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# West Pharmaceutical Services, Inc. (WST)

KeyBanc Life Sciences & MedTech Forum

# CORPORATE PARTICIPANTS

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

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

# OTHER PARTICIPANTS

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

# MANAGEMENT DISCUSSION SECTION

## Paul Richard Knight
*Analyst, KeyBanc Capital Markets, Inc.*

Hi. This is Paul Knight. I am the life science analyst at KeyBanc covering West Pharmaceutical. I'd like to welcome Bernard Birkett, the Chief Financial Officer, Senior Vice President of the company; Quintin Lai, Vice President and Head of Investor Relations. The format will be I think Quintin will say a couple of words to kick us off. And then we do have a Q&A screen. So you can use that on your device or you can email me as well, paul.r.knight@key.com. So, either way, I'll be able to see your questions. But thanks, today, Quintin. Really appreciate your time; and thank you, Bernard.

## Quintin John Lai
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

Well, thank you, Paul. And thank you and thank you, KeyBanc, for the opportunity. We really appreciate it. And Paul, you're one of our longstanding analysts, and we appreciate all the coverage that you've provided us.

For those of you who are new to West, I'll just give you a quick overview. The company is the global leader in primary packaging of injectable drugs. So let me parse that out and break it out. Primary packaging, it is packaging that is directly in contact with the injectable drug. Because it's directly in contact, that means that it's highly regulated by the global regulators that are overseeing the drug customers to make sure that the drug package is compatible and stable and reliable over the life of when that drug will be stored.

We are global. We operate in 25 sites all around the world. We have operations in North America, Europe, Asia, South America. And it matches up with many of our customers who are also multinational as well that are looking to expand their drugs beyond just their home country and into other regions. And injectable drugs, that is our primary focus. We don't focus on solids. We don't focus on nasal. We believe that the intricacies of packaging and delivering injectable drugs provides us plenty of opportunity to add value to our customers and to create value for our shareholders.

# QUESTION AND ANSWER SECTION

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

With that, Quintin, I'll start off the questions. This year, destocking of course has been the topic for, I would say, a year-and-a-half. Any new color on how you see that unfolding? I think your guidance for the year assumes kind of a full year still happening. But any color around that? For you or Bernard.

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

Yeah. Thanks, Paul, for the question. Just following on from what we said when we gave guidance initially that we do see the impact of destocking primarily happening in the first quarter for us and then bleeding into the second quarter we expect to see some, but not to the same amount. And then as we get into the back half of the year, we do see us getting back to operating within our revenue long-term construct. And so, we expect to see that picking up.

Again, as we said in February, we were able to look at a certain cohort of customers, which had the biggest impact really around destocking for us. And we've had a lot of conversation with those customers around that and understanding, okay, what were the main drivers and then when do we expect to see things normalize. When we look out into the second half of the year and we've looked at our order coverage as a percent of our forecast, we see that getting back to pre-pandemic levels, maybe a little bit ahead in some instances of that. So I think it's really kind of a first half of the year, I think, for us, and particularly here in the first quarter.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Orders already better, did you say, Bernard?

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

Yeah. Well, in February, it was – when we talked about looking at our order coverage as a percent of forecast and comparing it to pre-pandemic levels, for the back half of the year, we saw it a little bit ahead of that, of where we were pre-pandemic on it. So really looking at trying to take out COVID and looking at normalized trading conditions.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Do you think about customers' lead times? Do you think about lead times? Do they want a four-month lead time? What is it now? Or do you even look at that metric?

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

Yeah. That's something that's high on our radar, given what we've experienced over the last number of years with COVID, where we saw some of our lead times actually go out past 50 weeks based on demand within certain areas of our business. And to counter that, we typically target around, on average, 12 weeks lead times. And some are lower than that and some are higher depending on the product itself. And we know we need it to get back to those levels. And we're pretty much there at the moment through the COVID demand dropping off and also we've layered in capacity into some of the areas where we saw bottlenecks, and we're extending our lead times.

So we continue to do that in certain areas, but we've made a lot of progress through 2023. And what we're actually seeing is that the order patterns for our customers, again, are going back to pre-pandemic levels. So they're not placing orders as far out as they had to during COVID times to make sure that they got product in the queue. So it's – I think it's better for us. It allows us to plan more effectively and it's also better for our customers as they're able to manage their inventory over those shorter lead time periods.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. And one thing that as we look at your historical results, your proprietary delivery systems group was – in 2022, it was $157 million. It was $307 million in the year 2023. What are the products within this proprietary delivery market? And I believe that's out of Arizona, is it not?

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

A

Yeah. So, there's a number of products in that category on delivery systems and admin systems. So you're looking at products like CZ, you're looking at products like SmartDose, SelfDose at admin systems themselves. So we have seen traction in a number of those areas over the last number of years. Now we're still somewhat [ph] supply (00:07:26) constrained within our SmartDose product portfolio at the moment. So, the demand is outstripping our ability to supply right now. And we are layering in extra capacity to be able to meet that demand. We see that coming in later in 2023. It's a little bit later than we would have forecast given the complexity of what we're trying to deliver on. But they are the main areas within that products platform that you just mentioned.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

And is – that is not GLP-1-type product to be delivered, is it?

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

A

No.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. And then, I guess, the topic of interest always is GLP-1s, what you're seeing in that market, is it early days? And what are you doing to meet demand there? And part of that question, too, contract manufacturing seems to be involved in GLP-1s. What happens in the contract manufacturing business?

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

A

Yes. So we can participate in a couple of different areas on GLP-1 through on the elastomer side with plungers and lined seals and then on the contract manufacturing side through delivery devices. They're not our delivery devices. They're devices we build on behalf of other people. So, there are a number of areas that we can participate in. And the capacity that we're layering in in certain areas can service those industries. But the capacity that we have is really agnostic and can go across many different areas and products. So we continue to look at where the demand is coming up from a number of different areas and to make sure that we have that capacity in place when that demand comes through, whether – sometimes we have to wait for look at reimbursement, we have to look at supply chain beyond us as to see when demand will actually materialize. But for us, it's making sure that we have the capacity in place and we continue to do that right across our business.

I don't know, Quintin, add anything to that?

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

A

Yeah. And with respect to kind of your first question, given that we really – as just a company policy, we don't really comment on specific drugs or specific customers, and the drug that you talked about really is concentrated with just a couple of customers. We don't have any comment on what the growth outlooks are. We would recommend talking to the drug customers themselves.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah. Yeah. Got it. Of your capacity expansions, dollar-wise, over I believe $300 million, where and what are they targeted for currently?

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

A

Yeah. So, about 70% of our CapEx is targeted towards growth initiatives. And really within our proprietary business, that's focusing around high value products and across our high value product network. So, there's five sites that we look at in that area. So, Jersey Shore, Kinston, Edgewater, Waterford and Singapore. And we continue to layer in capacity there and it can be focused on certain areas within our business. There are certain processes within there. So you're looking at Pharma Wash, you're looking at Envision. And again, so, it's to really focus on not just one area or one product platform within that. It's right across the network. So there are many drivers of our high value product portfolio. And then we're also currently expanding within our contract manufacturing segment at the moment. So we have two areas of focus right now. One is in our Grand Rapids facility in Michigan and then in Dublin in Ireland. We have a facility under construction, which will be completed more or less in July of this year. And then it obviously has to get validated before we go into production.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

And in this contract manufacturing, are you taking parts that are made by yourself and others to create a delivery system like a pen or an autoinjector? What's being made at this contract manufacturing site kind of in general, Bernard?

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

A

So you're looking at the injectable pens and some of the components for those products, not all, and then there could be some elements of products that we manufacture ourselves that get incorporated into those products.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Yeah. Hey, Bernard, I want to ask the side question. Now that you've been in the life science, technology part of the market for medical device, how do you like it? You didn't like...

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

I actually enjoy it. Well, I came from a medtech background, so I hope I enjoy it at this stage. I spent long enough in it. But there's a lot happening in the space, so it's an exciting place to be.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Right. That gets probably to another question, and that is, where is the most activity? I'm sure GLP-1s are active, but how is the strength of what used to be the core market of monoclonals? What's the strength of the cell and gene therapy market? Anything that kind of looks to be like good as usual or you're really outstanding in terms of new growth rates?

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*
A

Maybe let me step in on some of that. To us, being a life science tools company, having thousands of customers, being involved with many of the injectable drugs that are being sold in the US, Europe and in Japan, it means that we have to have kind of a very broad landscape of looking at technologies and capabilities because, as you just mentioned, the landscape continues to change. So, large molecule research continues to be robust. There's a strong pipeline. And so, on our biologics side, we continue to feel very positive about the future.

And many of those drugs, because of the sensitivity of those molecules, are going to want our highest-value products like NovaPure. And then, as those drugs mature and become more prevalent, then they may start to go into dedicated delivery devices. And if they go into an autoinjector, we can either participate through contract manufacturing, we also sell our own autoinjector. And we also have wearable devices that for the drugs that can't be formulated down to 1cc, if they need to be down to 10 milliliters, then you're probably going to be looking at a wearable device, and that gives us our SmartDose.

We're also involved with all the new – things like gene and cell therapy, a little bit less so on cell therapy because that's mostly bagged product for the cells. If they're looking to deliver cells in maybe smaller volumes, whether they be in vials, then maybe we can get involved there. On the gene therapy side, they very typically use our best products. And so you're talking about NovaPure, you're talking about CZ. The only difference there between that and biologics is the volumes right now on the gene therapy are really small because of the patient cohorts that they're going after.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Well, a couple of questions. Number one is, this is for the operator, somebody's video was stopped. So I don't know if you could look at that from one of the participants. The other question is regarding your 12-week lead times, Quintin, that's kind of normal, right? I mean, it was much longer during COVID. So, I think what you mean by the positive aspect of 12 week is it would suggest maybe destocking is subsiding. Is that kind of the implication? We go from more than 12, down to 12. We're kind of getting past destock. Is that the right way to think about it?

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

A

I wouldn't say and say that necessarily. I think our target was always to get back to that 12-week lead time. And as I said, lower in some instances, and sometimes it's a little bit higher. But that's the run rate that we're actually...

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

I got it.

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

A

...being able to run with. And that's what our customers' expectation is.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. Okay.

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

A

That's not really around destocking.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Got it.

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

A

Now, that said...

[indiscernible] (00:17:10)

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

...customer waiting 50 weeks is what you're saying?

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

A

Yeah. They shouldn't have to be waiting 50 weeks. And...

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah.

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

A

...so that is, in essence, why we also had to put a – increase the level of capacity that we have around certain parts of our operation to be able to meet those lead times on a consistent basis. So that's the cadence that we want to run at. Quintin, you were going to add something there.

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

A

Yeah. I mean, look, one of the things – and again, destocking, inventory management, whatever you want to call it, I think that there is a function of that, is that, look, when lead times extend of a product that is very critical, not easily switched, then companies who are reliant on these critical components will probably add more safety stock. As they get more confidence in the supplier of being able to get return to more regular lead times and delivery times, it allows them to manage their inventory. And so, I mean, it's kind of the effect and so we're working through that. But we believe that that is what the industry needs. That's what they expect. And when we take a look at drug customers today, quality, availability, scientific and regulatory support are the three main drivers for all their decision-making. And as we're looking ahead toward the future, we want to make sure that we ping very well on all three parameters.

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

A

And I think that's important to understand that as people ask, why are we deploying so much capital, part of it is to make sure that we have that capacity in place. So, if a spike in demand comes that we have enough headroom to be able to respond to that within our normal lead time range. So we don't get lead times being pushed out to 50 weeks if something happens within our industry or sector. We'll always be able to supply within that 12 weeks. So we don't get these whipsaw effects. So, again, that's part of the thinking and that's the experience that we have had in COVID has taught us a lot on how we manage our infrastructure and network optimization and managing that supply chain with our customers.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

And then kind of talking growth dynamics, of course, GLP-1s, of course, we've had a record number of biologic approvals. What play do you see rules like Annex 1? I guess, the better question really in my view is, customers seem to want to go to pre-sterilized products. What portion of the market do you think is pre-sterilized today? Bernard or Quentin?

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

A

Yeah. So I'll start with that. Maybe let's look at it from the cut that we like to look at. And so today, approximately 75% of our proprietary product volume is standard and 25% is HVP. And HVP starts with pharma grade wash. It can then go to pharma grade wash and sterilization. It can go to pharma grade wash, sterilization and Envision. It could go to FluroTec coating. It could go to NovaPure Quality by Design. So those are kind of the rungs that you have on the HVP component side.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah.

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

A

There is quite a bit of product, especially from our Pharma and Generic customers that have been purchased in what we would call bulk unwashed state, in that they wash and they sterilize and they're using formulations that were used decades ago and they've been grandfathered in. As you look toward things like Annex 1, and it's just one of others that continue to regulatory bodies are looking at to raise the bar for quality for the patients in their region. As you do that, you're going to start looking at contamination, particulates, reliability. And so, with that, there's going to be a reexamination of a lot of the different packaging out there. And what we said on the call is that we estimate several billions of [ph] our units (00:22:24) that we currently sell could be affected by Annex 1.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

What's the margin difference between standard and high value products?

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

A

Yeah. So, standard products, you could be looking between 20%, 30% margin on those. And then on the high value products, it depends where it is on the high value product curve. You could be like north of 40% all the way up to 70%, 80% margins on NovaPure depending on the configuration. So there's quite the differential there from a margin profile perspective. And when we look at our long-term construct and the operating margin expansion, that mix shift along the HVP curve is one of the key drivers there.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Within your long-term growth rate, Bernard, I believe it's what, 7% to 8%?

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

A

7% to 9%.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

7% to 9%.

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

A

Top. Yeah.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

You raised that, I remember. The high value products growth rate is what do you think?

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

A

You're getting like a double-digit growth within high value products within that construct. And primarily we see that taking place within our biologics market units where we see double-digit growth for that platform and it's predominantly high value products. And then on the generics perspective, we see about half of that is high value products and with potential to expand that. And then from the pharma market units, which is our large – we're seeing kind of a lower level of penetration there on high value products, again, but with the opportunity to shift people up the high value product curve within that sector over time.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.* Q

One question is this, what does several billion mean?

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.* A

Again, it's an...

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.* Q

It's too many account, right?

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.* A

I mean, look, the one thing as you look at impacts of potential regulation, timing is always indefinite. Regulators and drug customers have conversations about when things will change. So, what we do is that we take a look at the long term. We look at the trends that are going on. We look at not just one regulation, but we look at also others that are being considered and are going through comment period now. And what we do is we say, what do we need to be ready with? And as we look at it – as we look at our portfolio, we say we need capacity on washing, on sterilization, on Envision, and that's what we've been doing.

So for those of you who may have visited our Kinston site, you would have seen expansion there. We've talked on the call about expansions that we're doing at Eschweiler, another HVP site, as well as Jersey Shore. And again, all of that we're taking a look at is just trying to be ready. And the key for us, as Bernard kind of alluded to, is that customers need to be confident that if they do switch and they do move up the curve that our lead times will be appropriate, and that we won't see any elongation of lead times. Because, again, when they do make these switches, it's going to be switches of products that are for their critical drugs that they sell. So that's how we're building it all. And it's not like that we're trying to say a point in time, a point in space, but we understand that this industry does move, it does move in one direction, which is higher quality. And that's what we're preparing for.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.* Q

Question on this side coming in is, what is Envision, Quintin, and what's pricing on Envision?

**Quintin John Lai**
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.* A

Envision is when you take a – you send every component through a robot that has 14 different views, where you sit there and you try to take a look at dimensional defects, contamination, fibers, and essentially just a higher level of visual quality. And there's no real price to that. I mean, because it all comes down to an upcharge relative to where you're at. So, depending if you're doing an uncoated versus a coated versus a NovaPure quality. So think of it kind of more as a value add as opposed to just a set price.

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**Paul Richard Knight** Q
*Analyst, KeyBanc Capital Markets, Inc.*

Okay. But an Envision-inspected product, so to speak, will be – it'll be a little costly or whether it's standard or high value, right?

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**Quintin John Lai** A
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

I'm sorry, say that again.

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**Paul Richard Knight** Q
*Analyst, KeyBanc Capital Markets, Inc.*

If a product had Envision inspection, it's going to be a little more expensive than other types of products. Is that the right away to think about it?

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**Quintin John Lai** A
*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

That's right. That's right. So, I mean, just the general way to think of it is that, you go from a standard bulk product to a washed product to a washed and sterilized, to washed, sterilized, Envision-ed – or washed, Envision-ed, sterilized.

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**Paul Richard Knight** Q
*Analyst, KeyBanc Capital Markets, Inc.*

Yeah. A question that I think is kind of appropriate. We see expansion going on in fill/finish globally and expansions of glass manufacturing. It seems to be that there's geographic centers that attract kind of this concentration. Does it matter for you or are you more geographic-agnostic and you can ship your product to wherever easier than it seems to be for these centers of excellence than maybe Carolina, Indiana, Italy, Germany? What's your view on how you want to expand geographically?

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

Well, I think the way – I believe the way we're set up right now, if we look at our HVP network, we have two sites in the US, we have two sites in Europe and we have one in Asia. And so, it's making sure that we're expanding in each of the geographical areas to support growth in any market. So we're not just focused on one area. So, obviously, we're looking at where our customers want to expand, where it's most appropriate to supply product to them from. And again, that ties back into managing our supply chain and derisking it for our supplier and then optimizing our network. So we are cognizant that we don't want to be shipping product all over the world either because that can add to your lead times and it becomes more efficient. So, strategically, when we thought about where to expand that that was part of the consideration so that that wouldn't be something new for us.

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**Paul Richard Knight** Q
*Analyst, KeyBanc Capital Markets, Inc.*

As you think about adding capacity, and this is a question from somebody, how many years ahead of demand do you want? What is your preferred lead time? As you're doing a lot of CapEx this year, whatever next year, do you want it to be 12 weeks? Do you want it to be 6 weeks? What's the goal?

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

So the lead time, it's going to vary for product depending on the number of processes obviously involved. So, for some products, it could be 6 weeks to 8 weeks, and then others it's 8 weeks to 12 weeks and then 12 weeks to 16 weeks. Again, it depends on what the product platform is. But when we're looking at layering in capacity we have a five-year horizon that we look at. And then we also have to consider when we're putting that capacity in place, you could have 12 week to 24 week lead times on the equipment itself between ordering it, getting it in and getting it up and running. So we're always looking a couple years out to make sure that we have that capacity in place and also in certain areas that we have built in a little bit of headroom capacity beyond that we would normally carry just to make sure that we can respond to spikes in demand at any point in time.

So it's not a simple straightforward answer. There are a number of different things you've got to consider and factor into it. But it's understanding primarily for us the length of time it takes to put capacity in place. It's not something you do over a couple of months. So we always have to be planning years ahead.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Right. And to kind of to begin what you said earlier, you're thinking in the second half of the year, you're going to generally be at target inventory levels, lead times, right?

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

Well, from a lead time perspective, we're pretty close to where we need to be already.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Okay.

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

And we were starting to see that as we were getting to the back end of 2023. And now it's working with customers to make sure that we fully understand their forecast and when they want that delivered. And that's something that we do on a regular basis. We have regular updates around that. So, again, it's just working with through those partnerships.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

As you scale how high value add products, Bernard, is the margin coming from gross margin expansion, leveraging SG&A? Is it half and half? And I think the goal in the past has been, what, 1 bps to 200 bps potentially a year.

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

100 bps a year.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Yeah.

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

Nice try. So, 100 bps a year. If we can do better, we're always going to try to do that. The biggest driver on margin for us is mix shift. And then, obviously, you've got some pricing in there and then you've got operational excellence, and then we probably target around 10 bps to 20 bps from SG&A and OpEx. But really the big driver is mix shift and moving up that HVP curve.

**Paul Richard Knight**
*Analyst, KeyBanc Capital Markets, Inc.*
Q

Okay. Got it. 10 bps to 20 bps from a – great. We have just a couple of minutes here left. Just checking. Sorry. One minute remaining. Do you want to make a few closing remarks, Bernard? I know you've got a few more meetings ahead of you, but we have a few seconds left here.

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

When we look at our business and we know we're going through a year where there's a couple of headwinds that we're facing here, but it's really getting back to that long-term construct and operating within that. That's the target. We believe we have the capacity in place. We're not relying on one specific thing to drive that 7% to 9%. There are a number of different levers to drive revenue growth. We've got volume, which is pretty predictable over the long term, you've got pricing 2% to 3% and then you've got mix shift. And even within that mix shift, there are a number of drivers, again, to allow us to create that expansion of revenue growth and operating margin expansion over the next number of years. And we continue to focus on that and execute.

## Paul Richard Knight
*Analyst, KeyBanc Capital Markets, Inc.*

Awesome. Well, we appreciate your time, Bernard. We like your background a lot. It might be in first place right now. So appreciate your time.

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

Thank you. Glad you like it.

## Paul Richard Knight
*Analyst, KeyBanc Capital Markets, Inc.*

Thanks, Quintin.

## Quintin John Lai

*Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.*

Thanks, Paul.

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## Bernard J. Birkett

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

Thanks, guys. Take care.