

November 4th, 2009

Dear clients and colleagues,

The market is approaching year end and we do expect a fairly strong finish for stock markets around the world with the sectors that have led so far this year to maintain their leadership.

2010 is more difficult to forecast. We go against the consensus and believe that many developed economies including the US will see a double dip and go back into recession in the first half of next year. Rising unemployment, coupled with rising oil and commodity prices will choke the recovery. In addition, Central Banks around the World are facing the tough question on how to exit the easy money that is fuelling many bubbles without having a meaningful impact on unemployment and the general population.

Our portfolio continues to favor companies that have a secular growth story as opposed to more cyclical growth. A good example is our newest addition in the portfolio.

This week we would like to introduce a new name in the portfolio – **Pharmaceutical Product Development (PPDI US)**

Founded in 1985, and publicly traded since 1996, Wilmington, NC. (USA) based PPDI, provides discovery, research and development (R&D) and post-approval services to the pharmaceutical, biotechnology and medical device companies as well as academic and government organizations. The Company is amongst the five largest CRO (Contract research organization) worldwide with offices in 38 countries and over 10 000 employees.

Market Cap US\$2.5B, Sales: US\$1.5B, Yield: 2.8%, 5-year sales CAGR 11%, Net debt/equity 0% (net cash of \$700 million), EV/t12 sales 1.3, EV/t12 ebitda 6.1x, fwd P/E (06/2010) 16.0x, operating margin 18.1%, profit margin 11.9%, one-year return -29%, www.ppd.com

Target Market Size

Large Pharma and Biotech R&D expense is around US\$110B per year. The total market including governments, medical device, animal health, etc. is estimated at more than US\$150B. Currently, large pharma outsource 25% (\$92.5B R&D expense), and Biotech outsource around 70% (\$18B R&D expense).

The market for CRO is expected to grow at 12% per year as a function of more outsourcing with R&D expense expected to grow only at 3% per year.

Competitive advantage

PPDI is amongst the 5 largest companies in the World in that sector. It offers the complete scope of service from pre-clinical to phase IV studies. It has the strongest balance sheet in its industry, allowing it to seize opportunities such as their latest acquisition in China.

Growth strategy

At the beginning of the 1990s, CRO's were used by big pharma as spill over capacity. In the early 2000's, well funded biotechs started relying on CRO's for this non-core activity. In the last few years, a partnership model is starting to emerge as big pharmas move toward strategic outsourcing. It is estimated that pharma outsourcing today is around 30% and should move to around 60% in the next 5-8 years, a \$30 Billion opportunity. Emerging markets such as China will also be a source of growth. In addition, adjacent markets such as biogenerics, food, animal health, etc. will also be sources of growth

Competitive landscape

This large industry is still very fragmented, the largest player, Covance (CVD US) has sales of US\$2 Billion, or less than 10% of the market. The largest players have gained market share in the last 5 years.

Risks

Pharma mergers pose a short term risk as decision making is delayed. Also, access to financing by biotech companies is a risk as they represent a fast and growing sector or drug discovery and research. There is also a risk of a failed FDA or equivalent inspection which can shut down a facility and hurt the reputation.

Investment Theme

The overall CRO market will continue to benefit from growing healthcare R&D budget as well as increased outsourcing. The business is becoming global and companies that have a global footprint should gain share. Emerging markets are growing faster than the rest of the World.

Valuation

Our target price, using a 7% discount rate is \$42.50, a return of 101%. Amongst the catalysts to drive the price up will be the spin-off of the Compound development business in 2010.

Regards,

The Global Alpha team