

## West Pharmaceutical Services

## 4Q23 First Look: 2024 guide well-below expectations as inventory issues persist

Reiterate Rating: BUY | PO: 430.00 USD | Price: 408.19 USD

## 4Q sales of \$732mn (-1% below); adj. EPS 8c ahead

WST reported total sales of \$732 (+3.3% reported, +2.6% F/X, -0.7% M&A) vs BofA/Street \$742mn/\$740mn. Organic sales growth was +1.4%, below our +3.5% est. However, margins were ahead, with gross margin of 38.0% vs. BofAe 35.7% and Adj. OpM of 21.8% vs BofAe 20.6%. Adj EPS were \$1.83 vs BofA/Street \$1.75/1.78.

## Exhibit 1: Overview of WST 4Q23 performance

WST 4Q Sales miss and Adj EPS ahead of BofA &amp; consensus estimates

Quarterly metrics	Actual	BofA est	Street est
Revenue (mn)	\$732	\$742	\$740
Reported Growth	3.3%	4.7%	7.5%
Organic (CC) growth	1.4%	3.5%	3.9%
Proprietary Products (mn)	\$594	\$604	\$603
Contract Manufactured Products (mn)	\$138	\$138	\$136
GM %	38.0%	35.7%	37.5%
Adj. OpM	21.8%	20.6%	N/A
Adj. EPS	\$1.83	\$1.75	\$1.78

Source: Company reports, Bloomberg, Visible Alpha, BofA Global Research estimates

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## PP flat vs. +2% est, but up HSD ex-C19, CMO just below

PP sales, which includes HVPs (>75% of segment sales), declined -0.3 % organically (vs BofAe +2.1%) as C19 related sales continued to fall. Excluding C19, PP growth was HSD. Within PP, Biologics & Generics fell L-MSD organically, while the Pharma subsegment grew LSD. The CMO segment +9.4% organic sales growth vs BofAe +10.0%.

## FY24 EPS guide -13% below midpt on 2-3% organic sales

WST formally initiated FY24 guidance that came in well-below our/Street expectations. Specifically, WST sees revenues ranging from \$3.000bn-\$3.025bn (+2-3% y/y) vs. BofAe/Street \$3.22bn/\$3.21bn. On an organic basis, WST sees ~2-3% growth y/y which was vs. our ~9% est and short of the company's long-term outlook for 7-9% core sales growth. On the bottom-line, adj. EPS are expected to be in the range of \$7.50-7.75, down -7.2% to -4.1% y/y vs BofAe/Street \$8.75/\$8.77. Mgmt. cited the timing of inventory management by customers, which would have an outsized impact in 1Q as the reason for weak guide. The magnitude of the miss suggests that the "restocking" issues that WST saw in 3Q spread beyond lower margin standard products.

## Disappointing 2024 outlook will likely pressure shares

The FY24 guide is much lower than the framework provided during the 3Q call and we expect shares to trade down given the YTD performance and premium valuation. Understanding customer inventory trends (i.e., is the guide miss largely a 1Q issue or will it linger), HVP capacity expansion, and margin expansion in FY24 will be the key focus of the 9am EST call. Overall, we don't think the WST story is 'broken' and still see both the company's competitive position and end markets as strong. As such, we reiterate our Buy rating, but Mgmt. will have a lot to explain on the call.

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## Stock Data

Price	408.19 USD
Price Objective	430.00 USD
Date Established	26-Oct-2023
Investment Opinion	B-1-7
52-Week Range	272.79 USD - 415.73 USD
Mkt Val (mn) / Shares Out (mn)	30,900 USD / 75.7
Free Float	99.5%
Average Daily Value (mn)	194.41 USD
BofA Ticker / Exchange	WST / NYS
Bloomberg / Reuters	WST US / WST.N
ROE (2023E)	21.1%
Net Dbt to Eqty (Dec-2022A)	-25.5%
ESGMeter™	Medium

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HSD: High-single-digits

L-MSD: Low-to-mid-single digits

HVP: High-Value Products

C19: COVID-19

CMO: Contract-Manufactured

PP: Proprietary Product

W

## Price objective basis & risk

### West Pharmaceutical Services (WST)

Our \$430 PO is based on 30x our 2025 adj. EBITDA estimate. This is above WST's median multiple, but we think it is appropriate given WST's dominant market position and as new HVP capacity comes online that should drive sustainable high-single digit organic revenue growth and margin expansion for the next several years. Downside risks to our PO are slower than expected capacity expansion, lower-than-expected demand for GLP-1 drugs, adverse customer inventory management swings, unfavorable currency fluctuations, slow adoption of new products, low capacity utilization, and volatility in raw material (i.e., elastomer/rubber) costs.

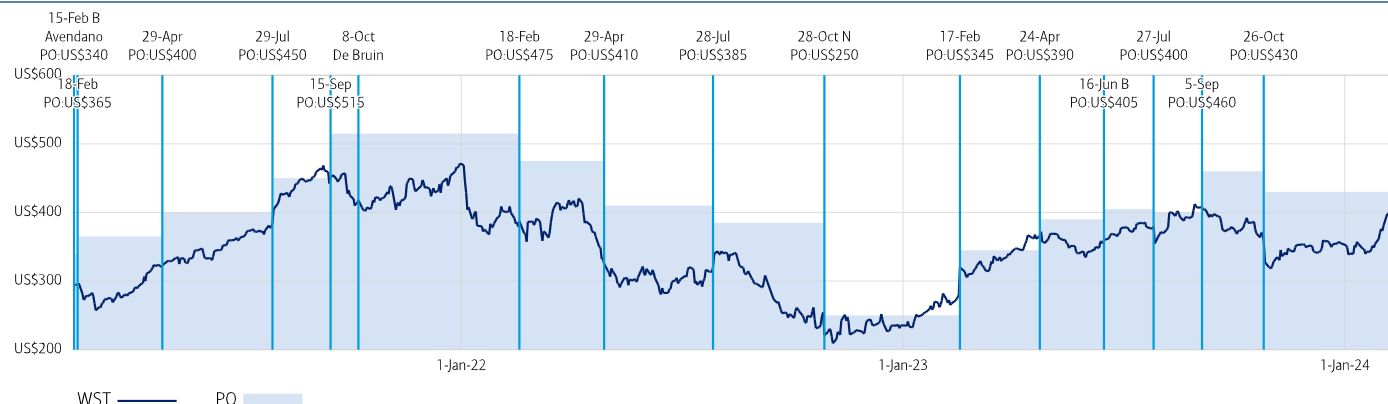
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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