

## Conversation ID: da879f8ea1c23aa6565cccaacac271fc

when adjusting for the negative impact of foreign exchange and gains from limited partnership investments.

In addition, the Insourcing Solutions business reported growth in the fourth quarter as a result of new contracts.

We are optimistic that execution of our sales strategies for both the sterile and non-sterile markets

This investment is particularly important now when the number of biologic drugs in development is increasing.

with growth above 10%. We were exceptionally pleased with this performance, which resulted primarily from improved client demand,

We were very pleased to see the Safety Assessment margin above 20% again and believe that we will continue to drive further improvement.

We expect 2016 to be a more robust year for revenue growth because of the strength of demand combined with enhanced strategies for partnering with clients.

In addition, we continue to initiate new and expand existing strategic relationships with our clients.

and we have begun to shift workstreams to the facility. We continue to actively market the facility

as soon as the acquisition closes, maximizing the benefits of our larger organization and minimizing disruption.

We will also continue with our very successful productivity and efficiency initiatives, which have enabled us to enhance our operations and increase the value that we provide to clients,

We have noted additions to our management ranks to augment our scientific expertise and operational capabilities,

we are continuing to make disciplined investments in our people, processes and systems in order to position Charles River to support future growth.

Segment operating margins are expected to be driven primarily by a modest improvement in the Manufacturing Support segment as well as a slightly higher DSA margin excluding WIL.

contributed a net 230 basis points to the DSA operating margin in the fourth quarter, but because the credits are now subject to tax,

Due to the planned acquisition of WIL Research and our goal to quickly repay debt, cash flow generation has become an ever-greater focus for us.

We have undertaken an initiative to enhance our cash generation, primarily through improvements to working capital management. This is one example of how the investments that we are making, that I mentioned earlier, will lead to more efficient processes.

We are investing in our Microbial Solutions business to improve our manufacturing efficiency

to be able to employ those benefits to the WIL organization as we bring them closer to Charles River. So a couple of years to get

companies. There's a whole host of biotech companies that are operating businesses that have drugs in the marketplace and have sales and

We are living the fact that we are continuing to play an increasingly more important role for all these clients, both large and small, and

in being that way, as we do. I think there are a lot of similarities in the companies

and we have enhanced strategies for partnering with our clients that's increasingly more flexible and thoughtful

that would have normally gone to other facilities in the network and start it at Massachusetts. Could you help us to understand kind of

if you look at the return on that investment in the finance department, you actually see that the rate of financial growth

what we're currently doing for them, what the current dialogue is and where we think it could go. We do build that up client by client. So

for instance, and really want to engage with us on that and it leads to something else. So

an accomplishment that few CROs can claim. We believe it's a testament to the value our clients place on our contribution to their research efforts, and we work every day to enhance that value.

will be a key component of revenue growth in 2016, and that our ability to provide a total microbial testing solution to our clients

Our goal is to be well positioned to participate in this expanding opportunity, and we are pleased with the progress we have made to date.

We have selectively acquired assets and combined them with in-house capabilities to create a

Discovery business which can assist our clients in solving complex challenges of early-stage research.

We are adept at developing flexible working arrangements, which have become increasingly important to our clients. Higher revenue will drive margin expansion as will efficiency initiatives.

and client response has been very positive. Site visits are accelerating and clients are beginning to place their first studies in the facility. As a result,

We are moving forward with our integration planning process in order to be well prepared for an early second quarter close.

such as the dedicated integration team we established in 2015. Identifying and hiring the best scientific and operational personnel

All of our efforts to date have been focused on positioning Charles River as the premier early-stage contract research organization

We believe that our global biopharma, biotech and academic clients are searching for the right partner to support them

To support these growth opportunities, both today and in the future, we are investing in our processes

Organic growth is expected to be driven by improving trends in our RMS and Discovery businesses,

This is because we continue to identify new projects and generate larger savings on planned initiatives.

We believe that these investments will generate benefits over time by providing a scalable platform to leverage revenue growth and accommodate future acquisitions with a more efficient infrastructure.

The manufacturing operating margin will be driven primarily by infrastructure enhancements in the Microbial Solutions business as well as synergies associated with the Celsis acquisition.

The RMS operating margin is expected to be relatively flat

and implementing additional projects to enhance the automation and efficiency of other businesses through IT investments.

We will also be keenly focused on integrating all of our current acquisitions and managing our existing businesses.

you. That concludes our comments. The operator will take your questions now.

we're not engaging with WIL's clients because they're not our clients at the current time. We have an understanding of who they are. We have kind of some euphemistic understanding of their initial reactions to the deal.

and it's an organization that we have respected for an awfully long time.

studies without having to build new space there. We're really pleased with our ability to attract senior scientists, and the management team for that facility is really quite exceptional,

half of the space that we originally finished, so I suppose

And that may help you understand what we're trying to achieve. So just to give you an example of within the finance department,

So they're always evolving. We have several conversations going on right now with large clients,

the successful execution of our strategy to position Charles River as the early-stage research partner of choice, a position that we believe will be enhanced by the pending acquisition of WIL Research.

As was the case in the third quarter, sales in Japan continue to decline moderately. But when looking at Asia in total, higher revenue in China more than offset the decline in Japan.

which positions Microbial Solutions as the only provider that can offer a unique

will be a driver of our goal for Microbial Solutions to continue to deliver at least low double-digit organic revenue growth for the foreseeable future.

These capabilities are especially important now when global biopharma companies are making the decision to increase their reliance on CROs, and small and mid-sized biotech companies,

our capacity has filled, and we are now operating at near-optimal utilization levels in most of our Safety Assessment facilities.

We are investing a significant amount of time meeting WIL's management and continue to be very impressed with their scientific expertise, operational capabilities and client focus.

so that we can lower our leverage to less than 3x EBITDA within 18 months of the close.

at an effective price has been the cornerstone of our value proposition for clients and has clearly resonated. The disciplined investments we are making in infrastructure, both systems and personnel,

continues to be one of the most critical components of the effective execution of our business strategy, which is the foundation for our future growth. By leveraging the investments we have made and new ones we intend to make

You may recall that our Safety Assessment business in Canada recognizes the majority of its revenue in U.S. dollars,

coupled with continued robust growth in our Safety Assessment and Microbial Solutions businesses. On a segment basis,

margin improvement is expected to be largely offset by higher corporate costs

we are confident in the long-term prospects for these investments and believe it is prudent to continue to forecast the return on our investments in certain life science venture capital funds.

The effect of the change is a reduction of operating income and an increase in our non-GAAP tax rate.

are also expected to increase significantly, partly as a result of the factors that I discussed earlier and partly because of seasonally higher corporate costs in the first quarter due to health and fringe-related costs.

think the last time I pointed out -- last time we talked about that, we said it would take a couple of years

And all I can say to try to answer that question is we will do everything we can to continue to

the ground as we had anticipated. I'd say the client reaction probably a little bit better than we had anticipated. We're being careful not to oversell it. We have lots of audits through the facility and lots of visits by clients and lots of requests

as a result of various important factors including, but not limited to, those discussed in our Annual Report on Form 10-K which was filed on February 17, 2015, as well as other filings we make with the Securities and Exchange Commission.

When including the expected impact from the WIL acquisition, the revenue growth rate on a constant currency basis

China continues to present a significant opportunity for us, as the government and private industry both fund drug research.

We had discussed our expectation for a better second half of 2015, which was based primarily on the anniversaries of the NCI contract cancellation in the third quarter

We continue to identify opportunities to streamline our RMS operations, particularly through the automation of manual processes and implementation of systems to improve data availability and accuracy.

comprehensive solution for rapid quality control testing of both sterile and non-sterile biopharmaceutical and consumer products.

The Biologics business reported one of its strongest performances ever in the fourth quarter, delivering

robust revenue growth and an improved operating margin.

which have always relied on external resources, are investing in their pipelines.

In addition to improving operating efficiency, these initiatives will centralize scientific expertise, enhancing the opportunities for collaboration and for implementation of best practices.

We are working on a comprehensive management structure for Charles River Safety Assessment business, which will maximize the talents and best-in-class processes of both organizations.

are as important as the investments we make to expand and enhance our portfolio.

will compress our margin expansion in 2016, but we are confident that we will be able to leverage our growth and enhanced infrastructure to drive greater margin expansion over the longer term.

a modest sequential revenue increase from the fourth quarter level, due primarily to higher sales of research models after a seasonally soft fourth quarter.

The combination of these factors is expected to result in first quarter non-GAAP EPS approximately 10% below the fourth quarter

of the book where you have sort of longer-term duration contracts, and then you talked to those that have sort of already raised a ton of capital. I mean, as you sort of continue to look at

Amount of capital accessed by these biotech companies from the capital markets was the largest in history.

we believe that pharma will continue to fund them aggressively. We think that they have

less overlap than we thought, which is quite positive. Look, the -- I think the best way to respond to that is our attraction to this company was entirely based on its scientific reputation.

that line double in size against a revenue base that's only gone up maybe 50%. And I'm wondering -- and I know you're in an investment phase here, but

manage actually cash management as well as other factors. It's still a little too early to say exactly

is something that lots of companies take advantage of. So again, as I said earlier, the diversity and the strength of our portfolio is really powerful from

it's anchored in a small handful of strategic relationships that could get to a point of saturation. The ability to bring more clients into that sort of strategic dynamic is clearly good for