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West Pharmaceutical Services, Inc. (WST)

CL King & Associates Best Ideas Conference

CORPORATE PARTICIPANTS

Eric M. Green

Chief Executive Officer & Director

MANAGEMENT DISCUSSION SECTION

Unverified Participant

All right. On behalf of CL King, I'd like to introduce West Pharma and we're going to do a presentation, then we will do some Q&A.

Eric M. Green

Chief Executive Officer & Director

Great. Thank you very much, and my name is Eric Green. I'm the CEO of West Pharmaceutical Services. And it's a pleasure being here this afternoon, and I want to thank CL King for inviting us today. We have a very productive day here in New York. Today joining me is Mike Anderson; he's our Treasurer and primary IR contact; and also Bill Federici, our CFO of West Pharmaceutical Services.

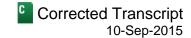
Before I get started, I do want to just mention about the Safe Harbor statement, cautionary statement regarding forward-looking statements and non-GAAP measures that I may refer to in our presentation today. If you're not familiar with the statement, please take time to review. We have documents, presentations outside and also on our website.

When you look at West, it's a 90-year organization that has a deep history as a supply chain partner with the biotech pharma and device customers. And the products that we make touch, contain, protect and deliver a majority of the injectable products consumed in the western market. In those terms, it's a tremendous responsibility that we provide a very reliable base of business and offers tremendous opportunities to enhance and expand our products and processes to enhance the safety, convenience and the efficiency of containment delivery to our customers' products.

Interestingly, to support our customers, we manufacture over 40 billion components each year. These are packaging components, embedded device components and various systems, and vast majority of which are essential in the safe production storage and ejection, and to a lesser extent infusion of products. As a result of our capabilities and technologies, we are the leading provider by a wide margin of components used in containing biologic products. And our products together with the growth in biologics account for our growth in profitability. And we believe that will continue in the near or long-term future.

Pens and auto-injectors illustrate the evolution of the marketplace in our business quite well. In addition to our elastomers being used in prefilled syringes and cartridges, over the last several years, we've become a leader in the production of the devices that incorporate those formats.

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And as need – as the need in preference for delivery outside of clinical settings grow, we're able to work side by side with our customers to deliver these components. Including the EpiPen for severe allergic reactions and insulin pens for diabetes, we produced over 100 million components and assemblies today and look forward to the commercialization of our own devices, which I'll get to in a few minutes.

As a business, we're quite diverse. From a geographic point of view, we have a heavy presence in the Western markets, with also very large market share in the Americas and EMEA. We're also seeing we have strong presence in Latin America and Asia and we're seeing healthy growth in those particular regions, but they currently, today, play a lesser role in our total revenue portfolio.

In terms of the types of number of products we offer including an array of packaging of medical device components, a contract business has focused on that healthcare, and a growing portfolio of delivery systems, which represents a diverse portfolio here at West. We look at our customer, they've comprised of the top biopharmaceuticals innovators, along with generic and biosimilar and medical device customers. We do not have a significant customer concentration, and we do enjoy strong ties to customers, large and small.

Those ties include the design and aspect of our business. When our or anyone's elastomer closures and components are used to launch a new product, they're likely to stay on the product through its commercial life. This is generally regarded as a regulatory barrier-to-entry. And for us, it's about \$1 billion in our pharmaceutical packaging systems business today.

But it's deeper than that, it involves the economic and the science of change, whether or not it's regulated, it's about our capacity to produce today and to invest in the future, and it really keep in pace with every increase in requirements for consistent high quality. In short, our customers are making what amounts to a product lifetime commitment when they choose their component supplier and they've consistently chosen West and Daikyo. We support those products and customers in addition to its lab services and regulatory and technical support, which we believe is an unmatched, and it continued to be a meaningful differentiator.

We look at the proprietary or the pharmaceutical delivery services business, we bring the same level of commitment to the science of regulatory expertise. These products include [ph] their main end (05:38) customer specs, their proprietary devices as well as our own proprietary products.

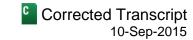
Our proprietary products are about \$100 million of the \$400 million of business, and it continued to grow quite nicely for us. The balance of the \$400 million are products that we've produced where others incorporating their intellectual property, a business that is good, that we're very good at and we're competitive, particularly in truly interesting opportunities when they arise.

Taking a look at our results, it's a result of staying part of these businesses. We've experienced very good growth from the business and profitability over the last several years, with five years of sales growth and business – of CAGR of 6.1%, EPS growth of 10.5% annually and an increase in returns on invested capital.

We are linked to growth in the use of already existing drug products, as well as the new injectable drug products introduced into the marketplaces. And together with the geographic growth potential, as I mentioned earlier, around Asia and Latin America and the ever increasingly quality requirements, we believe we're well positioned to grow, continue to grow and even accelerate these growth rates.

This is an interesting slide when you dissect our business into the five different businesses of the two, of pharmaceutical systems and packaging solutions. When you look in packaging components, our high-value products continue to grow in the 10%-plus range because of their regulatory acceptance early on in its biologics

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revolution, their quality and reliability and our ability to stand behind as they improve them. The value proposition has proven to be true, that our best components will save our customers both in terms of time and in cost. We are able to sell the quality at a reasonable price and is profited from it as well.

And our proprietary systems business, while it's a smaller piece, it continues to follow a similar path, increasing more dramatically our contribution to and participation in each dose of customers' drug requirements. Our proprietary products' capability is rooted in the contract business, which continues to grow and provide us capabilities, credibility and leadership to be successful in both parts of business. If we look at the market trends, we benefited indirectly from the same trends that continue to drive most healthcare and pharmaceutical companies; aging populations, growing economies and healthcares, growing [ph] share (08:22).

Generics has been a factor for some time and biosimilars are relatively new and less certain, but as we continue to see the pressures by private government-sponsored insurers, we will continue to see the biosimilars penetrate the marketplace, more specifically, the growth in biologic drugs, both existing drug volumes and new approvals, but for us it isn't just about the biopharma revenues that matter so much, when we take a look, it's more about the unit growth and our degree of participation in those drug units. Our high-value products and proprietary strategies are really built on those premises.

We look at our key growth initiatives at West. It's really broken into four distinct areas, I'm going to go greater detail this afternoon, but it is around the high-value product utilization driving up in the value chain of the biologics. It's looking at the operational excellence, leveraging through manufacturing expansion and also driving a quality culture initiative throughout the world. We're also looking at increasing adoption of the Daikyo Crystal Zenith system and SmartDose injector, and also maximizing contract manufacturing contribution.

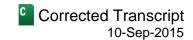
The high-value product strategy has been developed over the last several years and it's taken – it's driven by customer input and how we can provide higher quality products introduced into their system and reduced defects and improve the yield of their product as they move into the biologic space. We have added several new features to our portfolio with FluroTec, which is coating the components; moving up the chain of Westar RS, able to watch the components sterilization, Envision which is around camera inspection, and West NovaPure we recently launched is encompassing all the capabilities that you see in front of you to provide complete solution with complete documentation for our clients.

So we're able to develop a particular solution for our customers that take these components and deliver the right product to our customer at the right time. Talking about the expansion, we continue to invest a significant capital into our business of roughly between \$140 million and \$150 million. This year we continue to see that going forward. Geographic expansion around Waterford, Ireland expansion was launched in July of 2015. We can expect that to be operational in 2018, which gives us the first phase of multiple phases we see in the future of a strategic center of excellence in Ireland.

We also recently expanded our Kinston site in North Carolina to include high-value processing for components. The validation process has been completed, and we're actually been able to complete a commercial order here in Q3 of 2015. So we'll continue to — enables to match the demand that we're seeing from our customers on a global basis. In Asia, we moved some of our manufacturing capability out of Singapore into India around the metal seals manufacturing, which has allowed us to leverage the space and utilize the facility to introduce the high-value product capacity, again, requirements from our multinational customers in the Asia-Pacific region.

Looking at the proprietary product strategy, this is encompassing the entire movement from components into devices, and you take a look at the ability to leverage the Daikyo Crystal Zenith, moving away from glass containers to plastic containers, which is clearly an added advantage in the biologics space; and the introduction

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of SmartDose which is an auto injector, electronic wearable injector that enables to introduce large quantity of biologics into the patient on a less frequent basis.

These are new systems that are [ph] being developed (12:31). We currently have eight development projects ongoing right now with SmartDose and one actually in Phase III. And we have several, at this point 13 projects in clinical trials with the Daikyo Crystal Zenith. So we're cautiously optimistic that we will continue to see growth in the proprietary space moving forward.

Specifically, as I mentioned about the CZ and SmartDose uptake, the key point at this – when you look at SmartDose, we've just introduced or announced the opening of increased manufacturing capability in Arizona. What that does, it provides us two locations for manufacturing, one out of Israel, one in Arizona, to truly meet the needs of the current and future demand requirements of our customers.

Moving on to contract manufacturing; this is an area that we acquired roughly 10 years ago called The Tech Group, and they have been able to really support our pharmaceutical and medical device customers by bringing in our customers' IP and producing products on their behalf. So what we've been able to see growth in this area, specifically around the diabetes market. We continue to see investments both in here in the United States and in Europe to really support our customers' endeavors. More recently, we had a award that was given to the team significant lean manufacturing capabilities out of our facilities, received a Frost & Sullivan Manufacturing Leadership Award, which is another indicator of what our customers see in regards to the capabilities of our contract manufacturing.

So if we look at the summary of the business today, there's a significant partnership that we have in place today with all the major pharmaceutical biotechs companies and medical device companies around the world. We're able to support, not just in the innovator space, but also in the biosimilars and generics space, the barrier-of-entry to this business. We have a significant asset base of over \$1.5 billion in manufacturing capabilities around the world. And once the products are launched with our customers' drugs into the marketplace, the decisions really are partnership for the duration of the lifecycle that [indiscernible] (14:57) drug.

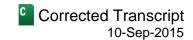
If you look at the competitive position, as I mentioned, diverse customer base. We are seeing uptick in our proprietary technology. We're very pleased with the progress. We're still cautious on the outlook, but we are seeing good uptick from our customers. We have a very strong position in Asia footprint. And as our customers move into that region, we're able to support them more effectively, specifically in China and India. And our organization is truly committed to quality as demonstrated in our high-value packaging, our high-value products portfolio within packaging systems, which has given us the capability to move it up into the biologics space.

I think when you look at the financial strength of this organization; it enables us to continue to invest capital into our infrastructure to support the high growth areas, and also enables us to continuously invest in the future.

So I appreciate your time. Thank you for hearing the West story, and we'll be taking any questions that you may have.

Unverified Participant	
Yes, sir?	

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Eric M. Green

Chief Executive Officer & Director

Yes

QUESTION AND ANSWER SECTION

Q

Can you talk about margin expansion opportunities in several years, and where you're likely to see those coming off?

Eric M. Green

Chief Executive Officer & Director

Δ

Yes. So when I look at margin expansion opportunities in the next few years, it really comes from two areas; one is, when you look at the high-value products within the packaging systems business unit, that business is roughly – of that units, \$1 billion units is roughly around 47% of that business, and the margins in that area is roughly around 55%, and it's growing in double-digits. So year-to-date, first two quarters roughly 13% organic growth. So there's a natural margin expansion of the packaging system business just due to almost 50% of the business growing in double-digits with double the margin.

The second area of margin expansion opportunities in the proprietary products of the delivery systems business, while it's only \$100 million today of the \$400 million of that business unit, as we were — a lot of the work right now in CZ and also SmartDose is in development phase with our customers, as that gets away from sampling products to them, so for example, SmartDose, we have delivered approximately where we deliver about 200,000 units this year, [ph] the unit to (17:25) commercialization that increases significantly, you can leverage your operations, you can expand margins along with that. So the two areas of our product mix expansion that we'll see with those portfolios, that gives us the ability to leverage.

[inaudible] (17:44) outlook and magnitude of that opportunity to be [indiscernible] (17:49) couple of years?

Eric M. Green

Chief Executive Officer & Director



Well, what we'll do is we will update our five-year guidance at the end of October, beginning of November which we traditionally do every year at West, and we'll take into consideration of recent changes of any marketing conditions and so forth. Yes.

Good afternoon. Two questions. I think Aptar has a health packaging group. Do you compete against them? And second, once you're partnered with a customer, how easy are you to design out and replace for [ph] in one of those cases, once you're in you're just... (18:35).

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Corrected Transcript
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Eric M. Green

Chief Executive Officer & Director

A

Yeah. [ph] Steve (18:35) very true. In regards to our customers, once we are into a — with a drug with a customer, it's very difficult for our customers to design out our product because then they have to go back through retesting and filing of the drug that's being administered to the patient. So it's very difficult. It takes 18 months to 24 months, as an example, to retest and to re-file [indiscernible] (19:03) drugs. So that's why the relationships that we've had with our customers for so many decades is very important because they look at us as trusted partners to continuously drive quality enhancements, improvements. So there's really no reason for our customers to look at existing drugs already in market to be looking at alternative choices at this point.

Do you compete against Aptar Stelmi?

Eric M. Green

А

Chief Executive Officer & Director

Aptar Stelmi? Yes. So they're one of the competitors out there.

Q

If I could just ask a follow up, how many significant competitors are there out there? I think every drug company would seek to multi-source, if they can. How long is that menu of options for – is it just two companies?

Eric M. Green

Chief Executive Officer & Director

A

Yeah. Well, in the components space, there are two organizations. But again, we are more than about three-fourth of the market share that we currently [ph] absorb (20:02) specifically in the components space. When customers are looking to ensure that there is supply chain continuity, that's one of the benefits that we have done at West, is we're putting assets not only can we produce in Kinston, North Carolina, but the same capabilities we'll be able to produce in other locations. So in essence, we are providing that assurance of supply. But there are times when customers are looking at a primary and secondary, they tend to go with the primary for most of the business. Yes?

[indiscernible] (20:40) for SmartDose [indiscernible] (20:43) development. You mentioned you have eight. Are those for drugs that are currently in the market [indiscernible] (20:48) or are they new substances?

Eric M. Green

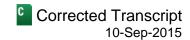
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Chief Executive Officer & Director

These new substances [ph] that are being (20:52) in various stages within development, and one of them is in Phase III.

C

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The more generic packaging, it looked like, at one of the charts, that revenue growth is actually declining. Is that wrong on that – the units?

Eric M. Green Chief Executive Officer & Director	Α
There	
	Ω
You know that's a matrix where obviously the high-value products were a nice growth.	Q
Eric M. Green Chief Executive Officer & Director	A
Yes.	
	Q
At the bottom left, there were some things [indiscernible] (21:19).	
Eric M. Green Chief Executive Officer & Director	A
Yes. There's a small business that we have that's less than 10% of our business. It's called medical device disposable medical devices	ce –
	Q
Right.	
Eric M. Green Chief Executive Officer & Director	A
which is really it's manufactured on behalf of a couple of customers right now. We've isolated that. We at that business to see how we can improve the performance. But I think by showing it here, and we've the past, is just to articulate, it is a small piece of our business. It's not as strategic as other aspects of our business.	done this in
	Q
And then just injectables in general, what is your outlook on that and their share relative to other delive mechanisms for drugs?	ery
Eric M. Green Chief Executive Officer & Director	А

Yes. I think especially in the biologics, there's not a lot of alternatives, except for injectables. And as you know, the biologics space is growing significantly faster than the small molecules. And so – but that poses a challenge to have the biologics quality and containment to be preserved, as you expect, over a longer period of time, you need

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to make sure you have the right containment and delivery devices. So, and said differently, that's where the highvalue products on the component side really supports that with additional benefits and features that really keeps the integrity of the biologic.

But also the delivery mechanism. As you can imagine, if a customer is looking to deliver a biologic and it's 3 mls, the patient technically would have to probably go back to the clinic to administer that once a month. What we're trying to do with SmartDose is to enable the individual at home be able to administer that drug.

Hence, more time released over a short period of time. So it's less painful. It's a larger quantity, i.e. 3 mls, 4 mls, which would be of great assistance to the patients. So, we see the injectable space continue to grow, particularly or definitely in the biologic space.

Why are your sales declining this year?

Eric M. Green

Chief Executive Officer & Director

Our sales are increasing this year at right year-to-date it's 7% on a performance basis. We have an extreme large FX headwind because we do have, as you noticed in here, we had about – a little over 40% of business is in Europe or euro. So, but on a performance basis, year-to-date, we're at lower 7%. We guided for the full year at 7% to 8% performance.

What's your share repurchase philosophy?

Eric M. Green

Chief Executive Officer & Director

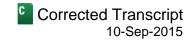
Well, we haven't had any share repurchases recently. We will take advantage of that when it's necessary, but we looked at capital investments around looking at our own CapEx because, as I mentioned, we are investing in the future for our manufacturing capabilities. That's - primarily, we do have dividends that we pay. It's the 24th year, I believe, of increase on dividends to our shareholders. And we also are intent to continuously look at inorganic opportunities as best use of cash at this point.

Can you just expand on M&A environment [inaudible] (24:36)?

Eric M. Green Chief Executive Officer & Director

Yes. So I think we have – the growth story that we have right now and you've seen the charts, we're looking at growth of 6% in the last five years. This year, again, 7% to 8%. EPS is double-digit growth. We have a really strong growth organic story today. I think M&A, what we're looking has been very diligent, making sure it either is an adjacent space that allows us to be more supportive of our customers and our customers led to us to that, or else

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looking at can we get more into whether expanding in the device area or else in the components. But we'll stay close to what we're strong at.

I think we haven't had a lot of M&A activity at West for the last several years, but there are a couple of activities that we have done, like The Tech Group that has been contributing to the overall success of the company and a few other smaller bolt-ons at that point. It is part of our radar. It's on our radar. We're continuously looking at M&A opportunities, but we just want to make sure it has the right fit. And we'll see in the near future.

Eric M. Green

Chief Executive Officer & Director

Great. Thank you very much and again, thank you for the invitation. It's been very – it's been a really good day and enjoy your afternoon.

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