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West Pharmaceutical Services, Inc. (WST)

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CORPORATE PARTICIPANTS

Bernard J. Birkett
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Quintin John Lai
Vice President-Corporate Development & Strategy, West Pharmaceutical Services, Inc.

OTHER PARTICIPANTS

David Howard Windley
Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

David Howard Windley
Analyst, Jefferies LLC

Hi, everybody. We should tell the folks out in the hallway there's plenty of seating in here. Some of the other rooms, I think it's standing room-only, so you found a more comfortable room.

Thanks for being here. Welcome to Jefferies Healthcare Conference here in London. I'm Dave Windley with Jefferies Equity Research. I cover the pharma services space, CROs, contract manufacturing. West kind of fits into that space or kind of a contract manufacturer, but as you'll – you either know or will soon learn, they are a very unique business playing in the pharmaceutical and biotech injectable market and have a wide moat. Very interesting business we'll get into.

So here to talk about West Pharma Services, with me are the company's Chief Financial Officer, Bernard Birkett, and company's Vice President-Development Strategy and IR, if I remember correctly, Quintin Lai. So thanks very much for being here. Appreciate that.

QUESTION AND ANSWER SECTION

David Howard Windley
Analyst, Jefferies LLC

Q

So why don't we start with growth, with – you had a period of a few year – or couple of years maybe where you worked through some lead time challenges, got those back down to very attractive levels, clients have responded accordingly and have now, I think, seen in the last few quarters a really nice step up in growth. Perhaps you could help us to understand how much of that is secular, underlying secular demand, how much of that is seasonal, how much of that is clients playing catch-up? How should we bifurcate the contributors to your strong growth?

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

A

Well, thanks, Dave, and thanks for having us here and good morning to everybody. Just on growth, we're seeing growth across all areas of our business. So our business is divided into Proprietary and Contract Manufacturing. Within Proprietary, we have Biologics, Generics and Pharma and we've seen growth across all areas of our business. A

And it is really driven by demand and so we don't believe there's catch-up or any lead time issues in that. And we're also seeing strong growth in our Contract Manufacturing business, and they're all growing in line with our expectations. So Biologics, we've seen strong double-digit growth in each quarter as we've progressed through 2019. Generics has been mid to high single-digit. Pharma has been a little bit more challenged given that we're – we have this Vial2Bag recall issue that we encountered at the beginning of the year, and that calls to the comp problem. But if we exclude Vial2Bag, Pharma is pretty much in line with where we would expect it to be.

And, again, Contract Manufacturing has been very strong through the first half of the year and then growth moderated in Q3. Along with our expectations, we have been calling that out that that was going to happen. So, strong right across the business.

David Howard Windley
Analyst, Jefferies LLC

Q

And you mentioned – just to put a finer point on Pharma, you mentioned in line with what you would have expected excluding Vial2Bag which would have been what?

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

A

Well, we're seeing low single-digit growth there through 2019 excluding Vial2Bag.

David Howard Windley
Analyst, Jefferies LLC

Q

Right. Okay. Maybe while we're on the subject, is there an update that you can share on Vial2Bag, or is it still working through process with regulators and undetermined how soon you can get back on the market with that?

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

A

Yeah. So, we're committed to getting Vial2Bag back onto the market, but we're working through a partial redesign process. And then it has to go through regulatory approval, and that's something that's – a timeline on the regulatory approval piece they're able to control. So, at this stage, it's just to understand that we're working to get it back as quickly as we can.

David Howard Windley
Analyst, Jefferies LLC

Q

Can you speak to, under, say, normal circumstances, unrelated to yourself, a regulatory approval process for a product like that would normally take? Is there a benchmark that we could think about or...

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

A

Well, I believe it could be anything from three months to – it could even be six to nine months. I can't really predetermine what the regulatory authorities will do, or put a timeline on them so we just have to wait and see.

David Howard Windley
Analyst, Jefferies LLC

Q

Okay. Coming back to high-value products from the components part of the business, the – I guess the – this – the overarching kind of strategy or growth levers in that business have been this steady shift toward high-value products. Maybe as a first question there, is the pace of that shift, pace of that transition holding at a fairly steady rate? Are you seeing any inflection either way?

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

A

It's at a pretty steady stage. We've seen good traction within our Biologics segments through 2019. And that's reflected in the growth of Biologics itself, but most of the – or all of the products that we sell within the Biologics space are high-value product. And so we're seeing a broadening of the customer base, a broadening of the products that they're buying through that market units, and so we're seeing consistent demand there.

In Generics, we're also seeing strong demand for high-value products, particularly with the level of interest that we're seeing in the product line that we're introducing called AccelTRA, which is a more – it's a more standard offering of products for the Generics market units but it allows customers to get to market quicker and to transition to our products faster.

And within Pharma, you see the transition to high-value products is a little bit less in that market unit and takes a little bit longer given that we're dealing with legacy products. But, again, we're satisfied with the level of conversion that we're seeing in that area.

David Howard Windley
Analyst, Jefferies LLC

Q

So good jumping off point on Pharma, you mentioned there, it takes longer. You've had some clients or at least one client in the last couple of years that you've highlighted that made an enterprise decision to transition to high-value products over a period of time. Perhaps you could talk about how that process is progressing and to what extent that's a proxy for potentially other models to follow a similar path?

Quintin John Lai
Vice President-Corporate Development & Strategy, West Pharmaceutical Services, Inc.

A

Sure. Let me address that. So, to kind of give you a background, a lot of what we're talking about are elastomeric products, stoppers, plungers. And currently, some customers, some of the most mature, established large pharma customers buy [audio gap] (00:07:05) product and then they do the pharma grade washing and sterilization on their own, and so they're buying our standard product.

This industry is very slow to change. Those customers typically continue to do what they do. But, as their infrastructure ages, as their focus and as their attention is directed toward more drug discovery, commercial activities becomes less important to do that washing and sterilization. On top of that, the quality standards continue to be raised and so there is where the opportunity for West to come in with our Westar RS and RU product with a very high quality pharma grade washing sterilization takes place.

That conversion cycle takes time. It takes a lot of work with that customer to do that, and it's not something because the customer does have to open up their filing in order to make a kind of adjustment to that. So in the case of that one that we talked about in the past, it is a multi-stage process. As you can imagine, these customers don't like to do abrupt changes. So they'll change one drug at a time, one line at a time, and that's still ongoing as we speak, Dave. And we'll continue to do that even with other customers.

And so that's why, as Bernard said, it is a process. But what we've seen historically as once customers do start to make that process, we rarely see them going backward and reverting back to core product. It's typically a one way direction and upward on our value curve.

And then with respect to opportunities like in Generics and then even within Biologics we see an opportunity to take our existing high-value products and take it even to a higher level. And so, for example, adding Envision, where we do vision inspection of every single component, and so there is another opportunity to increase the value to our customer as well as the value to us.

David Howard Windley
Analyst, Jefferies LLC

Q

Again, very nice segue to my next question. So we talked a number of times in my attempts to try to understand where the high-value products fit as to whether I should think about a client kind of starting at the first rung of the ladder for lack of a better phrase, kind of that Westar RS and then to RU and then Envision, and on up the scale as they get more comfortable or is the match more this biologic or this product that we have has a certain characteristic and, therefore, needs no repair or maybe that's not a great example, but needs FluroTec because of the potency of the drug and, therefore, they go directly to that.

Help us – I'm trying to understand this in respect to how that stepping up the scale of your high-value products can evolve over time.

Quintin John Lai
Vice President-Corporate Development & Strategy, West Pharmaceutical Services, Inc.

A

So I think, from our perspective and as we work with many of our customers, the molecule selects the package. Science, at the end of the day, dictates what the primary package should be. So, in the case of a biologic, the large molecule that might be sensitive to the exposed elastomer, they may choose for a coated elastomer, so a fluoropolymer coat.

And they do it for a variety of reasons, to go for less absorption or to reduce the extractable leachable. But all of those things are molecule dependent. And when they do that, they'll make a decision to select a FluroTec coating and then depending on the value of the drug. And the value of that API, they may choose to get the best quality parameters that we can provide and they may go for Envision or all the way up to our highest quality which is NovaPure. So, we do quality by design at every manufacturing step.

And, again, those are the decisions that are usually made by the customer, and the customer because of the type of molecules or package.

David Howard Windley
Analyst, Jefferies LLC

Q

So, maybe the – not sure how closely the audience is familiar with your business model, but maybe to shine a light on why I would even ask this question, your price points on these various levels of high-value product – and there's a pretty wide range on a per unit basis and so the margins from Westar RS to NovaPure might move 20 basis points, 30 basis points on a gross margin basis, something – you're probably not going to confirm that but take my word for it. I think that that's about where it is.

So in terms of thinking about how margins then can evolve as you see this mix shift, how should investors think about equating that 100 basis points of mix shift to high-value product as they can drive margin without the operational initiatives which I'll dig out of you next?

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

A

So you can – obviously, as you move up the high-value curve, we're getting better pricing, we get better margins, we're providing more value to customers at that point. High-value product is and will be a big driver of the operating margin expansion story. So we're looking at probably 50 basis points to 60 basis points of margin expansion coming from high-value product on an annual basis.

David Howard Windley
Analyst, Jefferies LLC

Q

And that's simply from that 100 basis points of mix shift?

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

A

That's – yeah. So, we're seeing the 100 basis point will be made up of mix shift, 50 basis points to 60 basis points, then we guess we're getting greater operational efficiency and greater levels of productivity to our operations as we globalize our operations function moving from a regional perspective. So we have – or by the end of this year, we'll have 25 facilities spread worldwide.

So we've implemented a One West business program to look at improving utilization and efficiency throughout all our plan. And you can see that that's actually coming through. If we look at the gross margin expansion on our – within our Proprietary business, if [audio gap] (00:13:58) go back to Q2 2018, we could see, within Proprietary, margin expanding quarter-over-quarter. And that is driven by a combination of initiatives. Obviously, the high-value product, the major driver as we said, and then operational efficiency also feeding into [audio gap] (00:14:17).

David Howard Windley
Analyst, Jefferies LLC

Q

So on the operational efficiency front, you've – excuse me, taken their or determined to take a couple of facilities offline. And then you also are, one would presume, growing volumes even more concentrated in the remaining footprint as well as some of the more, call it, Six Sigma or Six Sigma-like operational initiatives that you're implementing. Can you divide – maybe give us a sense of the relative magnitude of those contributors and some examples of the types of things that you're doing to drive some of that efficiency?

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

A

Yeah. So to drive efficiency, obviously, we started off by standardizing a lot of the processes across our plant, a lot of the methodologies. And we put in Lean metrics to make sure that we're performing to certain standards and driving performance across all our plants. And so what we're also focusing on is levels of automation. So we're introducing greater levels of automation across a number of our facilities over the next number of years.

And so we have developed processes and validated them as we've gone through 2019, and we're ready to start rolling those out on a phased basis over the next number of years. So that will, obviously, drive greater levels of efficiency. That also helps us when we look at the size of the plants that we need and further plant expansion. So, our volumes typically grow about 2% to 3% a year. So with volumes going at 2% to 3% a year, plus the increased levels of automation, that would tell us that we should not need to add more footprint over the next number of years until we get a better return on the assets that we have in place right now.

David Howard Windley
Analyst, Jefferies LLC

Q

Is there a way that show – these automation initiatives that you developed are interesting. You invested in those and it sounds like you kind of incubated those in 2019, ready to roll those out over multiple years. How should we think about those specifically affecting margin?

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

A

They're going to feed into the 100 basis points-plus of margin expansion which will happen on a – obviously, on an annual basis. And it's – when you think about 100 basis point, its 100 basis point on a 100 basis point on a 100 basis point, so cumulative. So, each year, you go through that process, it gets more difficult to do 100 basis points improvement because it's just a lot of big numbers.

So, that's why we need initiatives like automation to help us drive that continuous and sustained improvement. So, that's what we want to do it on a phased basis, because we understand that the automation that we're putting in place will evolve and, obviously, improve as – over time.

We don't want to do it all in one go where we would actually put the business at risk, and we're not prepared to do that, so we want to make sure that we have continuous supply and don't impact our customers.

David Howard Windley
Analyst, Jefferies LLC

Q

Are there any – while we're on this topic, are there any offsetting issues that we would need to think about? For example, as you implement some of this automation, do you have to take something down that would negatively affect utilization for a period of time while you're implementing or not really?

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

A

No. No, that's – so we – that's all built into the planning of the roll out for automation, is that there will be no interruption like that. And that's why it's been done a phased basis, on a very controlled basis, so there is no risk to the business.

David Howard Windley
Analyst, Jefferies LLC

Q

So, zooming out now then a little bit, the 2018 year was really a blockbuster year at least from a US FDA-focused product approval standpoint. I think, each year, we're seeing the mix toward injectable drugs and toward biologics continue to increase as that part of the pipeline grows by percentage.

2020 appears to be a year where the approval rate would be a little – maybe a little off of where – sorry, 2019 is a little off of where 2018 was. Does that have an impact on the cadence of your business as these companies are bringing product to market?

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

A

No, it shouldn't because our customer base within Biologics has actually widened. The product portfolio within Biologics has actually widened. So, there's a level of risk diversification built into that, and we're not reliant on any one particular drug, so there's a number of drugs feeding the growth within Biologics.

We've improved our visibility into that market. We got a lot [audio gap] (00:18:59). And based on the demand that we're seeing at the moment, we don't see that as an issue for 2020.

David Howard Windley
Analyst, Jefferies LLC

Q

Okay. Okay. You mentioned the increased visibility in the client. That was certainly something that, I think, had maybe begun at the time that you arrived as CFO and you've intensified those efforts. Could you talk a little bit about what you've been able to put in place to create a more real-time feedback loop to West on your clients' inventory better?

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

A

So, we actually looked at how our Biologics market unit was structured. We brought in some new people into that area. And it's really the Biologic team have got closer to the customer base; the level of market research has increased. And so, it's that team who has really been pooling all of this information together and feeding it back into West.

And we've also done – the reporting around Biologics has improved and we're doing – trying to predict more as to what's going to happen in that space, although that is pretty complex. By nature, there's a lot of volatility within the Biologics sector. Again, as I said, based on the number of customers we have, and we will be on the vast majority of new drugs that are in clinical Phase 1 and 2 within that sector, so the customer base is widening and the number of product is widening, so it helps us mitigate some of that volatility.

So, what we want to do is to make sure that if there is volatility and if we see something happening in the market that we communicate it upfront, so it's not a surprise to anybody. For which we're obviously trying to create this increased level of visibility and communication around that space.

David Howard Windley
Analyst, Jefferies LLC

Q

And going one level deeper here on some of the reporting that you talked about and the market forecasting and market research that you mentioned, I'm curious what types of things are you taking into account, to what extent does biotech funding matter, to what extent are you – I'm pretty sure you're measuring pipeline and things like that, but what types of things are you taking into account?

Quintin John Lai
Vice President-Corporate Development & Strategy, West Pharmaceutical Services, Inc.

A

So, as a reminder, most of – I mean, first of all, when you look at our proprietary business, we're off of a base of 33 billion components a year. So, I mean, that's why one drug, especially one new drug, doesn't necessarily affect the overall base of the business that much. What we do is we – funding is really more in terms of the early stage discovery and clinical trial work, and that is a little further upstream from where we participate. And so, it doesn't have an immediate impact on us, Dave.

More importantly, what is important for us is those products do get to commercial. If they spec in our products and then they launch, that's when we start working with the customers because the customers they internally have forecasts of what they want, [audio gap] (00:22:10) they have to build up their own safety stock in order to do pre-launch activities. And then, based on how that commercial traction is, then the reorders start to come in.

Having that dialogue, having the extra analytics that Bernard talks about helps us get a better understanding of those conversations with our customers. And it's not an attempt to control the volatility. There's no way you can do that. But it's to understand the order patterns. Is it just inventory? Is it true demand? Trying to parse that out, so then we can then better react because we have a very busy production schedule, and we need to be able to make sure that we can match our production schedule to match our customers. And so, again, it's very symbiotic, the relationship we're building with our customers.

David Howard Windley
Analyst, Jefferies LLC

Q

Have you gotten to the point of [audio gap] (00:23:11) applying the AI to – like how sophisticated is this predictive applicability?

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

A

We haven't used AI on it at this point. The biggest and most important thing for us is to be really close to our customers and understand what they are seeing in the markets, what order patterns are they seeing and using that information to build up our own forecast. So, each drug is going to be unique, and that's what we have to be – really understand what's happening with each individual customer then building up a profile [indiscernible] (00:23:54).

David Howard Windley
Analyst, Jefferies LLC

Q

Right. In the past on that I think the company West has talked about biologic company, biotech companies just being closer to the vest about that outlook and maybe close to the vest was code for the client not really knowing themselves. I'm not sure. But have you found that it wasn't necessarily that they were unwilling, you just had to get the right people in place to ask? Was that part of it?

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

A

Well, I'm sure some are probably still unwilling to share everything. It's just how much information can we glean for them. And we're really developing the relationships with these customers that are very early stage. So, again, its clinical trials Phase 1 and Phase 2. So, we're building up that partnership and, plus, it's our own understanding of the market and what's happening in the market then matching that to the information that our customers are providing.

David Howard Windley
Analyst, Jefferies LLC

Q

Got you. So, maybe pivoting a little bit here to regulatory environment. So, my target here is pricing. So, what is the pricing environment like in general? And then in light of what's being considered in the US around International Price Index and some other – lots of political rhetoric around drug pricing, what would you expect to be the ripple effect to West components in light of the fact that there are very, very small percentage of total sales price for most of these biologics? But what could be the ripple effect to pricing on your components if your customers experience a fairly significant price haircut in some type of US regulatory price [ph] synergy (00:25:35)?

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

A

Well, I think the point you made about [indiscernible] (00:25:39) as a percentage of the overall cost of sales for a customer is pretty small. But typically we could be 1% to 2% and in some cases less than 1% of their overall COGS. So, it is a pretty small number. Typically, we have been seeing 1% to 2% price increase over the whole of our business on an annual basis.

So, we are pretty clear that we are not going to go out and raise prices overly aggressively with any customers. Really, for us, its building long-term partnerships with customers and to making sure that we're on all of their current molecules and future molecules. So, it is managing that price relationship, but understanding what's going on in the market.

Obviously, when we segment our business, there are certain areas where we're not going to get price. And then as we move up the higher value products, that's where we can actually get more price because we're bringing more value to the table. And also, it's not just on the price increase itself. If we go back it's really moving people up the high value curve. So, mix shift is the most important thing for us.

David Howard Windley
Analyst, Jefferies LLC

Q

And then I want to circle back to one particular high-value product that [ph] is now I'm going to call out (00:27:01) for the last couple of quarters is NovaPure. I think you've said that it's not just a single product that is driving that,

that it's relatively diversified in light of NovaPure being very small. NovaPure, because it is the high rung of that ladder, is powerful. Is there a theme or a trend that has been driving that in the first part of the year that could continue and have NovaPure continue to be a call-out as we move into 2020?

Quintin John Lai
Vice President-Corporate Development & Strategy, West Pharmaceutical Services, Inc.
A

Sure. So, NovaPure is our highest value product. It is where we put quality by design at every stage of the manufacturing process from compounding to molding, to washing, to sterilization, Envision inspection, FluroTec coating all the way up. When we launched it a few years ago, we only launched it in a few configurations and those have been adopted nicely by many of the customers that were doing Phase 2 trials at the time. Now that we're starting to see some of the [audio gap] (00:28:08) volume and sales traction for us, Dave. And so, our expectation is as those continue to do well as well as new approvals come through, we will continue to see growth in the NovaPure, and it's been growing very nicely here year-to-date.

Recently, we launched a new configuration. So, now we launched the 3 mL plunger just at our latest trade show. So, it just shows you that our commitment to expanding the product line. So, this will help – be used for plungers that are looking to be used in syringes or auto-injectors that go beyond just the 1 mL configuration. And so, it's still early stages as with any new product launch we have. It typically takes years for that traction, but we're very pleased with how the uptake has been since 2016.

David Howard Windley
Analyst, Jefferies LLC
Q

Thanks for that. Would you be willing to give us a sense of the scope of NovaPure's applications or let's say its client interactions like how many products have been approved, how many do you have in the pipeline, in your client relationships that are working on NovaCare? I'm just trying to get a sense, is it 2 or 20?

Quintin John Lai
Vice President-Corporate Development & Strategy, West Pharmaceutical Services, Inc.
A

It's more than two. You know a lot of what we're seeing is from originally with a lot of the emerging biologic companies because those are the ones that are innovating especially on the cutting-edge Phase 2 trials. But impressively, we've also seen adoption from large biotech customers as well that are also going through their process. So, it's a combination. The adoption that we're getting is broad based, Dave.

David Howard Windley
Analyst, Jefferies LLC
Q

Okay. One of the benefits of the model lately and certainly, Bern, since you joined and the CapEx spending rate has dropped quite a bit, some facilities have gotten completed, and to the point that you made earlier about efficiencies and productivity in plants. Free cash flow has improved, you're building some cash on the balance sheet, management has talked about interest in acquisition. So, maybe you could go through capital deployment priorities and the areas of interest for potential tuck-in acquisition.

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

So, yeah, on CapEx, the CapEx, as a percentage of sales, has decreased over the last number of years. So, we're typically around that 7% range right now. You rightly said, we had a number of billings to complete through 2014 to 2018, that's all done. So, the focus for CapEx now is split between maintenance CapEx, which is $45 million, $50 million; IT, we're spending probably $15 million plus; and then the balance is focused on growth and automation project that we have in place.

When we look at how would we deploy the rest of the capital, if we talk about mergers and acquisitions, first area that we look at is that we have a really strong organic growth story both from top line and margin expansion. So, we don't want to do anything that's going to distract or detract from that. But, again, we are looking at are there other ways or better ways that we can serve our customers? Is there more value we can bring to the table? And part of that is looking at acquisitions. Are there other products that we can offer or services that we can offer that would benefit our customers and strategically improve what West can offer. As of now, I have no specific ...

David Howard Windley — Q
Analyst, Jefferies LLC

You don't want to tell us the next deal?

Bernard J. Birkett — A
Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.

No.

David Howard Windley — Q
Analyst, Jefferies LLC

No. Okay.

Bernard J. Birkett — A
Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.

Not today.

David Howard Windley — Q
Analyst, Jefferies LLC

Not going to break that news today.

Bernard J. Birkett — A
Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.

No.

David Howard Windley — Q
Analyst, Jefferies LLC

So, the threading and the needle on that to me has seemed – I think, in prior conversations, we've talked about how previous acquisitions had been of technology that was or were fairly early in its own development, and maybe even several years away from real commercial revenue opportunities such that that was dilutive to margin for a period of time. And you've expressed that you want to stay away from that type of an acquisition.

So, just trying to drill in on this a little bit more, in terms of the profile, how you find something that kind of fits with the type of things that West would like to add capability-wise that also brings a financial profile that doesn't, as you said, detract from your organic and margin expansion story and perhaps doesn't cost your firstborn son to buy?

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

Obviously, there aren't a lot of targets out there for us. But we're prepared to be patient, to wait for the right assets that really, as I said, that can benefit our business. We have a very, very strong organic growth story, so we can be patient. We got a powerful balance sheet. We want to make sure that when we deploy that we use it very effectively. We're not just going to do an acquisition to boost revenue growth. And that just doesn't fit into what we are looking at. We have very disciplined approach about how we're going to look at acquisition. And so, we're prepared to wait for the right one. And when it comes along, we'll be ready to act.

We've built out a leadership team over the last number of years who have come from outside of West, but that leadership team has a lot of experience both in doing acquisitions, but more importantly, in integrating acquisition. And so, with what the team has built, we have balance sheet ready to go, but it's just waiting for the right asset and we will be patient and wait for the right.

David Howard Windley
Analyst, Jefferies LLC Q

And in the meantime, during that patient period, would it be your intent to allow free cash flow to accumulate on the balance sheet, to build up that store of cash to take action or would you be more inclined to use the cash in other ways, say, buy back you own stock in the meantime in light of the fact that you have some ability to borrow if you wanted to?

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

Well, up until now we pay a quarterly dividend, we've done some share repurchase, and that's really to offset a stock-based compensation. And that's the level of share repurchase that we've done in the past just to maintain the share count.

David Howard Windley
Analyst, Jefferies LLC Q

Got it. So, maybe being a little more specific to this year, the performance year-to-date has been quite strong and arguably above the framework of the guidance that you provide would seem to suggest, I think, you've tried to be conservative and you've certainly emphasized to me, we want to deliver on the promises that we've made and establish a track record of that, which I certainly support, point being that the performance year-to-date would certainly seemed to bias toward upper ends of the ranges of the guidance that you provided. Can you tell us what is unknown or what are the swing factors here as we close the year that would say influence high end or low end of the range?

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

For 2019.

David Howard Windley
Analyst, Jefferies LLC Q

For 2019, right.

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

A

The way we've given the range, we're always working to deliver maximum results. We're doing our best to achieve those. I don't see too many headwinds between now and the end of the year obviously, but I can predict on things that I don't know. So, that's why we've given a range. We've outperformed I believe as we've gone through 2019. The performance has been very strong. We guide 6% to 8%, 100 basis points plus on margin improvement. We're always going to strive to do better. And as we've been communicating to people is we want to deliver on what we say we're going to do. We don't want to be sitting here making excuses if that doesn't materialize. So, some people call it conservative. I think it's given people a reasonable outlook on the business based on the information that we have.

David Howard Windley
Analyst, Jefferies LLC

Q

And are there factors – maybe last question. But are there factors that we should think about that have either – probably on the improved side – but improved or deteriorated or, said differently, headwinds or tailwinds that have strengthened or weakened as you think about your horizon beyond 2019?

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

A

No. We've got a – our plan, pretty well laid out. It's up to us to execute on that. We've got strong growth in broad Biologics. We know where we're going with our Generics markets, and the same with Pharma. Contract manufacturing is coming in close to where we believe it should be. We believe there should be some improvement in the gross margin in that area. And I can't predict headwinds that are out there. The focus for us is we have a plan in place, we're close with our customers, we just really have to execute on that plan, and then we deal with the headwinds and tailwinds as they occur.

David Howard Windley
Analyst, Jefferies LLC

Okay. I think that takes our time. We'll wrap there. Thank you for your attendance and attention. Enjoy the rest of the conference.