialization
 - Market Access Services
 - Periapproval Services (Phase IIIb/IV)

2Q10 Financial Highlights

- Net Revenues of \$475.2M up 2.0% YOY
- Operating Income of \$42.5M* down 29.1% YOY
- Operating Margin of 8.9%* vs. 12.9% in 2Q09
 - Ex 2Q cost actions: 10.6% OM
- Net Income of \$31.7M* down 26.3% YOY
- Diluted EPS of \$0.49* down 27.3% YOY

*includes 2Q cost actions of \$7.7M or \$0.09 per diluted share

2Q10 Net Revenues by Service Area



Operating Results by Segment

(\$ in millions)	Early Development			Late-Stage Development		
	2Q10	2Q09	change	2Q10	2Q09	change
Net Revenues	\$208.2	\$199.8	4.2%	\$267.0	\$266.3	0.3%
Operating Income	\$22.5*	\$27.1	(16.9%)	\$56.5	\$65.5	(13.7)%
Margin %	10.8%*	13.6%		21.2%	24.6%	

*includes one-time cost actions of \$6.7M

Stock-based compensation expenses are included in corporate expenses and are not a part of segment results.

Backlog and Net Orders (\$ millions)

	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
Dedicated Backlog	\$1,514	\$1,633	\$1,597	\$1,701	\$1,657	\$1,634	\$1,584	\$1,538
All Other Backlog	\$2,733	\$2,700	\$2,819	\$2,956	\$3,135	\$3,232	\$3,204	\$3,289
Total Backlog	\$4,247	\$4,333	\$4,416	\$4,657	\$4,792	\$4,866	\$4,788	\$4,827
Net Orders	\$1,777	\$555	\$554	\$618	\$579	\$621	\$441	\$544
dedicated revenue less dedicated orders	(\$1,250)	\$12	\$35	(\$102)	\$44	\$22	\$49	\$46
Adjusted Net Orders	\$527	\$567	\$589	\$516	\$623	\$643	\$490	\$590
Net Book-to-Bill	4.04	1.26	1.26	1.33	1.22	1.28	0.91	1.14
Adjusted Net Book-to-Bill	1.20	1.29	1.34	1.11	1.31	1.33	1.02	1.24

- “Dedicated backlog” represents the contractual minimum volume commitment under dedicated agreements
- Covance believes backlog is not always a predictor of future results

Cash Flow Review

- DSOs were 47 days at 6/30/10 versus 42 days at 3/31/10 and 41 days at 6/30/09
- Cash balance at 6/30/10 was \$291M;
Zero debt
- 2Q10 CAPEX was \$37M
1H10 CAPEX was \$67M
- 2Q10 free cash flow* was \$24M
1H10 free cash flow* was \$14M
- 2010 cash flow guidance:
 - CAPEX target of approximately \$160M
 - Free cash flow* target of approximately \$100M

* Free cash flow equals cash from operations less capital spending

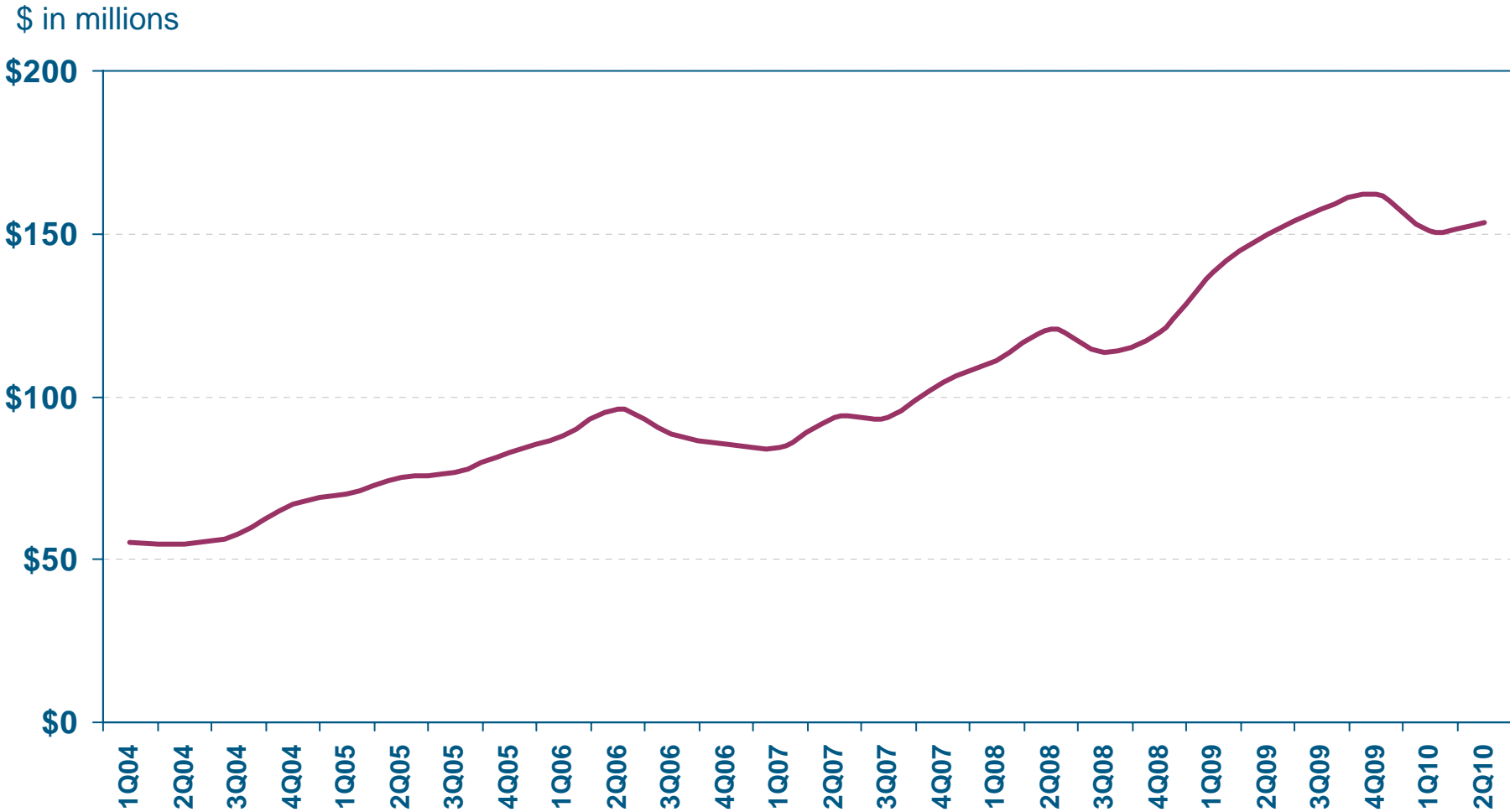
FY2010 Target Assumptions (mid-point)

- **Early Development:**
 - 3Q revenues ~in-line with 2Q (lower toxicology and research products revenues offset by increased revenues in other areas of the segment); 4Q revenue up modestly from 3Q
 - 3Q OM in the 11% to 12% range; margin expected to expand in 4Q
 - Toxicology and research products 3Q revenue and profitability lower than 2Q and does not improve in 4Q
- **Late-Stage Development**
 - 3Q revenues ~in-line with 2Q and up in 4Q as volume grows
 - 3Q OM remains in the 21% range and expected to expand in the 4Q as volume ramps
 - Cancellations and delays are in the normal range
- **Full-year EPS of \$2.10 to \$2.30**
 - Consolidated revenue growth of 2% to 4%
 - FX at June 30, 2010 exchange rates
 - Includes \$0.11 per share from facility rationalizations/cost actions
 - Excludes any benefit from new, strategic client transactions

2Q vs. 3Q EPS – GAAP and Pro Forma

	<u>GAAP</u>	<u>Less Cost Reduction Actions</u>	<u>Pro Forma</u>
2Q10 actual	\$0.49	(\$0.09)	\$0.58
3Q10 target	~\$0.50	~(\$0.02)	~\$0.52
Change	\$0.01	~(\$0.07)	~(\$0.06)

Covance Central Laboratory Services Revenue 2004-2010



Central labs annual BTB was >1.3 each year between 2004-2009

Appendix

2Q Operating Margin: Reconciliation of GAAP to Pro Forma

\$ in thousands

	2Q10 <u>As Reported</u>	Less Cost <u>Reduction Actions</u>	2Q10 <u>Pro Forma</u>
<u>Consolidated</u>			
Net Revenue	\$475,171	-	\$475,171
Operating Income	\$ 42,510	\$7,734	\$ 50,244
Operating Margin	8.9%	1.6%	10.6%
<u>Early Development</u>			
Net Revenue	\$208,192	-	\$208,192
Operating Income	\$ 22,495	\$6,736	\$ 29,231
Operating Margin	10.8%	3.2%	14.0%
<u>Late-Stage Development</u>			
Net Revenue	\$266,979	-	\$266,979
Operating Income	\$ 56,513	\$194	\$ 56,707
Operating Margin	21.2%	0.1%	21.2%
<u>Corporate</u>			
Expense	\$(36,498)	\$804	\$(35,694)
% of Net Revenue	(7.7)%	0.2%	(7.5)%



Constant-Currency Net Revenue Growth

\$ in millions	<u>2Q10 \$</u>	<u>2Q10 %</u>
Total As Reported	\$475.2	2.0%
<u>Exchange Impact</u>	<u>\$(1.1)</u>	<u>(0.2)%</u>
Total As Adjusted	\$476.3	2.2%
Early Dev As Reported	\$208.2	4.2%
<u>Exchange Impact</u>	<u>\$(1.8)</u>	<u>(0.9)%</u>
Early Dev As Adjusted	\$210.0	5.1%
Late-Stage As Reported	\$267.0	0.3%
<u>Exchange Impact</u>	<u>\$0.7</u>	<u>0.3%</u>
Late-Stage As Adjusted	\$266.3	0.0%

* Exchange impact is computed as the difference between current period local currency net revenue translated to US Dollars at current period exchange rates and current period local currency net revenue translated to US Dollars at the exchange rates in effect during the corresponding period of the prior year.

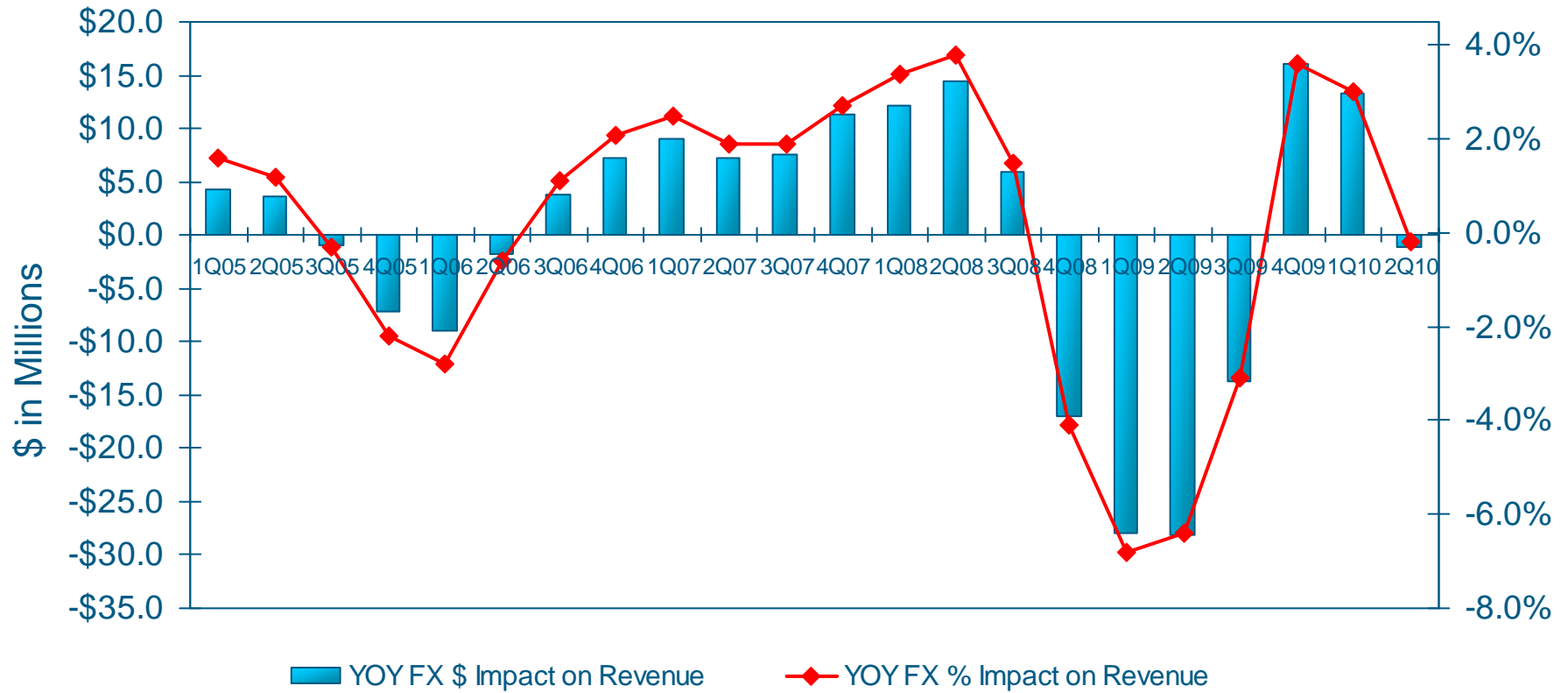
Foreign Exchange: Net Revenue by Geography

\$ in millions	<u>United States</u>	<u>United Kingdom</u>	<u>Switzerland</u>	<u>Euro Zone</u>	<u>Other*</u>
1H09 \$	\$547	\$93	\$131	\$59	\$77
1H10 \$	\$543	\$109	\$139	\$59	\$107
1H09 %	60.3%	10.3%	14.4%	6.5%	8.5%
1H10 %	56.7%	11.4%	14.6%	6.2%	11.1%
1H09 average rate	1.00	1.49	0.89	1.34	-
1H10 average rate	1.00	1.53	0.93	1.34	-
June 30, 2010	1.00	1.49	0.93	1.22	-

* "Other" includes a mix of >20 currencies



FX Revenue Impact



Days Sales Outstanding (\$ in thousands)

Period Ended	Accounts Receivable	Unbilled Receivables	Total A/R + Unbilled	Client Advances	Net	Trailing 3 Mos Revenue
30-Jun-10	\$281,106	\$114,109	\$395,215	\$(152,073)	\$243,142	\$475,171
Days	54	22	76	(29)	47	
31-Mar-10	\$265,826	\$115,414	\$381,240	\$(159,661)	\$221,579	\$481,924
Days	50	22	72	(30)	42	
31-Dec-09	\$285,119	\$97,279	\$382,398	\$(166,890)	\$215,508	\$485,065
Days	53	18	71	(31)	40	
30-Sep-09	\$291,225	\$111,919	\$403,144	\$(181,436)	\$221,708	\$475,284
Days	56	21	77	(35)	42	
30-Jun-09	\$281,362	\$105,417	\$386,779	\$(174,552)	\$212,227	\$466,049
Days	55	21	76	(34)	41	
31-Mar-09	\$259,035	\$104,077	\$363,112	\$(171,655)	\$191,457	\$441,236
Days	53	21	74	(35)	39	
31-Dec-08	\$228,951	\$112,719	\$341,670	\$(162,556)	\$179,114	\$438,645
Days	47	23	70	(34)	37	
30-Sep-08	\$240,761	\$103,960	\$344,721	\$(145,701)	\$199,020	\$440,109
Days	50	21	71	(30)	41	
30-Jun-08	\$224,432	\$106,749	\$331,181	\$(143,928)	\$187,253	\$436,912
Days	47	22	69	(30)	39	
31-Mar-08	\$220,189	\$96,115	\$316,304	\$(139,331)	\$176,973	\$412,432
Days	49	21	70	(31)	39	



Other Information

(\$ millions)

	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
CAPEX	\$63.0	\$112.7	\$40.3	\$30.6	\$27.1	\$33.1	\$30.4	\$37.1
D&A	\$17.5	\$19.4	\$19.6	\$23.3	\$23.6	\$24.8	\$24.7	\$26.3
Employees	9,310	9,614 ¹	9,879 ²	10,001	10,170 ³	10,320	10,437	10,442

¹ 4Q08 employees includes ~270 additions from the acquisition of the Greenfield campus

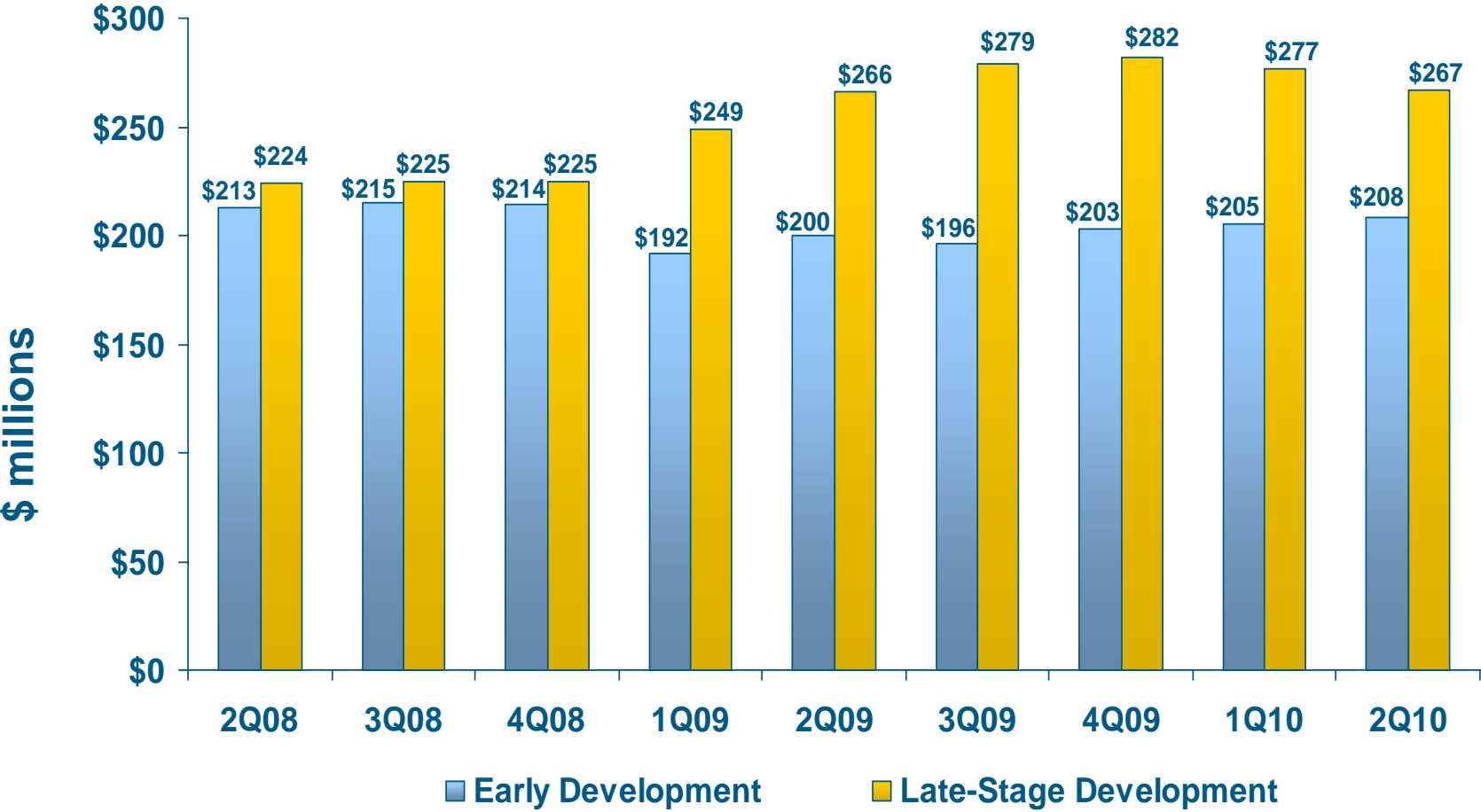
² 1Q09 employees includes ~65 additions from the acquisition of Swiss Pharma Contract

³ 3Q09 employees includes a net reduction of ~45 from the divestiture of IVRS business, partially offset by the acquisition of the Gene Expression Laboratory

Revenue and Operating Income

	\$ in thousands	Q1	Q2	Q3	Q4	YTD
Net Revenues	2010					
	Early Dev	\$205,049	\$208,192			\$413,241
	Late-Stage Dev	\$276,875	\$266,979			\$543,854
	2009					
	Early Dev	\$192,505	\$199,767	\$196,409	\$203,120	\$791,801
	Late-Stage Dev	\$248,731	\$266,282	\$278,875	\$281,945	\$1,075,833
Operating Income	2010					
	Early Dev	\$22,901	\$22,495			\$45,396
	Late-Stage Dev	\$66,216	\$56,513			\$122,729
	Corp Admin	(\$36,253)	(\$36,498)			(\$72,751)
	2009					
	Early Dev	\$27,160	\$27,083	\$22,434	\$23,051	\$99,728
	Late-Stage Dev	\$56,328	\$65,521	\$68,875	\$63,785	\$254,510
Corp Admin	(\$27,545)	(\$32,607)	(\$33,511)	(\$31,964)	(\$125,628)	

Quarterly Net Revenues by Segment



Quarterly Net Revenues US vs. Non-US

