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West Pharmaceutical Services, Inc. (WST)

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MANAGEMENT DISCUSSION SECTION

Madeline Mollman

Analyst, William Blair & Co. LLC

Good afternoon, everybody. Thank you so much for joining us for the management presentation. My name is Madeline Mollman. I'm a Member of the Life Science Tools Team here at William Blair, led by Matt Larew. We're really pleased to be joined this afternoon by President and CEO of West, Eric Green.

Before we get to the presentation, I just want to mention two things. One, there will be a breakout session held immediately after this presentation in Richardson on the second floor. Our team will be walking there afterwards, so follow us if you're not sure where to go. And then, second, I'm required to inform you that for a complete list of research disclosures and potential conflicts of interest, please see the website at williamblair.com.

So, again, very pleased to have West Pharma here today and I will turn it over to Eric.

Eric Mark Green

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

Great. Thank you. Great. Thanks for the introduction and it's good to see everybody this afternoon here at Chicago, very pleased with the invitation and it's been a great day of conversations. I want to – before I get started, I just want to reference the Safe Harbor statement. You've seen this. This is also available on our website, if you want to go in greater detail as referencing for current and future statements.

Great story about West. Last month, we turned 100 years of age as a company. Started with a man named Herman O. West, who had a vision to develop glass vials components that are used in the pharma industry, and this all started in Philadelphia, where we basically are still headquartered after 100 years. What's interesting about this journey is we talk about where our focus was at that time, very focused on the pharma sector around stoppers and plungers, and that hasn't changed. The core of West has been consistent. Now, our processes and how we do business is different, but the focus around patients in the injectable medicine space has not changed from a purpose perspective here at West.

It's really fascinating, as you think about building scale over time, and all of a sudden there was an opportunity working with our customer, Eli Lilly, on the innovative product around penicillin to be able to get it out into the fields to support the military and civilians during the World War II. This also opened the mind and the eyes of Herman O. West on the possibilities, the demand of our products outside of local Philadelphia, outside of the United States, and really a global situation and an opportunity for our company, and that's where it began. It began with insulin. It began with penicillin. And this has been core to our DNA for all these years, multiple expansions, geographic wise, as we think about how we can service our customers throughout Latin America, throughout Europe, throughout Asia, and obviously, in North America.

One of the most important partnerships that was established 50 years ago was with Daikyo. That partnership is stronger than ever. Today, we have 49% ownership of that firm, exclusivity, and we're able to represent their products outside of Japan. But more importantly, the exchange of technologies between the two firms has made West and Daikyo extremely strong partners, providing innovative solutions around injectable medicines for the past 50 years, and that's what brings us to where we are today. We think about a little bit of the past. The last few months, we've been celebrating as an organization about the successes in understanding the history of the company. But more importantly, where are we today and where are we going into the future. Not many companies have survived a 100-year journey, and our intent is to continue to be driving innovation solutions for our customers for many years to come.

What hasn't changed? What hasn't changed is our purpose, and that purpose is impacting patient lives, and that is what we focus on each and every day. We are the global leader of primary containment and delivery devices for injectable medicines. That's our focus. We're pure to that focus, and we don't have a lot of business or any business that's outside of that particular corridor. Our core value is what shape us every day. We know we can improve in every aspect, and that's what drives us and motivates us to increase and continue to be passionate about our customers, leadership in quality and working as a One West team across the globe.

Last year, we produced over 47 billion components in our manufacturing plants across the globe, touching billions of patients in 2022. There's really three categories of our business when you think it from a product perspective: you have vials, containment, syringe solutions is one – and that's the largest part of our business. The second area is around administration and reconstitution that we call as administration systems. So, if you're in a hospital setting, you're taking a drug that's coming from an IV or has been extracted out of a vial, put into a bag, a lot of the components used in that process are administrative systems.

And the third area is drug delivery and diagnostic devices, both in their Proprietary business where we have IP on delivery devices like SmartDose, but we also have a business called Contract Manufacturing where we're supporting our customers and designing, scaling, do mass manufacturing of delivery devices, whether it's insulin pens, whether it's auto-injectors, even continuous glucose monitoring devices. So, that's the makeup of our portfolio, and again, each year, about 47 billion components. If you want to take it a step further, 7 billion of those components approximately is around our Contract Manufacturing business. The balance of that is what we call Proprietary.

Let's talk about our position of strength. We have a very diverse portfolio in three different buckets [indiscernible] (00:06:15) over 45% of our – I'm sorry, over 50% of our business is outside the United States. We're seeing expansion in Asia Pacific, but we're very strong in mature – in the developed markets. Our product portfolio, if you've been following West for a while, you hear us use words like high-value products, or HVPs, that is an area we've been focused on for a number of years. And when you think about components and delivery devices that makes up approximately 60% of our sales in 2022. If you rewind about four or five years, that was significantly less, and obviously, that's the highest growth area of our business.

The standard packaging is what you have historically heard West have done over multiple decades and it's becoming a smaller piece of our overall portfolio of approximately 20%. The exciting area is being market-led. It's also driving performance by the markets, and we break it out between the Biologics, which we include biosimilars in that category. So, the large molecules, the generics, the pharma, and then Contract Manufacturing. And you'll see there that the largest market unit here at West is no doubt, the biologics piece. We have 26 manufacturing sites, over 2,000 customers, multiple drugs per customer, which is basically driving about 128 million components a day.

So, we moved the organization to a market-led approach a few years ago and it's really paying dividends. What do I mean by that? It's very easy to write that down and look at it and say, okay, how do you implement a market-led approach. It really starts with your commercial organization, identifying unique problem sets of your customers and bringing it back into the organization, it forms the investment thesis of your R&D, it forms your – you're able to deliver the technical expertise to the various markets, because they're much unique. I'll go into greater detail in a moment, but also drives the ability to how do you drive a global organization. And what we identified is that this is a great opportunity for West to go away from a local parochial mindset to really a global platform to support our customers.

Let's spend a little time on the market-led approach. What we're finding interesting is in the Biologics space resonates well with our customers as the more complex biomolecules requiring pretty advanced packaging solutions that West and our partner Daikyo can provide. It's also driving opportunities when you start thinking about moving from IV to subcu delivery of Biologics, when you think about lifecycle management and using self-injection technologies, which we do have products that are approved in the market today. The Generics really is about speed to market. This is an area that I would say our focus was somewhat limited historically. And what we've found and we're quite excited about is that we're able to leverage parts of our high-value product portfolio to drive performance in that particular area to help deliver speed through the ANDA process and get more drug molecule in the market – for our customers.

In the Pharma space, small molecule really is around total cost of ownership. How you can take costs out of the system, how can you take opportunities to move the product through lifecycle management into the high-value products sector, and to round this up is our manufacturing and design for manufacturing of Contract Manufacturing. So, those are the four units that we have created and we're able to create value in each area. What I'm really excited about and what you'll hear me talk about is – or the team is that our success really is in the pipeline. So, once you're on the molecule, the change between one firm and the next as a supplier is quite low. And so, therefore, if we think about our participation rate in Biologics, it's very high, and we continue to be very high in small molecule and our growing presence in Generics. With roughly about – we always say about 7 out of every 10 injection, West components are involved with that injection.

The portfolio here, the way to look at this in the bottom left sector there, that's our standard products. About 78% of the units volume we produce is in the bottom left. From there point up all the way up to – through the components, whether it's coded, cameras, Envision, Quality by Design, that's roughly 22% of our units. So, said differently, high-value products represent 20% – 22% of the volume at West, but represents about 72% of the sales. So, if you put that in context, as the – when you think about the injection – injectable medicine space within healthcare is one of the fastest areas of growth, the fastest subset area of growth is Biologics. And with a very, very healthy participation rate in Biologics, what you're seeing here is that more demand of our products is higher up on the high-value product curve. And I'm excited with our R&D focus, with our product expansion is continuously moving the curve up to the right, and also moving the concept from components to systems, we're well on our way, will elongate and make another trend for high-value products.

Specifically on Biologics, if we go a little bit further about this, as I said, it's a high-growth area and highly-sensitive molecules that require this primary containment. If you think about our position, we're involved with the top-50 biologic injectables. But more importantly, going back to the pipeline conversation as we see new BLAs or other approvals of the biologics, West and our partner Daikyo participation rate is extremely high, and we're leveraging that as a capability. We're seeding the market with NovaPure. FluroTec and NovaPure in particular, and what you see as we launched in 2016 with NovaPure and it takes a few years in our industry to gain traction and to get penetration, and we're seeing vast majority of recently approved molecules are using either FluroTec or NovaPure solution, and we expect that to continue as we move forward. I mentioned about Biologics being about 41% of the West sales last year, overall enterprise sales, not too long ago, it was 22%. So, you can see the power of the Biologics growth, higher ASP, higher margins, and that's giving us the mix shift.

The second big lever that we moved on is on our operations and the focus around instead of talking about 47 billion components, we're talking at the plant level, how do we ensure each and every component that leaves to our customers has the mindset, it has a patient name on it. With that mindset, we're driving quality, we're driving scalability, we drive service, and this has enabled in support of their business growth as we move from site-specific or region-specific operations to global operations. That took a few years to get the systems and the capabilities aligned, but the major driver of that change was driven by our customers. Our customers want to have the assurance of supply in multiple geographies, but consistent product, not have different SKUs, different formulations, different characteristics, consistency across the globe.

And so, we really focused on driving five centers of excellence of our high-value products into five plants out of the 25 plants worldwide. This has given – this has informed our manufacturing strategy, which has allowed us to service our customers. It's also allowed us to mature our supply chain and give us a better ability to be flexible during times where there's much volatility, and what I'm really excited about is now we're venturing into the advanced manufacturing. What does that mean? It means we have great opportunity to drive even more automation.

Last week or the week before I was in Singapore and also in Bangalore, we have a robotics laboratory in Bangalore, and was really excited about the progress they have made on device manufacturing using full robotics, no human interaction. And our process on Proprietary devices have historically been a manual process and this could be a breakthrough. This will be an opportunity as we think about the future and imagine how we are going to manufacture these combination devices going forward.

Just a few weeks before that, I was in Waterford, where I'm excited to see there is a full end-to-end automated process for our HVP plungers, particularly NovaPure. And what that does is basically from compounding to in the bag, you think about the washing, siliconization, the Envision, everything – the whole process is all self-contained end-to-end with our highest level of HVP. I'm excited about what this could bring to us in the future. We have a lot of work to do, but now we're embarking on the advanced manufacturing strategy in our key plants across the globe.

There's a lot of volume, as we've talked about before, but change occurs through innovative processes. And over these years, we've been able to – obviously, a picture say a thousand words. Fortunately, we have advanced the ability to manufacture at the highest-level quality across the globe, but I'm excited about the journey we're on with even more automation in the process. If we step back a moment here, so talking about the past, where we are today. One thing that – these changes we made in our organization enabled West to build support our customers during the COVID pandemic. We believe there are about 8 billion doses delivered and we believe West and our partner Daikyo had a participation on almost all those doses.

In order to do that, while our core business without COVID continue to grow quite nicely, we had to pivot, we had to actually expand capacity, we had to be able to increase the velocity of our product through our facilities and able to basically help deliver these novel vaccines in the market across the globe. We've been challenged in the past, we were challenged just recently, and we believe we can stand up and continue with this new challenge of the new launches that are upon us. But what really made its unique about our operations when we made this change is we started thinking about how do you create an innovative process of capital deployment.

And as we looked at having our customers focus on components that were used around high-value products, if and when COVID vaccines become of less demand, we're able to pivot and support our base growth of our biologics business. And also, we were able to expand our facilities going 24x7 during the pandemic and able to meet the demands, particularly around NovaPure and West FluroTec. So, the great learning that we walked away with great privilege to be part of the solution, but more importantly, we feel that we have global operations that can respond and drive flexible operations will support these major surges that we do see in our industry.

The investments we made were very concerted towards our high-value product plans. Since from 2020 to 2022, we invested about \$712 million of capital. As you know, the size of our company, that's quite significant. But again, as I mentioned, it was important that we invest the capital that was going to support our growth story versus these are dedicated lines for dedicated product, and as COVID would deaccelerate over time, we would have idle capacity. Those assets are currently in operations supporting the base business growth, particularly in our Biologics business. On this map, you see the key – if I just highlight the key locations, Jersey Shore, Kinston, Waterford, Eschweiler, and Singapore are our five high-value product plants that we continue to drive investments as we think about today in the near future.

I think it's important to reflect of this growth that we had during pandemic and split out the COVID and the non-COVID business. If you just orientate yourself here, the red-line is basically overall enterprise growth inclusive of COVID impact. And you can see the percentage obviously goes significantly up in 2021 and then it's been declining to less than 7% more recently, it's a 12-month rolling average. What's important to show here is that without COVID, the core business of our company has been growing double-digits since the beginning of the pandemic, and obviously, that was true in the last quarter that we just announced. And as we gave guidance, we're looking at high-teens for Proprietary from organic non-currency – FX excluded basis for 2023. The Contract Manufacturing is slightly into the double-digits, which means the entire enterprise will be mid-teens for total growth without COVID.

The COVID piece is moving from \$388 million last year. We were guiding about \$60 million this year based on what we have with discussions with customers. But what's really exciting about this growth, while the Pharma and the Generics continue to grow faster than we believe the market and we do think that is a temporary phenomena, we do believe Pharma is about low- to mid-single-digit type growth long-term. We do believe Generics is mid- to high-single type growth for West. But the Biologics continues to be double-digits and that's the main thrust of growth when you think about the long-term construct for West.

So, we're going to transition to as we think about [indiscernible] (00:21:28) still have more capacity to build. And this year, we are spending \$350 million. Now, if you think back of West, for those who've been following West, about 50% of our CapEx per annum was spent on growth-orientated investments, so growth. The rest is on maintenance and IT and infrastructure. If you think about today, obviously, COVID, but also today and in the near future, it's 70-plus-percent around growth. So, these investments are being made. They do take one or two years to implement and we have a number of investments in flight right now.

As I mentioned, I was in Singapore last week and seen the investments we made there, but more in the near future. Kinston, we are, currently as we stand today, commissioning and validating a major expansion around NovaPure Plungers, because the plunger demand right now is exceeding our supply. We have other washing and vision inspection capabilities that will be coming on later this year in Kinston. And we look at other locations that we're making investments today to make up that \$350 million. So, I'm excited about the demand on the business, but we need to get ahead of this curve. Right now, we – our lead times were very long. We got them down this year, and by the end of the year, we believe will be more normalized. But there is demand on our plungers and other high-value products that we need to continue to invest to make sure we stay ahead of the curve for our customers.

Turning our attention a little bit on R&D. The areas of focus in our R&D is really in three key pillars, around new products and platforms. This is looking at new ways of innovation beyond NovaPure. It's also looking at new ways how do we start – thinking about different platforms, solutions for our customers. If you think about going from components to systems and how do we can create more of a system approach. We do have an agreement that we've struck and we're working on partnerships with Corning, with their aluminosilicate glass or Valor Glass. We do believe the system approach will continue to differentiate our capabilities in the marketplace. And it's a very clear message from our customers, these are the type of solutions they're looking for. They're looking for more than just components. They're looking for ways for us to come to them with a full dossier of all the technical data to support them as they file with these new combination devices and how the system functions as a whole versus as components.

We've been doing this. We have been doing this service for our customers for a number of years in our [indiscernible] (00:24:18) analytical lab for a number of customers, small, medium and large. And what became very apparent is that, now we're being asked can you actually put the whole system together, and that – hence the reason why ourselves and Corning have created that partnership and we're developing products to be launched. There was a little – there was a first launch last quarter. We'll have another launch at the end of the year and we'll continue to roll out these new product launches as we go forward.

It will take time to see the market, but just like NovaPure, where we see the market and it's now material revenues for us and growth is the same impact we believe the system approach will have for West going forward. We're also looking at new technologies to broaden our capabilities in our portfolio, and I'm excited about some of the new partnerships that we're creating, particularly around advanced materials, additive manufacturing and biosensors.

And lastly but not least is thinking about these delivery devices. Earlier I talked about the movement from IV to subcu. It's an exciting space to be in. We currently have four approved combination devices of drug molecule with our devices in the marketplace today. This gives us the ability to start expanding and scale this particular model, so we can provide more on-body drug delivery systems when our customers are thinking about that movement of lifecycle management from IV to subcu and support them on their further launches. So, a lot of focus in these particular areas. We open up a new R&D lab in Radnor a couple months ago, Radnor, Pennsylvania. As I said, I was in our Bangalore R&D laboratories this last week and we're also investing heavily in Arizona with our R&D investments.

I want to talk a moment about ESG, and I encourage you in the next week or two, we'll have a Corporate Responsibility Report published that will be going through our website, you can look at it. You'll see that we're making tremendous progress on our analytics or the metrics around the goals that we've set ourselves, particularly as four of the six pillars that we have put up here in front of you. I'm proud of how the team is driving this. This is not an initiative. This is not a new pillar to the strategy. This is built into the DNA of the company and

the culture of the company. And it's just an opportunity for us to articulate into dimension the impact we're having, not just within our own organization, but in the communities where we work and live and also with our customers and the patients that they touch each and every day. Great opportunity to continue to drive value outside of product in our customers' hands.

Earlier I started with this company started with one name, Herman O. West. We have – over the last 100 years we have evolved significantly. The company is very proud to be part of a very large portfolio of drug molecules in the market. We realize that we have to earn that right each and every day, work with our customers, innovate, drive operational efficiencies and drive operational effectiveness, particularly around quality, around delivery and around productivity.

We are continuing to accelerate investments. The great thing about West is that we have built cash. We're delivered as an organization. If you think about our use of cash, we have – our focus is really reinvest into our organic growth through capital expenditures. We're seeing a great return with this whole concept of modular approach versus new greenfield locations that we can move faster to support our customers. It's around the growth orientation of our portfolio. It's the mid to the higher end of HVP, which all is better ASPs, better margins, and better returns to our investments.

We also do believe that we continue to deploy cash around dividends, 32 years of increase, and we did announce \$1 billion buyback earlier in the year and with no – it's not time bound. So, as we think about one of our primary focus has been keeping the share count neutral. We've been doing over that for the last four or five years, very proud of that performance. But we'll continue to deploy the cash without leveraging the company. And also, we'll look at M&A opportunities, particularly on technology and bolt-on solutions that would enhance our ability to support our customers.

But as I think about the past, the present, and the future of the company, I'm excited about where we're going. The one thing that has changed is that the company started with a name, but today in the halls of West throughout the organization, really the name that we're focused on is the patient's name. And so, I'm excited about where we're able to go to impact more patients in more diverse therapeutic classes, and we'll start making some meaningful – continue to make meaningful difference in people's lives. So, thank you very much. I'm going to end on time and thank you, and hopefully, you can join us in the breakout and ask questions. Thank you.

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