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West Pharmaceutical Services, Inc. (WST)

Jefferies Health Care Conference

CORPORATE PARTICIPANTS

Eric Mark Green

President, Chief Executive Officer & Director

OTHER PARTICIPANTS

David Howard Windley

Jefferies LLC

MANAGEMENT DISCUSSION SECTION

David Howard Windley

Jefferies LLC

Good morning, everybody. Again, thankyou for attending Jefferies Global Healthcare Conference. I'm Dave Windley from Jefferies' Equity Research Department. I've had the pleasure of covering West Pharma Services for a number of years now and they've had a very, very good run.

Eric Green has joined in the last two years...

Eric Mark Green

President, Chief Executive Officer & Director

One year.

David Howard Windley

Jefferies LLC

One year as their CEO. And Eric is here to present West story to us today. So I'll turn it over to you, Eric. Thanks for being here.

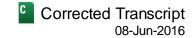
Eric Mark Green

President, Chief Executive Officer & Director

Great. Thank you, Dave, and thank you for inviting us to the Jefferies Healthcare Conference. And joining me today is Bill Federici, our CFO, who's in the front here and also Quintin Lai, who is our Head of Investor Relations.

I'm excited to talk to you a little about West, but before I get started, just want to remind you the Safe Harbor statements. You obviously can find this at our website, if you like to have more details, and here I can start with the presentation about West.

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The company has been around for 93 years, and the company formed and started with a focus on producing elastomers to be able to enclose drugs in a primary container. And so, West has been doing it for 93 years and that's what West is very good at.

If you look at our organization today and where we're servicing customers, we're not just providing the elastomers and seals that are critical in containing the primary drug, but are also moving into delivery devices, and I'll get into greater detail, but if you look at SmartDose capability and our CZ capability. So our focus is to integrate going forward the containment and delivery of injectable medicines and we have a strong foundation to work off of.

If you look at the marketplace that we serve, our customers are delivering drugs on a global basis in the tune of about \$280 billion of end sales, which represents about 30 billion units. And when you look at West's portfolio, it could be one or multiple components that are going on in each and every unit. The market we look at —that we play in is really in the containment and delivery devices and it's roughly around \$7 billion to \$8 billion. So we do have quite a room headspace for continued growth.

Okay. So when you look at where we play in the healthcare space, the top 35 injectable biologics. As you know, most of the biologics in the marketplace, roughly around 98% are injectables. We are on and our partner in Japan, Daikyo, are on the top 35 with West and Daikyo components.

If you look at the top 75 pharma and biotech firms with injectable drugs, we're working with all those firms and not just on one product, but multiple products. And what's really impressive about West is the ability to manufacture 40 billion components annually. And the reason why I point this out is that while we're giving this presentation, we can literally fill this room up with a number of components that will be used in injectable drugs over 100 million times a day.

Our focus, though, 40 billion is a lot of products. But the product – and we have town hall meeting with our colleagues around the world and you talk to the operators on the shop floor, they're focused on quality is that each and every component of the 40 billion. And that's pretty impressive because our focus is zero defect and reduce the particulate level for our drug companies or partners and looking at 100% commitment. It's a pretty impressive track record for West.

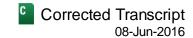
It is a diversified business. From a geographic point of view outside of the United States, roughly 50% of our revenues are in Europe, obviously Asia Pacific and Latin America. When you look at the product portfolio, you've heard a lot about the high-value products, but today that only represents a third of the business. When you look at delivery devices, it's only a 7%, while Contract Manufacturing is about 20%. So we have again a lot of opportunity both in the high-value products and also in the delivery devices.

From a customer segment point of view, we have relooked at our organization from key segments from pharma, biologics, generics, and also our Contract Manufacturing. And to go to greater detail, we believe with the business that we currently have, the sheer expectation is about 6% to 8% organic growth.

And roughly, when you look at the breakdown of our customers, generics and biologics, which is the faster portion growth of our business, is roughly 50% of our revenue today, again growing at higher rates. While the pharma sector, the small molecules are roughly around 30% and the balance of Contract Manufacturing.

We have over a 2,000 customers that we're working with today, although only 125 of those customers represent roughly around 95% of our sales. And why is that attractive? The other roughly 1,800-plus customers are individuals or small, emerging biotech firms looking at to innovate, incubate and launch new products into the marketplace, and we have a touch point with many of those customers on a global basis.

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We do follow the pipeline. We do believe there's over 2,400 injectable drugs in the development pipeline right now and we're brought in on early stage with our customers usually around the second phase, which allows us to bring more solutions versus talking about a transaction with our customers.

I went further into our portfolio. Roughly, as mentioned before, 20% is Contract Manufacturing [ph] while (06:13) \$300 million of our business in 2015. What's the core competency of Contract Manufacturing is really designing and engineering mass volume of devices for our customers. They do own the IP, but we have the cap ability of single processing units that are producing large quantities of products such as EpiPen, such as glucose monitoring systems, and so forth.

The other large part, 80% of our business is what we call Proprietary Products. It ranges anywhere from elastomers with the stoppers and seals also [indiscernible] (06:51), all the way towards the Daikyo CZ vials and syringes, which is more of a platform that we're working off of and also now into the self-injection devices such as SmartDose. So that's the split we currently have with our portfolio today.

But second and third quarter last year, I was still new to the firm, the strategy of West is quite sound and has been sound for a number of years. We went through a deep dive at West to look at where we play in the marketplaces, where we can actually fine-tune our focus and become more effective with our customers.

We identified that we need to have clear pillars in our organizational focus, and we reorganized our company at the beginning of the year to more of a market-led organization. That means that's really moving our commercial organization in line with customer segment versus from a product manufacturing site forward. And I'll get into greater detail on how that looks and how it's benefiting our organization.

The second area is around operational excellence. A lot of companies talk about operational excellence. So what we have done at West historically for the right reason is we ran our sites independently. So, there's around 28 manufacturing sites at West on a global basis.

And what we have done at the beginning of the year is we actually consolidated that under one organization so we can better align the manufacturing processes, our capital spend and where we build products for our customers into the future. So we believe with the efforts that we have in place, with the targets we have in place, we should be able to drive additional margin expansion not just through product mix, but also through operational excellence.

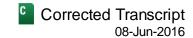
The third pillar that we're really focused on also is the product and service differentiation. It's really looking at our innovation and technology capabilities. Today, we have about 12 R&D sites around the world. Historically, again, we ran those through different business units in different geographies.

Today, we have one innovation technology team, and what the benefits we're seeing clearly from today is having the combination of material scientists, engineers, life scientists, whether it's in proteomics, genomics, cell assays, all the way to delivery devices – from elastomers to delivery devices now looking at how we can integrate the entire process and we're starting to see some early sign of success.

The fourth pillar obviously is driving shareholder value. Looking at how we can effectively drive profitable growth at West long term, but also how do we reinvest in the organization to continue with the growth and to capture value for our customers and for our shareholders.



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Going further into customer segmentation, what's interesting is that you look at a particular product and say, Eric, isn't this consistent from one customer to the next? And in fact, what we found is that there's very unique need for value propositions that are different from one customer segment to the next.

We talk about generics; it is the speed to market. There's a short window of opportunity for a generic customer to get a product launched into the marketplace and ensure that the primary container meets or exceeds the expectations of the regulatory bodies that they're operating and the countries they're operating in.

If you look at the biologics, we understand the needs or the sensitivity of the biologics interacting with material such as elastomers. And therefore, a high-value product portfolio is well positioned to really capture the growth of the biologic industry.

And also our biologic customers are looking at ways to differentiate their products, not just to go to a primary container, but how do you deliver the biologic to a patient in a way that meets the needs of the patient and also the healthcare system.

The third customer segment that we focus around as 30% of our business is pharma. It's really small molecules, branded small molecules that there's a lot of discussion. These drugs have been in the market for several years. It's about total cost of ownership, and that's another aspect that the segmentation allows us to drive our operations to better serve the pharma customers again unique needs compared to the other segments.

And the fourth area that we've leveraged in our commercial organization is Contract Manufacturing. It's quality manufacturing and the design and engineering for a long-term sustainability of products. And so, when you walk into our Contract Manufacturing sites and talk to our customers, these are long-term partnerships who are looking at building the assets, running efficient operations, build service to customers such as the insulin market, such as the diagnostics market with continuous glucose monitoring as examples. So as we've reshuffled our organization to be more commercially market-led, these are the distinct markets that we're focused on going forward.

We have a pretty broad portfolio that really services our customers and we will continue to broaden that portfolio. If you looked at the spectrum of products we have [ph] a stark of (12:00) standard products. This is the history of West. This is what – we started with 93 years ago. And if you look at what we've been adding as additional services and capabilities at West that really differentiate us from the competition is really around the high-value products.

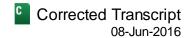
If you look at the spectrum, it is the ability to wash, to sterilize, to coat, to inspect each and every component and not talk about billions, but talk about a component and be able to ensure the highest level of quality, integrity all the way up through our highest product portfolio, which is NovaPure which is really quality by design. It's the highest level of quality that can be obtained in the industry or in the space that we serve.

And the natural trajectory is going into the delivery devices like self-injection SmartDose. So you can see this continuum as we build our portfolio to really help services our customers.

When you look at the economics between our product portfolios, the blue balls that you see on the chart here really are Proprietary Products. It's the 80% of the business. When you look at the standard packaging, it's in the middle around mid-single-digit growth 27% to 28% margin. That's the historic part of the business.

What West has been very effective at doing, we'll continue to drive this performance in our proprietary devices like CZ and SmartDose and also our high-value components, which is basically that chart I showed earlier of adding

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additional capabilities. What happens? Those particular portfolios are growing in double-digits and they're also driving margin expansion.

As we get more volume through our plans for SmartDose and CZ, we will see a natural expansion of margins. When we look at the high-value products for a customer moving from standard products to high-value products, we're seeing the natural expansion of margin almost 2x. And so that is the phenomenathat you are seeing with performance of West is the growth of the top line, but also natural expansion of the margins and the growth of the bottom line.

One of the hallmarks of West is the technical capabilities and that's what differentiates West, not just with products, but the know-how, the ability to interact with customers in their early stages of development to identify how can we provide the best packaging solution, primary packaging solution to enable them to put their product into the market and reduce risk.

We have tremendous amount of knowledge within the organization of 7,000 employees. You're looking at 2,500 with over 10 years of experience. It's not just the scientific knowledge, but it's also the know-how of our operators on the shop floor and our customer – interaction with our customers and knowing our customers intimately is very important and that's a very impressive statthat we have at West we continue to build on.

There are several projects in development. As I mentioned earlier, we've consolidated all of the innovation and technology into – under one roof. So that we have one driver of the organization that's taking the leads from our market segments and identify what new products and services we need to add to move more efficiently and more effectively with our customers to drive performance. And so, we're leveraging the 12 sites around the world versus having individual sites to drive new products.

And here are some examples of products that we're launching. We just announced with a couple of days ago the NovaPure 1 ml to 3mL plunger that again is leveraging the highest level of quality in the industry that will allow us to work with very sensitive biologics on the marketplace. And we're very excited to see that continue – that NovaPure platform continues to take off.

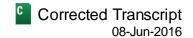
We're also continuing to expand this Crystal Zenith, which we've spoke of historically. We continue to feel that there's a strong platform to build off of not just with cartridges that are used in the SmartDose device, but also looking at syringes, also looking at vials, which is again really supporting our customers in solving some complex problems.

We had a customer recently talk to us about a recent launch, they're using the CZ vial for one of their biologics, and the reason for it is the extreme cold storage that the drug is under. As you know, a lot of the biologics are hundreds, if not thousands of dollars per dose. And to have a drug in a glass vial pulling out this extreme cold temperature can actually crack and costs money and it's also a quality issue for our end patients. So, the CZ platform is an area that we'll continue to build off of and launch.

The other area of development is around delivery systems. We continue to see interest in our SmartDose product portfolio and we're actually expanding into the next-generation, which I like to show you a little bit more about.

The second generation of SmartDose is an ability to have prefilled SmartDose unit versus having a cartridge with the drug and a device, and the patient has to put them together when they're taking the drug in the convenience of their own residence.

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With this particular development, this is working with customers, identifying how we can leverage CZ which is [ph] moldable (17:23). You can actually see the ability to have the needle actually come 90 degrees off of the cartridge, which allows it to have a higher sterility of the pathway for the drug. Going into the device allows us to go anywhere between 1 ml to 10 ml that's preloaded, that's pre-sterilized, and this is again working with customers, identifying ways to be able to provide a better product for the future.

While we made several changes in the last year and this year in the organization, we have a very strong platform, very strong strategy to work off of, we continue to perform well as an organization with the same focus on our customers. The first quarter, we have a little over 10% constant currency growth rate on the top line and the adjusted diluted EPS of a little over 20%. And this is a continuation what you saw at the end of 2015. So we're pleased with the performance that we experienced in the first quarter.

And if you break it down by customer segments, as I said earlier, the biologics and the generics business continues to grow in the double-digit organically. This is a strong growth driver for West and again, it is because of the need for high-value product components, also the interest level towards around CZ and SmartDose devices. And so, the growth of both biologics and generics is impressive double-digits.

We're seeing pharma around mid-single-digit, which is pretty consistent to the small molecule market of low-single, so we believe we're performing at or above market growth.

And in Contract Manufacturing, the first quarter was low-single-digit organic, but we believe strongly that for the full year, we've talked about mid-single and we feel strong that we'll continue to deliver mid-single by the end of the year for contract manufacturing.

As we look at our customer segments, the driver allows – as I said earlier, it's high-value products, which had little over 20% growth in the first quarter.

Our full year guidance, as we see it in the end of Q1, is organic growth of 6% to 8% top line and adjusted diluted EPS of \$2.12 to \$2.25. And we'll update this information on our Q2 call.

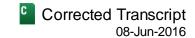
How we use our cash at West is important to discuss. Particularly, operating cash flow is strong. Our primary focus right now is to continue to reinvest in the business for organic growth rate. This year, we're spending about \$150 million to \$175 million in capital, of which we spent roughly around \$60 million a year on maintenance of our existing infrastructure. That infrastructure, as you can imagine, is heavy machinery and robotics and electronics that need to be continuously monitored, managed and applied maintenance, and that's what differentiates the quality with West.

We have another \$10 million to \$20 million, depending on the year. You could consider it maintenance around IT infrastructure of our organization, and the balance of that is for growth. We're continuously looking at ways to grow our business, continue to differentiate and the moat that we have about \$1.5 billion of assets at West is a clear differentiator from the competition.

To replicate what West does and what we do well would be difficult for a competitor to enter the marketplace on a short term. Now, we realized there are competitors and we stay focused on that, but our primary focus frankly is around our customers, how can we invest to better support our customers for a long term.

The second priority around our use of cash is around dividends. We spend roughly around \$30 million – over \$30 million a year on dividends. So we've been doing that for a number of years and I think we've increased it consequently for the 24 years.

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The third area is inorganic growth. Our M&A approach is clearly around bolt-on technologies that enable us to differentiate more likely around the delivery device area being elastomers today. We have a lot of new formulas that we're putting in with our elastomer business. If you remember the continuum, we're looking at how we bolster, how we look at ways to be able to differentiate through delivery devices.

Again, all the delivery devices require – most of them require a primary container for the drug which West has the right to play in. Ad therefore, we're going to continue with that spectrum around up to the delivery devices. So inorganic growth is the third priority and we'll continue to evaluate technologies and bolt -on opportunities, whether it's equity stake as we took with NanoPass just recently or other opportunities that we're currently looking at.

The fourth is around debt repayment. Although, I think you will look at our balance sheet and see that there isn't a lot of debt at West. We have actually done quite well on how we leverage our balance sheet.

And secondly, as you look at stock -1'm sorry, the fifth is stock repurchase. As you know, we've stated beginning of this year that we've been authorized by the board of directors to acquire up to 700,000 shares. It's really to keep our share count somewhat neutral from year-to-year. So that is the allocation of our cash at this point and we continue to believe number one priority at West to support our customer is to drive it through organic growth — investments to the organic growth story.

So to summarize, we've created a market-led strategy that's build on a strong foundation that West has created for – we have created for several years. That focus is around specific needs of the segment. Again, the differentiation between biologics and generics are very noticeable and we identify that and we're operating it in according to those requirements.

We recognize that we have a very strong foundation, a competitive position that we'll continue to build on. Quality culture at West is part of the DNA. Even down to the component at the shop floor and not talking about 40,000 components; just talking about a component, our teams are focused on each and every patient and the experience that they have with the drug.

We are designed in the regulatory products, so there's a tremendous regulatory barrier for the competition. And I truly believe that science and the technology and expertise of our organization, it does differentiate West from the others.

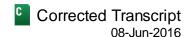
We have globalized our operations, the first time we've done this at West. I truly believe this will give us an opportunity to leverage our capital more effectively, be able to align our operations to our customers, and to become more global when we start looking at the opportunities in Asia.

Innovation, as I spoke of earlier, we're going to drive innovation of new products and services with a global organization, and this will all result in a strong continuum of the financial strength to invest and back into our business with a strong balance sheet and increasing operating cash flow.

At the end of the day, all 7,100 employees are focused on servicing our customers, realizing that our customers are impacting patients' lives every day and we take that serious. We also believe in enriching and unleashing the talents of our employees and obviously, we are very focused on making sure that we create value for our shareholders long term.

So thank you very much and enjoy the rest of your conference.

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