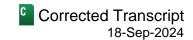


18-Sep-2024

West Pharmaceutical Services, Inc. (WST)

Bank of America Global Healthcare Conference



CORPORATE PARTICIPANTS

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

OTHER PARTICIPANTS

Michael Ryskin

Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Michael Ryskin

Analyst, BofA Securities, Inc.

It's Mike Ryskin. I'm on the Bank of America Life Sciences [indiscernible] (00:00:06) team and I'm excited to host our next session West Pharmaceutical. Joining us is Eric Green, CEO; and Bernard Birkett, CFO. Gentlemen, thanks for coming.

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Great. Thanks for having us.

Michael Ryskin

Analyst, BofA Securities, Inc.

Really excited. Lots of questions, lots topics to discuss. Before we start, do you have any opening remarks or any opening statements you want to give?

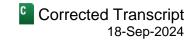
Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Sure. Michael, first of all, thank you for the invitation. It's great to be with you today. We're looking forward to the one-on-one discussions also throughout the day. Look, I'm excited about – to share the story about West, and I know that we'll get into a lot of the questions and answers in a moment, but we're in a very attractive space of healthcare when you think about injectable medicine space and the critical role that West plays.

When you think about whether it's in the biologics, generics, or in the small molecule, West is a very important – critical partner with our customers to really be able to provide the primary containment necessary for those new molecules that are being approved and distributed across the globe.

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We have gone through a interesting period of time, like many of our colleagues and peers and customers over the last three to four years. But we couldn't be more excited about the position that we're in for the long-term growth and outlook of what we can produce and provide to our customers. So, I appreciate the opportunity to address all these questions throughout today.

QUESTION AND ANSWER SECTION

Michael Ryskin

Analyst, BofA Securities, Inc.

Q

Great. Thanks. And we'll certainly touch on the long- term algorithm and the opportunity there, but let's start with the more near term. You reported 2Q results about a month ago. You had an overall decline of 6% organic growth. There were some changes to the fiscal year guide.

I think the big questions are right now in the destocking situation. That's something that's been felt in the industry for the last couple of quarters. So, can you give us an update on sort of what your latest thinking on that is? How 2Q played out relative to expectations? What your expectation on destocking is through the rest of the year?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.



Yeah. I'll start with, when I look at Q2 of this year, I would say that was below our expectations internally at West. We had expectations to deliver certainly greater than that. But knowing that we are at a period of time of destocking, working with our customers, I think we take a look at the impact that the pandemic had of the pharmaceutical supply chain was around our customers and multiple suppliers building up inventories to be able to support and to ensure no stock out of any particular drug molecule in the industry. And I'm proud that West was able to support that. But our customers have been – after the pandemic, have been reassessing their safety stock levels and adjusting accordingly, and West is no different.

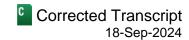
The underlying growth rates of the injectable medicine space hasn't changed. The fundamentals haven't changed. And that's what we believe, the volume growth of the injectable medicine space across the globe is about 1% to 2%. We'll call it 1.5%. And that has been in place for a number of years. We believe that is the outlook also going forward.

But our business is growing much faster than that because obviously we have an element of price. We also have a strategy around mix shift at West that has been playing out for a number of years and we have a lot of opportunity going forward to continue to capitalize that with another factors that are driving a mix shift effect.

So, saying that, yes, Q2 was below our expectations and we did call down Q3 and Q4 accordingly as we identify a lot of our customers, their intra-quarter orders were less than we expected. But, now, we're seeing the – at the time of our earnings call, we talked about the confirmed order book continued to be – seem to come back in line. But the destocking effect is a different curve with different customer segments. The biologics is like different effect we see with generics and also with pharma small molecule.

And, again, as we think about the Q2, the impact that we're able to deliver on our commitments of getting the installed capacity up and running, we're very pleased about the outlook over the next number of years.

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Michael Ryskin

Analyst, BofA Securities, Inc.

I mean, just the point you touched on there, I want to expand on. You mentioned destocking curve varies by segment whether you look in biologics, generics, pharma. You touched on that on the second quarter call as well. Could you expand on that? What you're seeing in each of those three?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah. Bernard, do you want...

Bernard J. Birkett Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

Yeah. So, within biologics, we would expect to see continued destocking take place as we move through Q3. We do see positive signs within biologics, particularly around our on-body wearable devices. We're seeing strong demand there. We're actually capacity constrained at the moment. And so we're struggling essentially to meet the demand. We're layering in that capacity. We see that coming online and starting to get some traction with that in Q4. So, some positivity within biologics towards the back end of the year.

From a generics perspective, we expect to see destocking continue throughout the remainder of 2024, probably not at the same accelerated level as we've seen in the first half of the year. But, again, it is going to continue.

When we look at our pharma market units, this is where we saw the destocking. Initially, we believe we are going to see some growth within pharma as we progressed through the second half half of this year, which is positive for us to see. So, you can see that, within the three market units, we're at different stages within the destocking story.

Michael Ryskin Analyst, BofA Securities, Inc.

And can you talk about visibility for that? I mean, you've had some changes in your assumption on what's going on in destock from customer bases. You talked about maybe some orders, steady order growth in recent months. How is visibility? Are you having more consistent conversations with your customers?

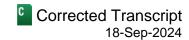
Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Absolutely. So, we have been engaged with our customers in different levels of the organizations, in different functions to ensure that we're aligned to their expectations. And when you think about what objectives they're trying to meet with their safety stock levels and their future production runs that we need to be aligned to, what results derive from that. And that's how Bernard articulated the different segmentation by talking to several of our customers getting into that understanding.

We're able to now identify how do we align our operations to be able to support these firm orders that we are capturing at this point in time? And that aligns well with what Bernard is talking about, as we think about – latter part of this year, when you think about the biologics, think about the generics, pretty consistent throughout the year and build up in 2025. This is a direct result of our customers' feedback. And we are getting deeper into those aligner supply chains more effectively and understanding how can we be more in tune or better analysis around the intra-quarter, which we're very positive we're moving in the right direction.

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Michael Ryskin

Analyst, BofA Securities, Inc.

Q

So, when you talk about biologics declined through 3Q, generics declined through the rest of 2024, is that – do I assume that, at the end of 3Q you have visibility that 4Q will see improvement, and then 1Q in generics will see improvement? You have confidence in that ramp picking up after that?

Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

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That's right.

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.



If we look at the – sorry, we're not going to guide 2025. So, you know that we're still working through that and to see how is that going to play out. It's just, as we said, we see different cadence as to how destocking is unfolding over the next couple of quarters within the various market units and where, let's say, drivers are coming from.

We're seeing some customers who had actually placed orders out into 2025 coming back, asking us to bring them back into 2024. And I would say, it's a limited number, but it's an indication of how things are settling down in certain areas. But again, we just have to see how this plays out. So, we're being cautious in our approach.

Michael Ryskin

Analyst, BofA Securities, Inc.



Okay. And earlier in the year, you talked about there being a little bit of [ph] a separation (00:08:58) between customers, meaning you had your top – a handful of pharma customers responsible for a certain bit of the destocking. Are you seeing certain pockets of the industry that are doing more than others, or is it pretty broad at this point?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.



It's pretty broad. But, however, as Bernard was talking about earlier is that, if you think about in the small molecule and the pharma space, we saw that much earlier and that was more aligned with the comments that we made a while back. And the destocking effect, we've seen that go down through at this point in time. And in some cases, we're starting to see that ramp back up.

So, yes, this is pretty broad across the different segments. But I think, at this point in time, we have a much better control of where we are today as we think about looking forward over the next – for the balance of the year, but also going forward into 2025.

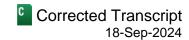
Michael Ryskin

Analyst, BofA Securities, Inc.



Okay. In terms of just thinking about the underlying reasons for the excess inventory, I think a lot of it tied to elevated lead times and supply chain disruption over the last couple years that led your customers to stock up. Your lead times have improved since then. Are they back to pre-COVID levels? Are there any areas where you still need to address anything in the supply chain?

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Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah, absolutely. If you just step back and look. The whole pharma supply chain during the COVID period started to increase safety stock levels. And as that impact has occurred, we had constraints on our – be able to deliver at the service levels that we've been accustomed to, our customers were accustomed to, and because of the COVID event that we're also responding to.

As we installed new capacity, validated, announced online, we're able to now bring our lead times back to prepandemic levels. So, yes, we're back to very good position today. And we also have, as we've built in our investments around our capital, it's not only allowed us to get back into a good position around lead times, but it's also allowed us to start investing in more in the finishing processes, which allows us to drive more HVP conversion.

And as we talk about what is driving that, it's around the biologics, it's around the regulatory changes here in Europe and work with our customers to be able to move from standard to various parts of our high-value product portfolio, and also other major drug launches around the therapeutic class such as obesity.

So, we're positioned well now to leverage these investments, staying focused on making sure that we are able to stabilize and maintain those lead times as we go forward for the number of years ahead of us.

Michael Ryskin

Analyst, BofA Securities, Inc.

Okay. In your answer there, Eric, I think you touched on my next four questions in no particular order. So, maybe just let's start with the regulatory changes. You flagged that as a tailwind. You've been talking about it for a couple quarters, Annex 1, and the other regulatory changes around the world. Is that something you're starting to see as a tailwind or as a near-term tailwind going forward?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Mike, that's going to be a long-term event that's going to play out, but the conversations are happening today. And so, we're working with a number of customers that are identifying certain [ph] all-new (00:12:20) packaging containment solutions that are in the market today with certain drug molecules. And we're mapping out how do we now transition that up to going from a bulk standard product to that's ready to use, that's gone through our pharmaceutical washing capabilities, around vision inspection, sterilization.

When you think about all those services that we provide our customers with our product, that is the thesis of the high-value product that we've talked about for a number of years. And so, we're taking – the opportunity is quite considerable, but it is customer by customer, and it will vary depending on what services they're going to require that will support their needs, whether it's just in the region of Europe, but if they decide to go global, and then also timing aspect and layering that into the capacity that we put in place already.

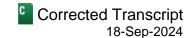
So, again, we're very well-positioned. We have the solutions in place. We're having the conversations with customers. And I would say there isn't – they're all very unique and they're growing at different paces.

Michael Ryskin

Analyst, BofA Securities, Inc.

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Got it. Do you need to see more – in order of sort of what's necessary for the next step forward or not, do you need more regulatory discussions with the regulators? Do you need something done on that side of things? Is it customers need to validate the products and adopt the changes? Is it a timing issue?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Α

It's more of the latter. It's timing, getting ready, and be able to whether they – our customers are going to make the investments, what investments they need to make, and then obviously making the modifications with our product that we deliver with them with all the right – the data to support it. And so it is going to vary on the timing, but it's more of the latter part of your question.

Michael Ryskin

Analyst, BofA Securities, Inc.



Okay. And when you talk about the various discussions you're having with your customers, you talked about regional differences, product differences. If you're having a conversation with a pharma customer on this, how would they implement some of these changes? Would they really go product by product or will be across the entire portfolio?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.



Well, conceptually, they'll be looking at our platform, but since a lot of the molecules in the market have various types of West product on it and different formulas, it's not a universal wholesale change. So, we have to be very specific at the drug molecule level to work with them on the final solution. So, conceptually, we're looking at them as programs, but there's different products within that program. We'll go on that journey with them and there's most likely we'd stay there.

Michael Ryskin

Analyst, BofA Securities, Inc.



And when we think about the impact to the financial model from something like this, talking about the various components of the model, right? You're thinking mostly from a mix perspective, from a pricing perspective, is that how we should be thinking about the contribution?

Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.



Yeah, essentially there's – it will be converting existing volumes of standard product to HVP. So, then you're picking it up on the pricing as that dynamic changes. And then, really on the margin profile of those products, [ph] should (00:15:31) shifts in a positive way for us.

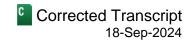
So, what we would expect it to do is it's obviously going to feed into the long-term construct on the top line and then also feed into the 100 basis points of margin expansion that we have outlined. But, again, it's a multiyear process. I don't think we're going to see a hockey stick with this. It's going to take a number of years for our customers to convert. So, it'll be paced.

Michael Ryskin

Analyst, BofA Securities, Inc.



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Okay. Eric, another point you touched on earlier was sort of your participation in GLP-1 in some of the obesity drugs. It's obviously been a huge focus for the market overall and for West specifically. So, right now, could you give us sort of a high-level overview of how and where you participate in the GLP-1 market?

Eric Mark Green

Α

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah. So, we are participating in a vast majority of the various products that are being developed. And it really hits both segments of our company. So, when you think about Proprietary segment, which is our elastomers and seals, obviously we have a high participation rate with – whether it's going to be vial configuration or prefilled syringe with our plungers or stoppers and seals if it's a vial.

Then in our Contract Manufacturing business, we are also selectively in a way to identify where we can make investments to support the manufacturing of various delivery devices such as auto injectors or pens. So, we're positioned very well in both. But it's a very different competitive environment in both, and our value propositions are unique in both.

And I would say, in the elastomer side, we have a very strong position [indiscernible] (00:17:22) to work off of. Yes, we made investments not just for this particular segment, but we've been making investments to be able to support this growth in both our elastomer business but also in our Contract Manufacturing.

Michael Ryskin



Analyst, BofA Securities, Inc.

When you think about your exposure now, a lot of the talk is – a lot of the discussion is how the GLP market will evolve over time between prefilled syringes, vials, auto injectors, possibly oral drugs. Where do you stand to benefit the most and what do you see as potential risk from orals taking more share of GLP-1s?

Eric Mark Green

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Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah. First of all, in the injectable space, we are positioned very well and we'll continue to be so and we'll continue to work with customers and partner with them to ensure that we're providing the best product and the best outcome for them, whether, again, it's in our Proprietary business for elastomers, whether it's plungers or stoppers, or in the Contract Manufacturing, where we are investing specifically for a customer for a product, and these tend to be large investments that we will base them on the return that we can get out of this – that infrastructure.

In the oral space, you're absolutely right. We don't participate in oral at all. And there will probably be a place for oral. But the question will be we also see that there's a very long runway and a very attractive need for the injectable space in the obesity area. So I think, long term, we are – West is positioned very well to be able to support this category.

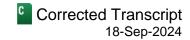
Bernard J. Birkett

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Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

Okay. I think on that, from the economic side, if we look at from the Proprietary segment of our business, so stoppers and plungers, that's where it's much more profitable for us as a market leader in the space and how we participate there. From a Contract Manufacturing perspective, we're one of many.

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So as Eric kind of alluded to earlier, the economics are different. Although you may get a higher ASP per device, that they often around those is it's less than what we would get on our Proprietary business. But also on the Contract Manufacturing side, it's actually allowing us to look at different areas within Contract Manufacturing or are there other more profitable services that we can provide within that space? So, it's also allowing us to look at how we expand that business.

Michael Ryskin

Analyst, BofA Securities, Inc.

Sure. You touched on a couple of times continued investments in capacity and capabilities to the point of CapEx. On the 2Q call, you also raised your fiscal year CapEx expectation slightly from \$350 million to \$375 million, while at the same time talking about the destocking dynamics. So first, could you sort of reconcile those two? Were you seeing some near-term challenges, but you continue to invest in more capacity?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

I'll start and then continue, Bernard. So if you look at the investments we're making or we have been over the last few years and then into 2024, about 70% – roughly 70% of our investments is around growth. And what you'll find is that, the growth area for Proprietary really is in that finishing area for high-value products. I know several of our investors have been in our Kinston plant and been able to see firsthand all those expansions, whether it's NovaPure or NOVACHOICE plungers looking at the finishing aspect of our HVP. So, that site is now operational and able to support growth in these areas.

We also have investments going on in our other high-value product plants, such as Eschweiler, Waterford, and Jersey Shore. I was just up in Jersey Shore just a few days ago and that area there now can do its own high-end compounding. If you think about the HVP that it has historically produced out of there, now we have expanded significantly to go handle even more finishing processes. So, these investments really are focused in the Proprietary side or on the higher end of HVP for West.

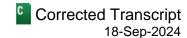
Again, what will support the biologics growth and our participation rate, remains very high in the biologics area. We expect to see continued growth in that area with our customers. We see GLP-1 as an area of growth opportunity that we will continue to support our customers on as they grow. And then, obviously with these regulatory changes, conversion from standard to high-value products which is quite considerable when you think about number of units that we produce.

If you look on the Contract Manufacturing side, again most of it's around growth and that is really specifically tailored and it's very focused on a couple of new sites where we're manufacturing, particularly for the GLP-1s again. But just to be very clear, those investments we made with our customers are long term and we have certain expectations internally that we look at from a ROIC perspective, and it met that expectation for us and we continue to invest there.

But also what Bernard alluded to is that, in those sites or in one particular site, we are expanding the capability of just manufacturing devices to actually now the capability of handling drug, which means [ph] – not the fill/finish (00:23:02) to be very clear, that's not the area that we're going into, but be able to take a finished product, drug product, and put it into the device itself.

So, this is a capability that we are expanding and allows us to have better economics in that part of the business. Whilst it's going to be small to start with, it's a great step forward to continue the value curve of our Contract Manufacturing business.

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Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

Yeah. Just also to add to that, that for us to layer in capacity, it typically takes 12 to 24 months and sometimes it's even longer than that depending on the equipment or the infrastructure that we need to put in place. So, we have to be investing ahead of the curve, and destocking is something that we have to deal with here in the near term. But with a business like West, you have to be looking out 5, 10 years in advance to make sure that the capacity in play is in place.

And as Eric mentioned, there are a number of growth drivers. It's not just one that we have to be prepared for. And we're also very cognizant that we've got our lead times back to a place where they are like pre-pandemic, 8 to 12 weeks. What we don't want to happen is when demand normalizes and then we have to deliver on these other opportunities on top of demand normalization that we don't want our lead times to extend back out. So, it's really being able to manage and service our customers in the most appropriate way. And to do that, we need to have that capacity in place.

So, I know, from an investor point of view, the timing may look a bit off, but it's something that we believe we have to do now. We're very cognizant of how we are deploying that capital and there are projects that we have looked at and said, okay, do we stop them, slow down them, and so we're constantly reviewing and making those decisions based on what's happening in the market around us.

Michael Ryskin

Analyst, BofA Securities, Inc.

On some of those projects, you mentioned, some of those sites and capacity expansions that are coming online in 3Q, 4Q, everything's on track there. Are you already – do you already have orders? Is that capacity already prebooked and ready to go?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

So, the contract manufacturing area of those facilities are coming online throughout 2024 into 2025. It does take multiple quarters to ramp up to get to the peak volume output. But the commitments that we've made with our customers is that we will be running throughput as being products – high quality products as much as possible. But it does take time to ramp up as we've seen with other investments we've made over the years.

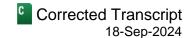
In the Proprietary side, we are, as soon as it's commissioned with certain customers, validated that we're able to start ramping up in manufacturing. But as Bernard indicated, some of the areas that are high-value product processing site, we are ensuring that we have enough capacity over the next several years as we see those transition occur into more HVP that we're able to support it and not get into a situation of what we learned from with the COVID vaccine support, how that — we don't want to impact lead times, to be candid.

Michael Ryskin

Analyst, BofA Securities, Inc.

Got it. And taking everything we just touched on and rolling it together, you're facing some near-term headwinds in terms of destocking, but there's tailwinds in terms of the HVP conversion Annex 1, GLPs. Putting all that together, is the long-term growth target, long-term growth algorithm still applicable?

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Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.



Yeah. I think I look at – yes, the short answer is yes. When we take a look at the fundamentals of our space and our position that we have in the market and the partnerships we have with our customers. And what West brings to the table is what differentiates us.

I think when we look at, as I said earlier, the volume is really available in the marketplace, the injectable medicine space, about 1.5%. It's been like that for several years. They'll continue to do so, we believe. We think about the pricing aspect. We do believe – I know historically where years ago were about 1% or less, but were 3% - 2% to 3%, if you think about that. And then the mix shift is very attractive for West and that has a lot of runway ahead of us because, as you mentioned, some of the tailwinds.

The growth opportunity around biologics continues to be very attractive and we truly differentiate in that area. Our participation rate is really – it continues to be very high. We win by early entrance into the development process for our customers and as they go through their different phases, and then we are able to scale and support them on scale.

I think some of the biologics area is the fastest segment that we see growth and we continue to do very well in that space. I look at the other opportunities that we have around regulatory changes. We talked about that in great detail. Again, very well-positioned there. We give our customers confidence that we can support this volume transition from standard to high-value products. And with the investments we've made, it allows us to move seamlessly without having disruption with lead times, and our customers are comfortable with us with what we have done in the years working with them on similar transitions.

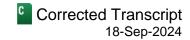
And then the GLP-1 is a space that is obviously gained a lot of attention in the market, but from our perspective, we believe that's just a continuation of what we have been doing with our customers. And we will continue to supply the amount of volumes that they would require to be able to meet their demands in the marketplace, and we will not be the bottleneck. So, positioned very well with the tailwinds, [indiscernible] (00:29:00) in the marketplace, but it's very attractive as we look about our position going forward.

And I really do believe why West – and we have to earn this every day with our customers, we have to earn it, is that – but we do have quality, we have scale, we have that partnership. We have the ability to bring new innovations to the table to solve the most complex problems, to enable them to have their drug in the market, to ensure positive patient outcome. And so that's our purpose, and we'll continue to drive that.

Michael Ryskin Analyst, BofA Securities, Inc.	Q
Any questions from the audience [indiscernible] (00:29:40).	
	Q
Just a quick question on how fungible is the capacity of the various segments? Can you, let's say, demand segment within Contract Manufacturing exceeds your expectations? None of the segment is less than your	for one

expectations. Can you switch around between those?

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Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah. In our Proprietary business, the various customer segments is highly fungible. So, as we think about the investments we made to be able to support the vaccines, we were able to reallocate that resource – those resources to support other customers in other products or SKUs, let's say, for our customers and other molecules. So, in our Proprietary business, our infrastructure asset base for the most part is not dedicated or reserved by customers. It is a very fungible business.

A lot of the processes and equipment is actually fungible between different product types. So, you think about difference of you going from a vial configuration to a prefilled syringe configuration, different elastomers are needed, and you can use the similar assets at our high-value product clients for that.

Contract Manufacturing is different. Those are dedicated lines for dedicated customers and product, but those are very long-term agreements that are established upfront, and we make sure the economics are appropriate. And that's about 18%, 19% of our business, that Contract Manufacturing side. So, very fungible.

Michael Ryskin

Analyst, BofA Securities, Inc.

Anyone else? Just follow up on that on the fungibility within Proprietary products. Is there a transition time in terms of re-speccing everything, getting everything re-sorted, how quickly can you make those changes?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Well, a lot of our process – if it's a similar product but go into different customers, may have a different formulation, or may have a different finishing process to it, but the fundamental equipment is batch process. So, we can move those pretty quickly. When you're starting talking about different types of configurations, like molding, molds that would be required, then, yes, that takes some time to build those molds. But for the most part, we have them ready to go if it's a commercialized drug.

Michael Ryskin

Analyst, BofA Securities, Inc.

We've got some questions recently on your relationship with Daiichi Sankyo. The existing agreement is expiring in a couple of years. Could you just talk about that and sort of how you see that playing out?

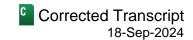
Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah. The agreement we have with Daikyo, it's a 50 – now, it's a 51-year relationship that we have with Daikyo. It is an exclusive arrangement between ourselves and Daikyo. We have entered in a more advanced agreement this last round where we increased our ownership to 49%. And there is a, let's call it – in order to modify these agreements long term, there needs to be a super majority vote. And we're obviously positioned very well to protect our interests and our position.

But besides the agreement – we put the agreements aside, the partnership I would say hasn't been any stronger ever in the 51 years than it is today. The level of connectivity we have with various levels of the organization is very high. How we go to the market, how we share technologies, how we share innovations is very impressive today, and it's mutually spoken of between the two firms. So, we see no risk. The agreements will continue on

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going forward between the two companies. It's both a distribution agreement, a technology agreement, and also a shareholders' agreement.

Michael Ryskin

Analyst, BofA Securities, Inc.

Okay. Bernard, maybe switching a couple to you, let's talk about the margin dynamics, both in the quarter and through the rest of the year. You've got a steeper ramp in margins as you go through the year. Just some of that tied to volumes, but also mix shift. Could you just walk us through the bridge from 1Q/2Q to full year?

Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

Yeah. So, the main challenge we've seen this year is, obviously, drop off in volumes and a drop off in volumes around HVP and that's been the challenge that we've seen and particularly in Q2. And there's about a 400-basis-point impact with volumes and efficiency and then 300 basis points around mix. And we're a high-volume business. So, we need that and volume to normalize.

Once that happens and we get back to a more regular type of mix, then margins would actually bounce back. And what we've seen is, if you look back at the 2020/2021 period, you can see the power of that HVP mix shift when we were getting a lot of HVP growth that our mix shift was expanding 300, 400 basis points. So, pretty powerful.

So what we would expect is, when demand normalizes and we get back to our long-term [indiscernible] (00:35:02), margins will come back to kind of circa 2023 range. And then we would be growing 100 basis points a year off that. But again, we need to see that demand normalization and the mix normalization to accompany that.

Michael Ryskin

Analyst, BofA Securities, Inc.

And the 100 bps going forward, you talked about price, mix, volume, the various components of that built into the 100 bps, is that...

Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

Yeah, it's primarily mix. For us, the vast majority of it is mix shift. And so, when we look at the growth drivers within our business, if you look at Annex 1, GLP, or participation rate in biologics, that leads to that 100 basis points expansion. We get a little bit around OpEx, pricing typically covers inflation. So, it's really mix is the driver.

Michael Ryskin

Analyst, BofA Securities, Inc.

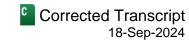
And your expectation for price going forward?

Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

2% to 3% we think. We saw elevated prices in 2023. I think we got close to 6% and it was about 4% the year before. But a lot of that was driven by inflation. So, we had agreements with our customers to be able to pass that through. But we think, on a normal basis, it's within that 2% to 3% range. Now, it varies per customer and per business and per market unit. So, we don't operate the prices. So, it's not a 2% to 3% across the board. So, some areas we get less and some areas we get more.

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Michael Ryskin

Analyst, BofA Securities, Inc.

And in terms of cash use, we talked about CapEx earlier, a little bit elevated this year. You talked about bringing that back down to 60% longer term. Is that 2025 or 2026? Sort of how is that ramp...

Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

Yeah. We're not going to guide, again, 2025. But again, in the medium to longer term, it is getting back to that 6% to 8%. And we'll have to see what we need to do here in 2025 based on the demand we're seeing, but that is the target for us.

Michael Ryskin

Analyst, BofA Securities, Inc.

Any other uses for cash? I'm talking about in terms of buyback, dividend?

Bernard J. Birkett

Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

The dividend policy, we expect to see the same, an increase each year. On buyback, really we target maintaining the share count. That's for the first area that we look at when we look at buybacks.

Michael Ryskin

Analyst, BofA Securities, Inc.

Okay. We've got just a couple minutes left. Any other questions from the audience? If not, we'll go with our standard closing question. What do you think is most misunderstood or underappreciated about West?

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

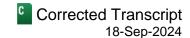
Well, I would say just to frame this up, as we've mentioned earlier, is that West is in a very strong market leadership position in what we do with the injectable medicine space. It's a very attractive area. We have strong partnerships with our customers. As they navigate through new launches of more complex delivery drugs, whether it's a primary containment or delivery device, we're able to work with them on those innovations and we'll support them long term.

We have a very deep-rooted history of supporting. On the regulatory changes, we're in the forefront with our quality, with our new product launches to be able to support these changes. And we're able to adapt and leverage that. And I call it the moat around the business. And I think the moat around West is very attractive because of the quality, the scale, the reliability, and you think about the ability to support regulatory changes that are upon us.

It's a strong business that we'll continuing to be partner with our customers as we have these two therapeutic classes, challenges in the positive way to support. So, I think we're in a very good position. It's a very durable business with our customers. Our participation rate remains very high and I think the outlook of West continues to be as attractive as it has been over the last several years. So, it's exciting to look forward at West. And, internally, I can tell you that that is our focus is how do we continue to drive our purpose, which is to support our customers to impact patient lives.



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Michael Ryskin

Analyst, BofA Securities, Inc.

Great. Thank you so much.

Eric Mark Green

Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Thank you.

Michael Ryskin

Analyst, BofA Securities, Inc.

Thanks, everyone, for joining.

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