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West Pharmaceutical Services, Inc. (WST)

Q3 2022 Earnings Call

CORPORATE PARTICIPANTS

Quintin John Lai

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

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OTHER PARTICIPANTS

Paul Richard Knight

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Larry S. Solow

Analyst, CJS Securities, Inc.

Derik de Bruin

Analyst, BofA Securities, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Q3 2022 West Pharmaceutical Services Conference call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker for today, Quintin Lai, Vice President of Investor Relations. Please go ahead.

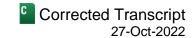
Quintin John Lai

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

Thank you, Gigi. Good morning and welcome to West's third quarter 2022 conference call. We issued our financial results this morning, and the release has been posted in the Investors section on the company's website located at westpharma.com. This morning, Eric Green and Bernard Birkett will review our financial results, provide an update on our business, provide an update on our financial outlook for the full year of 2022, and an introduction to our preliminary 2023 outlook. There is a slide presentation that accompanies today's call, and a copy of that presentation is available on the Investors section of our website.

On slide 4 is our Safe Harbor statement. Statements made by management on this call and in the accompanying presentation contain forward-looking statements within the meaning of US federal securities law. These statements are based on our beliefs and assumptions, current expectations, estimates and forecasts. The company's future results are influenced by many factors beyond the control of the company. Actual results could

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differ materially from past results, as well as those expressed or implied in any forward-looking statement made here.

Please refer to today's press release, as well as any other disclosures made by the company regarding the risk to which it is subject, including our 10-K, 10-Q and 8-K reports. During today's call, management will make reference to non-GAAP financial measures, including organic net sales growth, adjusted operating profit, adjusted operating profit margin, and adjusted diluted EPS. Reconciliations and limitations of the non-GAAP financial measures to the most comparable financial results prepared in conformity to GAAP are provided in this morning's earnings release.

I now turn the call over to our CEO, Eric Green.

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Thank you, Quintin, and good morning, everyone. Thanks for joining us today. We'll start on slide 5. I'll begin by covering three main topics: First, examining the drivers of lower-than-expected Q3 results; second, examining the impact to Q4; and third, providing color on our current view of market demand and projecting a preliminary sales outlook for 2023.

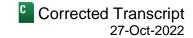
Let's begin with Q3. As expected, we had a few drivers in the quarter that materialized. We had headwinds from FX. We had declining sales in Contract Manufacturing, and we had a decline in COVID-19-related sales of about \$20 million from last year. If we exclude the headwinds from COVID, Proprietary organic sales grew over 11%; however, this performance was below our expectations for the quarter. When we provided guidance on the Q2 earnings call, we projected that we would be able to ship resources, formally dedicated to pandemic-related production to other HVP products that are experiencing increased demand.

Specifically, we plan to successfully address this transition by accelerating customer orders for NovaPure Plungers and [ph] fulfilling (00:04:11) customer HVP orders originally requested for this year, but pushed to 2023 because of longer lead times. These two factors were the underlying drivers to our guidance of strong double-digit base organic net sales in Q3 and Q4. Instead, as the quarter progressed, we underestimated the complexity of the transition and were impacted with a series of setbacks related to capacity constraints and mix shift productivity.

Much of our vaccine stoppers were going to have fewer customers with fewer SKUs. This hat enabled high productivity and throughput with our HVP network. When transitioning to NovaPure Plungers, we now are addressing demand coming from numerous customers, addressing drugs across numerous diseases and more SKUs. The end result is lower throughput through our existing HVP manufacturing sites. And compounding the situation further, as the quarter progressed, we had a reduction in capacity in our HVP operating network through a combination of equipment downtime and project delays related to the installation of HVP processing equipment.

We estimate that the total negative impact to Q3 was \$30 million. While we see these issues as temporary and expect full resolution in 2023, they will continue to impact us in Q4. As we look at the capacity constraints, we project that additional HVP processing capacity will come online early next year based on the timeline to install and validate the newer technology. Since we are already running at full capacity, we also are unable to address the additional demand coming from long lead time items in Q4. Altogether, while we still expect our base business ex-COVID to grow more than 10% in Q4, we will not be able to offset the expected \$80 million reduction in COVID-19 sales. While disappointed that we're lowering our forecast for the rest of 2022, I want to stress that these issues are all supply related and not demand related.

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Moving on slide 6. A robust order book of committed orders, excluding declining COVID-19-related demand, grew 20% year-over-year. Our customers have reiterated that they're looking to us to deliver the critical components and devices to address the growing injectable drug demand, and we have several customers that have notified us a potential upside demand, especially for NovaPure Plungers beyond our current order book based on future drug launches. As we look at 2023, we are confident and expect most of the capacity issues will be resolved early in the year.

Taking a reasonable view on capacity expansion and customer delivery timing, our preliminary look at 2023 includes the following projections: First, we now assume that COVID-19 sales will decline to a full-year 2023 sales of approximately \$90 million or a 75% decline from 2022. This is based on current customer forecast which, we believe, assumes the continuation of current trends in COVID booster demand. We expect non-COVID-19 overall base business to grow in the double digits, and in excess of our financial construct of 7% to 9%. Base Proprietary Products are expected to grow in the low-teens, led by Biologics and we expect CM sales sales to rebound to grow next year.

Our participation rate in recently approved new molecular entities in the US and Europe remains strong. Our components by West or our partner, Daikyo, [indiscernible] (00:08:28) almost all the biologics and biosimilars approved so far in 2022, a majority of small molecules approved. Adding it all together, our preliminary view is that we will have positive organic sales growth in 2023, despite an anticipated decline of approximately \$280 million of COVID-19 sales. We will provide more detailed guidance on our Q4 call in February of next year.

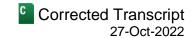
Now, shifting to slide 7 and some highlights from the quarter, I want to first thank our team members who continue to focus on our purpose to deliver superior value to customers through our high-quality products and solutions to make a meaningful difference to patients' lives. An example of this dedication and resiliency was evident in the recent response to the hurricanes that devastated Puerto Rico and Florida. Despite the personal impacts to our team members, they ensured their plants continued to produce and ship product with minimal impact, just another great testament to the strength of our One West team. We continue to make good strides with the opportunity to improve at-home management of diseases. I'm pleased to share that earlier this month, our customer, scPharmaceuticals received FDA approval for FUROSCIX delivered via on-body infuser, utilizing West SmartDose on-body drug delivery technology. This brings us to four FDA approved drugs using our SmartDose technology.

Our strategic collaboration with Corning is moving along. We anticipate that, in Q1 2023, West Ready Pack System with Valor glass vials, a ready-to-use sterile packaging system for use with NovaPure stoppers will be available to customers. Lastly, our West experts are pleased to be back in-person at recently held PDA Conference and upcoming CPhI Worldwide, showcasing our leadership with new scientific insights and technical developments across their portfolio of high-quality drug delivery and devices.

Moving to slide 8. With the capital spending investments initiated in 2020 for the larger capacity expansion, we continue to drive forward to complete the installation of our 2021 expansions and initiate the next tranche of investment earlier this year. You can see from the pictures how impressive the ongoing expansions are across our sites. While they do not happen overnight, we are making good progress and expect all these investments will result in several billion units of increased capacity for our HVP components.

Now, I'll turn our call over to Bernard.

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Bernard J. Birkett

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

Thank you, Eric, and good morning. So, let's review the numbers in more detail. We'll first look at Q3 2022 revenues and profits, where we saw mid-single digits organic sales growth, led by performance in our Biologics and Generics market units. I will take you through the profit drivers in the quarter, as well as some balance sheet takeaways. And finally, we will provide an update to our 2022 guidance.

First up Q3, our financial results are summarized on slide 9, and the reconciliation of non-US GAAP measures are described in slides 18 to 21. We recorded net sales of \$686.9 million, representing organic sales growth of 4.3%.

Looking at slide 10, Proprietary Products sales grew organically by 5.5% in the quarter. High-value products, which made up approximately 72% of Proprietary Products sales in the quarter, grew mid-single digits and had growth across our Biologics and Generics market units in Q3. Looking at the performance of market units, the Biologics market unit delivered mid-single digit growth. We continue to work with many biotech/biopharma customers who are using West and Daikyo or high-value products. The Generics market unit also experienced mid-single digit growth, led by sales of Westar components. Our Pharma market units are low-single digit growth, with sales led by high-value products, including NovaPure and Westar components. And Contract Manufacturing declined 1.2% for the third quarter due to a reduction in sales of components for diagnostic devices.

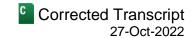
We record \$268 million in gross profit, \$20.2 million or 7% below Q3 of last year. And our gross profit margin of 39% was a 180-basis-point decline from the same period last year. We saw a 2% increase in adjusted operating profit with \$186.4 million recorded this quarter, compared to \$182.8 million in the same period last year. And our adjusted profit margin of 27.1% was a 120-basis-point increase from the same period last year. Finally, adjusted diluted EPS declined \$0.03 for Q3. Excluding stock-based compensation tax benefit, EPS increased by approximately \$0.05, and foreign currency negatively impacted or EPS by approximately \$0.16 in the quarter. So, let's review the drivers in both the revenue and profit performance.

On slide 11, we show the contributions to sales decline in the quarter. Volume and mix decreased by approximately \$1 million in the quarter, net of approximate \$20 million decrease in COVID sales. Sales price increases contributed \$31.1 million or 4.4 percentage points in the quarter. Foreign currency generated approximately \$49.8 million headwind on our revenue in the quarter.

Looking at margin performance, slide 12 shows our consolidated gross profit margin of 39% for Q3 2022, down from 40.8% in Q3 2021. Proprietary Products third quarter gross profit margin of 43.6% was 270 basis points lower than the margin achieved in the third quarter of 2021. The decline in Proprietary Products gross profit margin was caused by a few key factors. Delays in equipment expansion projects, which led to production bottlenecks in meeting certain customer demand; customer demand and mix shift led to a greater-than-anticipated impact due to the delays mentioned above; as well as continued inflationary pressures on our plant costs, including raw materials, labor, overheads and transportation. Partially offsetting these headwinds on our margin were sales price increases of 180 basis points of benefit associated with one-time fees from COVID supply agreements. Contract Manufacturing, third quarter gross profit margin of 17.3% was 120 basis points above the margin achieved in the third quarter of 2021. The increase in margin is largely attributed to price increases in the period and production efficiencies.

Now, let's look at our balance sheet and review how we've done in terms of generating more cash for the business. On slide 13, we have listed some key cash flow metrics. Operating cash flow was \$493.2 million for the nine months ended September 2022, an increase of \$70 million, compared to the same period last year, a 16.5% increase. Our operating cash flow in the nine-month period benefited from our working capital performance. Our

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third quarter 2022 year-to-date capital spending was \$189.7 million, \$12.8 million higher than the same period last year.

Working capital of approximately \$1.27 billion at September 30, 2022, increased by \$129 million from December 31, 2021, primarily due to increases in inventory and reductions in our accounts payable. Our cash balance at September 30, \$729 million was \$33.6 million lower than our December 2021 balance. A decrease in cash is primarily due to our share repurchase program, a \$43.7 million scheduled payment of debt principal and interest in the third quarter, and higher CapEx offset by our operating cash flow in the period.

Turning to guidance, slide 14 provides a high-level summary. We are updating our full-year 2022 net sales guidance and expect net sales to be in the range of \$2.83 billion to \$2.84 billion, compared to a prior guidance range of \$2.95 billion to \$2.975 billion. There is an estimated fourth quarter headwind, \$60 million based on current foreign exchange rates. We expect organic sales growth to be approximately 7% compared to prior guidance of approximately 11%. We expect our full-year 2022 adjusted diluted EPS guidance to be in a range, \$8.15 to \$8, compared to a prior range of \$9 to \$9.15. This revised guidance includes our \$0.16 EPS positive impact of tax benefits from stock-based compensation during the nine-month period.

Also, we are updating our CapEx guidance to \$300 million to \$320 million, compared to a prior estimate of \$380 million for the year. There are some key elements I want to bring your attention to as you review our guidance. Estimated FX headwind on EPS in the fourth quarter was approximately \$0.17 headwind. We expect full-year COVID-19-related sales growth to be approximately \$85 million lower than 2021 sales, unchanged from our prior guidance. And our guidance excludes future tax benefits from stock-based compensation.

I would now like to turn the call back over to Eric.

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Thank you, Bernard. To summarize on slide 15, looking ahead with a sharpened focus, we continue to ensure our growth strategy is bringing value to our customers. Our committed order book remains robust. We continue to capture the benefits of the globalization of our operating network and delivering products in this complex environment. And we're continuing to drive forward the capital investments across our operations to meet current and anticipated future growth.

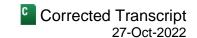
Gigi, we're ready to take questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Paul Knight from KeyBanc. **Paul Richard Knight** Analyst, KeyBanc Capital Markets, Inc. Hi, Eric. On the CapEx, it's now \$300 million to \$320 million versus \$380 million prior, is that a signal that you see lower demand? Is it difficulty getting equipment? What's behind that lower CapEx guidance? Eric Mark Green President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc. Yeah. Paul, the lower CapEx guidance is really two things. One is delivery of equipment has been delayed in a couple instances, and also longer duration of [ph] capital build-out (00:20:45) projects. So, we're seeing that as the impact, not demand. We still need the capital in place to really get caught up to the demand we have in our hands today. Paul Richard Knight Analyst, KeyBanc Capital Markets, Inc. And then you mentioned the transition from COVID in a few customers to many customers on the Plungers side, are there also some – we've also seen some huge prescriptions out of recent approvals. Are those also surprising you in terms of some of these large prescription trends that are being seen in the market? Eric Mark Green President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc. Yes, Paul. That's one of the drivers of the healthy committed order book and that is - particularly, in the Biologics area, we're seeing outsized growth than we anticipated working with our customers. **Paul Richard Knight** Analyst, KeyBanc Capital Markets, Inc. And last on the Plungers side, where will that product be made? Eric Mark Green President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc. Well, we have really five key high-value product plants. The two that have probably the most constrains right now are here in the United States, Kinston and Jersey Shore, and we're currently working to have that resolved as we speak. **Paul Richard Knight** Analyst, KeyBanc Capital Markets, Inc. Okay. Thanks. Eric Mark Green President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Great. Thank you.

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Operator: Thank you. [Operator Instructions] Our next question comes from the line of Larry Solow from CJS Securities.

Larry S. Solow

Analyst, CJS Securities, Inc.

Good morning, guys. Thanks for taking the questions. I guess, first question, Eric, is just – yeah, I know you're normally, I guess, to give some – a little preliminary outlook this time of year, but just to sort of kind of get your confidence level, obviously, a little bit of surprise or in terms of – looks like customer inventory management is skewing yours numbers a little bit. So – and obviously, some of the capacity issues. Just curious like your confidence level today to give pretty good guidance for next year, some – both clarity there and on the revenue side. Is it just you felt like you had to put that out today, or what kind of gives you that extra confidence sort of in, looks like a little bit of a challenging short-term period?

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Yeah. Larry, thank you for the questions. So, now, there's two things to give you insights on. One is, when you think about inventory management, the only part of our business where there's fluctuation, I would say, is around the COVID-19 vaccines. That has been quite volatile in the last several months. And I would argue the transition to lower volume has been a little bit faster than we anticipated.

Larry S. Solow

Analyst, CJS Securities, Inc.

Right.

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

But when it comes to demand for our other products because of the base, think about our high-value products, we're not seeing that inventory management. In fact, just meeting with customers more recently, they are very keen for us to get the installed equipment that's currently being worked on and validated and up and running to really alleviate some of the bottlenecks that we have today. So, we don't that large – any major movement. We did, however, for clarity, and I did say in the script that, as we went through 2022, our lead times were extended because of the demand we had on COVID at the time and, therefore, we had orders that we were committing to customers in early 2023. But that wasn't driven by any inventory management. That was driven by our visibility to make the order in a timely fashion.

Larry S. Solow

Analyst, CJS Securities, Inc.

Right. Okay.

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Now, on the second part – Larry, the second part on the...

Larry S. Solow

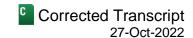
Analyst, CJS Securities, Inc.



West Pharmaceutical Services, Inc. (WST) Corrected Transcript Q3 2022 Earnings Call 27-Oct-2022 Yeah. Eric Mark Green President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc. ...giving guidance. We're giving visibility of the sales... Larry S. Solow Analyst, CJS Securities, Inc. Right. Eric Mark Green President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc. ...and it was important to give context with what we've just described about installation capacity, and the current demand to give visibility what we're seeing that's going into 2023 with a high degree of confidence. Larry S. Solow Analyst, CJS Securities, Inc. Got it. Okay. No, I appreciate that color. And it sounds like there's no real change, it sounds like in terms of customer demand. And you guys are continuing, obviously, to build out capacity. It doesn't feel like - it just feels like it's completely a supply issue. Is that fair to say with no ambiguity? Eric Mark Green President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc. Yeah. Larry, that's fair to say. So, as we transition from very long runs of NovaPure stoppers to shorter runs of NovaPure Plungers, as an example, the equipment that we had intended to be ready to go halfway through this year which is – that's the delay that we've been discussing, has caused that mix shift lack of productivity. And so, once that's up and running, we will be in a good position to be able to fulfill those orders in a timely fashion. Larry S. Solow Analyst, CJS Securities, Inc. Okay, great. And just last question, perhaps for Bernard. And I know you guys are not ready to – a little early on giving full guidance. But in terms of just high-level margin outlook, what needs to kind of go right or wrong, what could happen? Could you keep margins flat with overall revenue growing, although your COVID probably a little higher margin revenue coming down, is that - from a very high level, is that you think feasible? Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. Yeah. Just on the margin, we'll provide more color on the margins and earnings on our usual timing on our Q4 call here in February. But there are a number of things that we are monitoring really closely, just like everybody else at the moment. We're looking to figure out how FX is going to settle in for early 2023. And it's really... Larry S. Solow Analyst, CJS Securities, Inc.

Right, right.

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Bernard J. Birkett

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

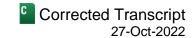
...it's too early to make a call on that, given the volatility that we're seeing today.

And then, secondly, we're looking at monitoring the inflationary costs right across the spectrum for materials, energy, labor. And again, it's early to make a call on many of those. And then, thirdly, we're in the process of preparing our price increases for next year. Especially, in light of that second topic around the inflationary costs, that's evolving. And so, then, the fourth point, we'll examine again how fast we can get that extra capacity online to generate those demand – currently demand at HVP sales. So, if we can do it sooner than our guidance, there's upside there for sales and associated profits with that.

Larry S. Solow	Ω
Analyst, CJS Securities, Inc.	~
Right.	
Bernard J. Birkett	Δ
Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	
The growth in our base HVP business and HVP margins will come with that. We around [ph] C-19 (00:27:51) but again, we have to manage through a lot of the the big positive for us is the demand is there, and we're seeing increasing demand particularly around Plungers that Eric just mentioned. So, as soon as we aupdate.	ese issues at the moment. So – but nands around high-value products
Larry S. Solow Analyst, CJS Securities, Inc.	Q
Yeah. Fair enough. I appreciate those points. Thanks, guys.	
Eric Mark Green President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.	A
Thank you, Larry.	
Operator: Thank you. Our next question comes from the line of Derik de Brui	n from Bank of America.
Derik de Bruin Analyst, BofA Securities, Inc.	Q
Hi. Good morning. So	
Eric Mark Green	А
President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.	/
Good morning, Derik.	
Derik de Bruin	
Analyst, BofA Securities, Inc.	G

So just like to clarify with the comment. I mean, you're talking about you've seen positive organic revenue growth next year. I mean, are we talking 1% or are we talking to sort of back to the 7% to 9% range? And along those

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lines, to get to positive that sort of implies that your overall HVP next year, Proprietary Products next year have to grow well in excess of that 7% to 9% range. I mean, can you just provide a little bit more color in terms of how we should think about? I mean, that's a big range to sort of think about.

Eric Mark Green

A

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

I will start and Bernard, if you want to add. So, you're right, the non-COVID-related base business and Proprietary is going to have very strong double digits [indiscernible] (00:29:28) Biologics, but we've also seen strength in both Generics and Pharma, but the key drivers can be the Biologics. And the portfolio that will support that is mostly around our HVP, higher end of the portfolio in NovaPure and FluroTec and particularly around Plungers.

Bernard, you want to give more color?

Bernard J. Birkett

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

Yeah. As Eric said, we would expect to see, on our base business, double-digit growth, and within that base, that's going to be north of our construct that we put out there. So, we're looking at that base business to be able to offset the [ph] C-19 (00:30:12) and the decline that we potentially could see here. And then, again, looking at the timing of capacity, there could be some upside there also for us.

Derik de Bruin

Q

Analyst, BofA Securities, Inc.

Got it. And back to the margin question, I mean, if we sort of look at the – I guess, it's the question of, what's the worst case scenario that you're sort of looking at for next year? I mean, is there a situation where you can't get the capacity online further push out? I guess, there's some fear that the fourth quarter number that you put up, if you sort of annualize that going into next year, it's pretty ugly in terms of an EPS perspective. I mean, is that a worst case scenario? Just sort of help us sort of understand what the parameters are around the risk to you not being able to bring capacity online? And going back to like the margin profile, sort of thinking about how this all goes through?

Eric Mark Green

A

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Yeah. On getting that capacity online, that's actually in progress. And as we mentioned in the comments at the start, we would expect to see that early 2023. So, we are reasonably confident around having that uplift.

Derik de Bruin

Analyst, BofA Securities, Inc.

Got it. And just to sort of reiterate the point that you're not seeing any inventory-related issues, but can you give us sort of like any indication of what some of the drugs you are [indiscernible] (00:31:54) obesity drugs that are coming up and coming online? Just sort of give a sense of where some of the demand is coming from?

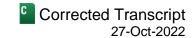
Eric Mark Green

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President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Yeah. I'll give you a couple of areas. We don't give specific customers or drug molecules particularly around the elastomers unless our customers will articulate that publicly. But they do tend to be – first of all, we're seeing, as indicated a little bit earlier, successes of many drug launches, particularly in Biologics that were over the last few

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years, and that's quite positive. We are, obviously, in discussions around the obesity drug launches that are being looked at in the marketplaces, diabetes. Obviously, those are the key large volume areas where West is part of those conversations. But going in further into specific drug molecule or a specific customer that would be – we just simply don't go down that path.

Derik de Bruin Analyst, BofA Securities, Inc.	Q
Okay. Thank you. I'll get back in the queue. Thanks.	
Operator: Thank you. Our next question comes from the line of Dave Windley from	n Jefferies.
David Windley Analyst, Jefferies LLC	Q
Hi. Good morning. Thanks for taking my questions. Bernard, you mentioned in your kind of missed it, but 180 basis points in reference to COVID supply agreement, and there was some carryover take-or-pay related revenue or payment that you were ex expected some again in 3Q, was that the same thing, and could you elaborate – que	d we had in our notes that pecting – had it in 2Q,
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
Yeah. It was the same, was relating to the same customer. It had to get split over two related to. And then, there were some other smaller bits that were not really material to one customer.	•
David Windley Analyst, Jefferies LLC	Q
And 180 basis points, I missed the detail, that was benefit to gross margin, what was	s the 180?
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
Yeah. It was to gross margin.	
David Windley Analyst, Jefferies LLC	Q

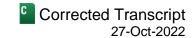
Yeah. Okay. In thinking about your fourth quarter guidance and kind of dovetailing on both Derik, and I think Larry's questions on margin, it looks like the fourth quarter gross margin, Proprietary Products is probably down in the mid-30s, maybe lower. And so, I wondered if you could help us to understand, is that just basically unutilized or underutilized capacity, because so much COVID is coming out and before you're really able to ramp high value for these other products, sounds like Plungers mostly? Or what other factors should we be thinking about relative to fourth quarter margin and how much that does or does not set the baseline for thinking about 2023?

Bernard J. Birkett

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

Yeah. So, in the fourth quarter, it's a carryover from the issues that we experienced in Q3 with the delays and getting equipment in place, and then the impact that's having on throughput, and then also in us being able to work through this mix shift change at the same time. When we layer in the capacity in early 2023, that will resolve

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a lot of that problem. So, it's really down to having that increased capacity and throughput. So, we don't believe it'll reoccur.

David Windley

Analyst, Jefferies LLC

So – pardon, the follow-up, but – so, I know you probably don't want to get into too much operational minutia, but adding capacity doesn't sound like something that levers margin, that sounds like something that adds more cost. It seems like you would want more volume on the same capacity to get the margin back up. So maybe, you could help us to understand kind of how that flows and how that works?

Bernard J. Birkett

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

Yes. So it's actually going to enable us to clear more products through [indiscernible] (00:36:27) capacity will actually help our HVP sales and help distribute fixed costs and improve our absorption. So, it's not that we're going to layer in more cost and it's going to be detrimental. It actually gives us the ability to sell more high-value products and get it through our plants actually quicker, so we can realize those revenues faster.

David Windley

Analyst, Jefferies LLC

And zooming out a little bit on high value, I think we've probably been slow to absorb it in the market, but your COVID product mix, you consistently highlighted that FluroTec and NovaPure were popular in that market or to those customers. It sounds like NovaPure is – you're still calling out NovaPure and NovaPure Plungers. I'd ask if we should be thinking that those Plungers are purely NovaPure, if it's more of a mix. But the general question here is, how should we think about the mix within the high-value products as you move out of a COVID heavy period and into this period where as you describe the customers and the SKUs are much broader?

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Yeah. So when you look at the portfolio, it's going to be mostly – you're right. So, when you look at COVID-19, it was NovaPure and FluroTec stoppers and a high, nice margin associated to that. And – but we think about the Plungers demand that we currently have. There's a mix, but mostly it's NovaPure. And that is, when you think about the investments we're making right now, it is around that NovaPure corridor. And so, some are laminated, some not laminated, but it's in the NovaPure platform that we're working with.

David Windley

Analyst, Jefferies LLC

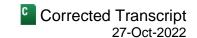
Okay. And then a final question for me. You mentioned the Valor – the packaged Valor go-to-market product or system is available in January, which strikes me is pretty early, pretty quick, so good news there. But I guess I wanted to ask, what does availability mean? What does – does that start some kind of early-stage development, sampling and testing, or what does that availability really mean?

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

Yeah. That's early stage. When you think about one of the benefits we have with our Ready Pack portfolio is that it has been known to be a great accelerator [indiscernible] (00:39:14) the market. So, particularly around those smaller pharma and smaller biotechs, they are looking for off-the-shelf solution, and we're able to provide it with

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our technical data to support it. So, this has been in the pipeline, large and small customers, and it's really around the early drug development phase.

Just want to use this as an example, is when we launched NovaPure in 2016 timeframe, our avenue was to the Ready Pack. Same channel, same approach, see it in the market [Technical Difficulty] (00:39:49-00:40:05). And today, you can sense from this call, we've spent a lot of time talking about, NovaPure is becoming somewhat now the new standard of Biologics. That's the intent with the collaboration between Corning and West. And I'm very pleased on both technical teams are really continuously driving that differentiation, what this means in the market for our customers and ultimately the patients? So, it's early stages, but we'll keep you updated, but I'm excited about the launch in the first part of the year.

David Windley

Analyst, Jefferies LLC

Got it. Thank you.

Operator: Thank you. Our next question comes from the line of Jacob Johnson from Stephens.

Jacob Johnson

Analyst, Stephens, Inc.

Hey. Thanks. Good morning. Maybe a follow up on Derik's question around kind of 2023 revenue growth. Obviously, a little bit of a change this morning in your 2022 kind of revenue dollar expectations versus where you were three months ago. But that seems to be due to some kind of one-off issues. Is there any change to kind of your 2023 expectations today versus where you were a couple of months ago because, obviously, as we think about 2023, you will have a little bit of an easier comp, given kind of the revenue decline in the 4Q. So, I'm just kind of curious, how much of that strong growth next year is some that's easy comp versus kind of strong demand? I don't know if that's possible to answer, but I'll try ask it.

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

No. Thanks, Jacob. So, I think there's a couple of levers to look at. One is, this puts COVID to the side after saying that, I think in the last call we talked about roughly around 50% reduction in 2023 over 2022. Right now, what we're saying is about a 75% reduction, so that equates that \$280 million we discussed. On the online growth of the business, we were relatively same as what we were looking at by mid last year, but maybe a little bit stronger than the Biologics than we anticipated. So net-net, about the same I would say. If we are able to get capacity online sooner, and I can assure you that we're laser focused on really those two states right now to get this equipment validated with our customers, so we can produce product, but we're just conservatively saying right now we're looking at benefit of early 2023.

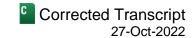
But if we can get on in the next several weeks, we will do so, because we do have demand, and we have customers asking us to produce as much as we can in the short term. I think one last thing about – the last change, I would say, is small piece, but the CM returning to growth. We didn't really talk as much about that last quarter. We're seeing that starting to come back to that mid-single digit type corridor, if not a little bit better for next year. So that's where we stand with kind of the changes from three months ago.

Jacob Johnson

Analyst, Stephens, Inc.



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Okay. Super helpful, Eric. And then just, I know COVID's going to be a smaller piece of revenue next year, but on kind of the transition, the single-dose vials or prefilled syringe, I think Pfizer highlighted some of this in an announcement last week. Just curious, your latest thoughts on the shift towards single-dose vials in terms of kind of timing and the mix of COVID doses that could be single dose, maybe as we look into next year, or what's contemplated in your guidance?

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

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Yeah. Just a quick comment, I mean, if you talk about a lot of variability, that's one area where there's a lot of variability in COVID in the last six months. So, yes, there is a – if you think about, there is a transition target, lower doses per vial and single-dose use, and obviously, prefilled syringe. That shift is still occurring, but it's not as fast as we anticipated.

Jacob Johnson

Analyst, Stephens, Inc.

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Okay. Got it. Thanks for taking the questions.

Eric Mark Green

President, Chief Executive Officer & Chair of the Board, West Pharmaceutical Services, Inc.

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Thank you.

Operator: Thank you. I would now like to turn the conference back over to Quintin Lai for closing remarks.

Quintin John Lai

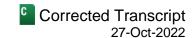
Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

Thank you, Gigi. Thank you for joining us on today's conference call. An online archive of the broadcast will be available for 30 days on our website [Technical Difficulty] in the Investor section. That concludes today's call. Have a nice day.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.



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