West Pharmaceutical Services – Portfolio Differentiation, Competitive Threats & 2024 Strategic Vision

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Key Insights

- Given injectable market represents “nearly 40% of the total market”, specialist predicts “high-single-digit or low-double-digit growth figures” for West in segment. “West has a leading position in this specific segment”
- However small, there is a risk of pharmaceutical companies changing administration method from injectable to tablet, essentially through parenteral route, bypassing normal gastrointestinal tract
- West was well-positioned because it already had right HPV packaging product for new generation of vaccines. It “was really the best product to package this drug”
- West’s operation network size, ability to provide dual-sourcing and “very strong” quality arm makes it unique. West is very good at having a mid-to-long-term strategy, thus building out capacity earlier
- West needs to focus on managing its capacity on manufacturing side over next 2-3 years. Specialist expects inventory management challenges to continue for “one year, max”

Specialist Laurent Frechin (LF), Former VP, Sales Operations at West Pharmaceutical Services Inc

Moderator Raemen Sahney (RS), Third Bridge Sector Analyst

Agenda

- Key trends and developments within the primary packaging and injectables medicine market as it pertains to West Pharmaceutical Services (NYSE: WST)
- Core competitors vs West Pharma, including Aptar (NYSE: ATR) and Datwyler (VTX: DAE) and relevant forms of differentiation – product portfolio, regulatory expertise and footprint
- Potential challenges restricting growth – capacity, quality support and capital allocation structure
- 2024 growth projections – best- and worst-case scenarios

Contents

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Transcription begins at 00:00:07 of the recorded material

RS: Welcome to Third Bridge Forum's Interview entitled West Pharmaceutical Services – Portfolio Differentiation, Competitive Threats & 2024 Strategic Vision. I am Raemen Sahney and I will be facilitating today's Interview with Mr Laurent Frechin, former VP of Sales Operations at West Pharmaceutical Services.

Laurent, before we start today's Interview, please state I agree or I disagree to the following statement: You understand the definition of material non-public information and agree not to disclose any such information, or any other information which is confidential, during this Interview.

LF: Yes, I agree.

RS: Could you please begin with a brief introduction of your background?

LF: My name is Laurent Frechin. I have been working for the pharma industry as a supplier of the pharma industry for 30 years. I worked at West Pharmaceutical Services, and for the last three years I'm self-employed. I've created a consulting company and I'm specifically helping companies to serve the pharma industry as a supplier, mainly focusing now on the secondary packaging, which is not really close to what West was doing.

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Q: West Pharmaceutical Services has been one of the biggest equity movers so far, with the stock up approximately 46% year to date. What do you think are 2-3 components behind this rapid growth, given that entrants into the injectable market and the increase in weight loss drugs are, of course, big topics of conversation? What is contributing to this growth?

LF: I think West's success is really linked to their business model and, really, the stronger fundamentals of their business. They are supplying highly competitive product in terms of quality in a growing and profitable industry, and this industry is very specific. Basically, West's customers are mainly pharmaceutical companies and we know that the pharma market is growing. We expect to see a 5-6% CAGR by 2028, so it means there are some strong fundamentals in terms of sales development in the pharma market, really linked to a global demographic, ageing population, the growing use of personalised medicine. We see also rising chronic disease across the globe. That is really what is sustaining the pharmaceutical growth. What is very also interesting when we talk about West Pharma is that West Pharma is mainly focusing on serving the injectable market, so inside the pharma market, West is serving the injectable market. These are the injectable drugs.

It's 50% of the pharmaceutical development and it's representing nearly 40% of the total market. This specific injectable niche, we see growth expectation closer to, I would say, high-single-digit or low-double-digit growth figures. That's really sustaining the business, and West has a leading position in this specific segment. They are also very well-positioned for the biological drugs. When we see the last new development they are mainly injectables but there are also biological products, and West has really the right portfolio and understanding about this business. That's really what makes this company very successful, and I think also they are a global player. They are the leader and they are the natural go-to for the pharma industry when they have to launch on the market new biological drugs. On top of that, I would say also that the management team is very sound, very experienced and we see that for years they are really able to deliver sustainable results.

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Q: You mentioned that 40% of the market – injectable niche – is suitable for high-single- to low-double-digit growth going forwards. Could you elaborate on the components at play that are driving growth for West Pharma?

LF: The large molecules and the biologic molecules, they are very sensitive drugs and you need to make sure that when you package such a drug, the primary packaging, either the container or the closure system, you need to make sure that this will not really damage the growth. We see products which are becoming very, very expensive per syringe, per vial, and it's very critical for the pharma industry to be able to pick the right components and making sure that this this primary packaging will protect the drugs and will also ensure the security and the safety and the efficiency of the drug over the shelf life. That's really what West has been working on very early in its history, and they have for this type of specific products that they call HVP, very strong knowledge and expertise.

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Q: You mentioned the injectables market is very strong, has a lot of strong demand and is critical for the pharma industry. If you had to look at the other side of the coin and talk about what factors might be hindering growth in the injectable market, could you elaborate there?

LF: I think the trend is really highly positive, so if there is anything impacting the growth it will just reduce the growth and not really go in the opposite direction. Of course, when you see drugs, drugs could be administered through the parenteral route, which means that you bypass the normal gastrointestinal track. You could imagine that in some case, the pharmaceutical company could replace an injectable product by tablets, so it would be a new route. Of course, this will impact the growth but, on the other side, you have, when you see the pipeline of the pharma industry, you see really that all the new drugs and majority granted (ph 08.08) have to delivered by injection. That's really why this market is really unique. This business is really not sensitive to cycles because health really matters and people are really ready to spend money for their health. That's also making this business not too sensitive to the general economical background.

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Q: Is there a big transition? You talk about the risk of potentially going the oral route. How would you grade that impact or severity? Right now we still live in an injectable market but what do you think that risk is, looking forwards?

LF: It's actually very low, and really what makes this business fundamentally strong is that you have a lot of recurring business so once the product, the pharma product is launched on this market, West will deliver the packaging component as long as the product is on the market. That's why it's very recurring. The key is really to be able to enter the pharmaceutical company R&D development, understand the pipeline, propose the right solution, get the solution approved and once the product is really approved and really for the drug and the drug is on the market, if the company is doing its job properly in terms of assurance of supply and quality compliance, then you will deliver the product as long as the drug is on the market. When the drug is on the market, the pharma industry needs to get returns on their investment because the cost of developing a drug is really high. We are talking about billions of dollars. It's minimum USD 1bn to put the drug on the market, and you will be able to really deliver for maybe only 10 years before the patent expiration. You need to make sure that the packaging components that you have, that the device that you have is doing the job and there will be really no real issues. That's really what's making this business unique.

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Q: What makes West Pharma's management team so sound and what makes you so confident in the strategy? Can you walk me through a couple of examples?

LF: I think the figures speak by themselves. I think what makes very attractive as a supplier, but also for any investor, is that the company is really steadily delivering results. When you see for how long they have been able to deliver dividends, it's really impressive. I think that's because they take their business very seriously. I think when they are selling components for drugs, they are really not thinking about the component itself. They are thinking about the drugs. They are thinking about the pharma company, but they are also thinking about the customer of their customer, which is basically the patient, and the patient could be you, could be me, could be a few relatives. They claim that they put behind every component a name. When you see that they are delivering maybe 47 billion components a year, that's really huge. A lot of people are impacting and are in front of West products without knowing it. It means that it's really, they have this pharma culture. They have followed the pharma industry from their very early stage. The company now has celebrated its 100th anniversary and some of their customers in the mid '20s, 1920-23 are still their customers, so they are really taking their job very, very seriously. I think they are very also (? 12.45) in the way they are thinking about growth and also investing for the pharma industry. They have been able to really grow their capacity for several years so that they are really following, I would say, the industry and supporting the industry.

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Q: I'd like to understand West Pharma's segments. The company's contract manufacturer products segment grew about 17.4% YoY. Do you believe the GLP-1 [glucagon-like peptide-1]-related self-injection sales will materially impact its long-term growth perspective? I know the obesity drug demand has fuelled a boom for firms that fill and assemble the self-injection pens, so what does that mean from a profitability perspective?

LF: If we talk about the GLP-1, all these drugs for obesity treatment. I think it's a great business to be in. Unfortunately we are more and more confronted to obesity. It's really something which is developing everywhere across the world. We know that also obesity is really impacting the health and it's creating some kind of, or increasing the morbidity, so it's very important to be able to treat that. When you think about the GLP-1 device, it's like an insulin device. You have a pen, you have a cartridge, you have components. I think it's really a great business to be in. The impact could be really positive for the industry and the company.

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Q: How does the demand for the GLP-1 drugs and weight loss drugs impact West Pharma specifically? How does the company play a role in that growth, looking at the impact more specifically?

LF: As a supplier of the pharma industry, and that's something that West was reporting on, they have nearly 70% of market share in their business. They are a recognised player and they are a part of this big, they cannot be out this big opportunity and they are involved with all the major players which are producing these drugs, so for them they will be a part of this venture, for sure.

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Q: How would you position West Pharma's ability to scale its capacity and keep up with the manufacturing demand for GLP-1 drugs relative to some of the other players? I know Catalent, PCI, and Fujifilm, as well as Patheon, have all invested a significant number of dollars to meet those demands for GLP-1 drugs.

LF: You need to make a differentiation between the people who will fill the drug, so that's really contract fillers and so that's the people who will do the fill-and-finish operation, and you have the people who will supply the devices and the people who will supply the device cartridge or the people who will supply the closure components, so the plunger and the lines (ph 16.58) that you have on the cartridge. West is really working on, that's in their capabilities. It's to do a pen, like for the insulin, but also to do a cartridge component like plunger and lines. For West it's a double opportunity, on the component side and on the pen manufacturing and assembly. If you look over the history you can see that, as I said, really West has supported the development of the pharma industry. We have seen how they have been able to manage the rise of demand linked to COVID.

We need to keep in mind that, of course, there was a demand on the supply of COVID components, and I think all the components manufacturers have been involved in that, but they have also to supply what they were already supplying so it was not delivering COVID components instead of, for example, components for insulin or any drug saving lives that they were already producing. They had to produce both and they have been able really to react and manage capacity. Of course, investing takes time so you need to have the space and if you have not the space you need to build it, you need to have the machine, you need to have the tools, you need to have the labour to do that. I think where West is really good at, it's really having this mid-term and long-term perspective, so really looking on the business from a long-term perspective. Understanding the market trend and making sure that in their strategic planning, they are also thinking about building capacity to serve the market.

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Q: There were a couple of key points that you mentioned in terms of building an efficient operational process. Can you speak to how West Pharma has ticked all the boxes and taken the necessary reactionary measures to meet the demand that we're talking about?

LF: It was a challenge for the entire industry, so the company started, the companies, the suppliers of the pharma industry started to have contact about supplying additional volumes at the very beginning of 2020 because the pharma industry was already working on this new vaccine. For the vaccine manufacturer, it was important to be able to find a filling capacity so they went to the contract here (ph 19.54), tried to book capacity in advance, tried to plan, find a new company able to fill. Then they have to find companies able to supply the components, the primary packaging. I think where West was well-positioned is because they had already the right product that this new generation of vaccines was asking for, and it was this HVP product which was really the best product to package this drug. It was important to be able to put the drug very quick on the market so the technical solution had to allow the the biggest safety in terms of results and protection of the drug, so it was really one. Then, if you compare West to the two other players, which are Datwyler and Aptar, so they are respected and a respectable company, but in terms of size they are a little bit smaller.

By the critical size, by the existing capacity, West had more possibility to fulfil the market earlier. Then, after, it was really being able to understand the market, have the right level of discussion with the pharma industry to be able to build plants and increase capacity. We have seen that Datwyler and Aptar, they have done the same, and we have seen recently in the newspaper that Aptar is building a new plant in Normandy. We have seen that the other players also have increased capacity, but I think West has always been able to keep the right level of capacity to keep their critical size and maintain their market share. I think the size of their operation network, the fact that it's a global network. The fact that also West can provide dual-sourcing inside their own operation network, it's really seen by the pharma industry something which is very important because the pharmaceutical customer, in their key business requirement, one is really the availability of supply. They want to have the product coming on time when they want it into their facility.

The second one is making sure that the product has the right level of quality and compliance. When you can do that, you are already well-positioned. A third, also, what is very important for the pharma industry it's the responsiveness, but being responsive, if you are not ticking the first two boxes, does not really help you. I think West has the capacity, West is able to propose the right level of insurance for the supply. They are very strong on quality. I think it's probably also a key differentiation for them in compliance, quality, regulatory, they are really one step ahead compared to the other one. They are really behaving like a pharma lab, and they are also able to be responsive. I think that's really what put them in a very good position to answer the demand knowing that this request, for COVID, was really unprecedented. Having so much volume to supply in a so short period of time has really, in a way, changed also the way the industry was thinking about supply, supply chain and how we need to organise the production.

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Q: You touched on the competitors, and I'd like to draw out that differentiation. The two competitors that we've been talking about are Datwyler and Aptar. Appreciating the points you mentioned as to where West Pharma succeeds, can we look at the alternative side, given that Datwyler and Aptar are a bit smaller and might have more niche offerings? Can you elaborate on where Datwyler and Aptar stand out relative to West Pharma?

LF: I think in terms of market share we can say that West has probably 70% of the market. Datwyler is definitely number two with probably 20% and Aptar 10%, rough figures. I think this market share, they are pretty stable because it's really a niche market and we have seen that the growth is there and on this niche for really some time. All the companies invest, but I think as the leader, West really wants to keep their position. Also, from a customer standpoint, if they have a new drug to launch, they would say, "I need to have the right product performing the way I want with the quality I want, but I want to make sure also that I can get the right volume." Then going to the leader, to the one who has the biggest capacity, it's also something which is in the mind of the pharma industry because the pharma industry is very risk-averse. They will always choose for the safest route because nobody wants to see product disruption of the market and lack of inventory. I think it's the challenge for the pharma industry, and that's really a factor which is very important in their eyes. That's really a point which is very important. That's really the capacity, and then if you compare to the other players, as said, the level of quality of Datwyler and Aptar is also really good.

If you compare the products, if they are non-coated, not very specific, and every company has their own speciality and their whole niche, as you said. I think, all overall, what really makes the difference is really the quality of the product and where also West is ending (ph 26.23) the quality. They will never compromise on quality. They have a very strong quality culture and, as said, they said behind each and every product stopper there is a patient, so it's important that in the eyes of the pharma industry, when they pick a supplier, they have to audit their supplier. First they have to, it's a regulatory requirement, they have to get contract with their supplier. They need to audit the quality system of their supplier. They need to audit the production site of the supplier. In average, in this industry, every plant producing primary packaging will be audited, once a week you will have an audit in their facility by one or the other customer. It's really something that they have to do each and every time and they are producing primary packaging, like they are producing drugs with the same mindset, the same level of quality requirement, good manufacturing practice. That's really what makes West unique.

In terms of quality organisation, I think they are probably beyond the competition, even if the competition, they are a recognised supplier and they are really doing good, but I think West is really the reference. Also, in terms of scientific knowledge, scientific (? 28.10), they are also the go-to. It means that in every technical seminar, if people want to have expert recommendation or if they want to consult, they will go to West. West has developed really a strong knowledge that they are also sharing with their customers and with the R&D development of their customer. There are a lot of exchanges with the (? 28.44). They are more than a supplier, they are really embedded into their customer world. We need to keep in mind always that the primary packaging, they are a part of the registration file. When a drug is registered it's not only the drugs but it's the drug and the primary packaging and the device, so the West components are not components, they are a part of the pharmaceutical product.

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Q: Appreciating that the players all have their niches, what would you consider Datwyler and Aptar's niches? Where do you think they have been able to succeed? I appreciate quality is one, but what differentiates them from West Pharma?

LF: In terms of technology, for example, Datwyler, they have coating on stoppers which are sprayed, while West are using laminated stoppers with a fluoropolymer film on it. That's, today, the top-notch technology. No, we see that these two other companies, they start also to go in the same direction. They realise that what West was doing was the best and they were doing there. (? 30.10), they are very well-known for some pre-filled syringe components for the leadership (ph 30.16). I think it's also something that Datwyler are doing. I think that they have, in some case, they have stoppers which can be used for the same type of application, but after it's also how the product is seen by the pharma industry. As said, the pharma industry is risk-averse so they want to have the best technology and the most recognised technology. Nobody wants to be the first in the new product so they really want to have proven solutions which are working. That's a little bit the challenge of this business, it's being able to innovate and improve the product without making your customer uncomfortable. Change, it's also something which is, pharma industry is very sensitive to change management. They are okay with a supplier changing a process, but they want to make sure that before changing anything, they are informed that all the validation and everything has been done and that's also where West is very strong at.

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Q: Regarding the 70%, 20%, 10% market share split you mentioned, how do you expect that to evolve? Do you expect any big changes in those numbers, or even smaller changes? Could you speculate on a range?

LF: The market share, they are evolving very, very slowly because, as mentioned, there is not too much attrition in this business. When you are a supplying a product, if you are doing a good job on these key business requirements that we are talking about, you can deliver your product as long as the product is on the market. You are always fighting up on the existing and the recurring business that you have. That's why the market share is not moving too far, and really the switching costs are very high. Where you can already impact the business in the future, that's really in the way you are acquiring new business or in the way you will get your product approved on a new drug which is launched. You will barely see a pharma company changing a supplier like that because the costs are very high. You need to redo all the stability. You need to make sure that your device will work. You need to make all the regulatory changes. The barriers to entry and the switching costs are really really high. That's why I do not expect to see this market share changing. You have new players coming also in Asia-PAC, so that's something that we need to keep in mind. There is a company doing the same type of components in China, for example. The regulatory buyer and the changes are really making the difference there.

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Q: Could you elaborate on some of the players that are coming to the forefront and those barriers to entry? Of course, they're going to be able to disrupt market share, but which areas would you advise investor clients to pay attention to? Would you highlight any specific names of players here?

LF: Names? No, I could not really quote specific names, but what we see with these companies in China that today they are mainly producing, it's really China for China. We do not see really too much components coming on the more, I would say, mature market. In some emerging market where the price competition could be stronger, where the regulatory buyers are lower, then you could see them coming to some parts in the bricks (ph 34.30), but really the point that is really specifically for the parenteral business, the pharma, they do not really like to play because if a component fails, if you can breach the sterility of your product and if you inject a product which is not sterile you can really kill somebody. I think the pharma industry is very cautious on that.

[00:35:05]

Q: Speaking of competitive advantages, what do you think about West Pharma's quality and adherence to safety measures? You mentioned that is a key differentiating factor, so could you walk me through 1-2 examples of where West Pharma has displayed a lack of understanding when it comes to quality or any challenges that the company might face in this area?

LF: As said, quality is really front-and-centre in all what they are doing. We talk about, for example, new investment. We need to keep in mind that when a company or West is building new capacity, they need really to do their own qualification and validation of the process and the operation. Even if you put the same machine in a new site, you need to make sure that the process will deliver the same product. West has all their internal policy to really validate and qualify the operation, so the way they are also looking at the supply chain. That's one of the challenges of this industry. It's like for a drug. West and the others need to work with certified suppliers. They need to make sure they receive the right quality for the raw material, so they will audit their supplier, they will audit the facility, the process, the quality system. If there is a change inside a production process everything has to be validated, approved, so they are following exactly the same change policy than what the pharma is really doing for their own drugs. That's really where there is a strong culture fit between what the supplier, West, is doing and what the customer is expecting.

[00:37:13]

Q: You mentioned that West Pharma has a specific advantage for drug containments and delivery, so what makes the company so unique when it comes to these factors? Could you pinpoint a couple of pain points across the supply chain?

LF: Drug containment, it's really how you will contain a drug into a container, so making sure that your container is really protecting the drugs and making sure that the drug will remain sterile, efficient, during the shelf life. That's really the science that West has developed because that's really their core activities. West, it's not new, it's nearly 18 years ago they moved into the device world. Then it's more how the drug will be administered into the body. If you have a container which can be a cartridge with a liquid, a sterile liquid in it, and then this has to be administered into the body through a device. West had the two expertise. On one side, the containment, on the other side, the administration. That's really unique. I think none of the companies doing devices today have this double understanding of drug containment, making components to contain drugs and making also devices to administer the drugs. Then you really understand the interface between the container and the device. I think the wearable injector that they have developed is a good example of how they have been able to put all this science coming to fruition by putting these new type of devices on the market.

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Q: How well do you think West Pharma is positioned to speed up the supply chain process and the drug delivery component side? I've heard that this is a USP for the company relative to some other players. How so?

LF: I think, as said, it's all about understanding the market trend, the business and being close to the customer. I think the fact that they have been able to serve their customer for more than 100 years now. Of course, it's any more (ph 40.06) the same people calling on the customer, but they know their customer very well. They understand the trends. They have exchanges also with their customer to better understand the future. It's really, I think, then to plan in advance where they are doing their strategy planning on putting additional capacity. After, when you do devices and you assemble plastic components to build a device, you have several companies able to do that, of course. It's more about the management and the understanding of the demand and this process to really having the demand and the operation capacity planning really fitting together.

[00:41:00]

Q: Let's talk about West Pharma's general portfolio. The company had a solid quarter of organic net sales growth driven by its proprietary products – its HVP [high-value-product] portfolio. What is a fair percentage estimation of HVPs in 2024? I think it was about 30%, if I'm not mistaken, in 2023, but how would you frame the demand for the HVP component with customers and therapeutic categories?

LF: I would say that this will remain strong because HVPs are needed for any kind of drugs. Of course, they are huge on biological drugs but they are also huge on different type of drugs, so I would not see the demand for this type of component really reducing.

[00:41:58]

Q: Do you have any general thoughts on West Pharma's high-value portfolio in terms of the strengths and weaknesses and what might be driving or restricting growth?

LF: I think what is really driving growth for this type of product is, of course, the growth of the existing products on which they are already used, and we have seen that you have this growth in the injectable which is there. We know that all the new drugs, the most part of the new injectable drugs are really large molecule and using really this HVP. That's really the key growth driver for that, I would say.

[00:42:50]

Q: Looking at West Pharma's products, can you comment on the commercial traction of the company's FluroTec, Daikyo and Envision components and devices, such as the self-injection systems as well as administration systems?

LF: I think that there are two things You can really expand your existing business by having your customer moving along the value chain. That's the swoosh (ph 43.26) that West is showing in their presentation where you see the journey on the HVP. It's really moving from standard components to ready-to-sterilise, then ready-to-use, then specific quality like the Envision. There is a need from the pharma industry to always get the best product, making sure that any product will be contaminated with low particulate fibres. There is a kind of race to always get the best component, the cleaner component. That's why naturally, on the existing business, the pharma, they will move along this value chain also for pharma industry. They can wash themselves the stopper. They can do this sorting also on stoppers or having this specific quality look by themselves, but it's not really their core activity. Their core activity is to develop new drugs, produce drugs and get the drugs on the market. They prefer to let their supplier doing this operation. On the recurring business, you have a natural movement from the pharma to really buy components which are moving along the value chain, so that's really the first growth driver in their business model. Then, after, as said, you have also all these new drugs coming onto the market where the customer will also try to look for the best quality in order to take any risk, so those are really the two components for the growth dynamic.

[00:45:18]

Q: Speaking of products, I know West Pharma recently had a collaboration with Corning to combine the NovaPure products with Daikyo FluroTec's coating technologies and then Corning's Glass and Velocity Vials. How do you expect this strategic collaboration to unfold and advance those packaging solutions?

LF: I cannot really comment too much on that. I think anyway there is a natural fit between a glass container and a plunger system so it makes sense to do it, but beyond that it would be difficult to comment from my side.

[00:46:08]

Q: Let's speak quickly about the biologics and generics markets. CAPEX has been challenged across the board for a lot of companies, as you mentioned. How would you compare West Pharma's capital allocation to peers'? If you had to speculate, where do you think the company should be devoting its resources going forwards?

LF: I think they need to continue what they have been doing for some time, so making sure that they understand the market trend and really put capacity where it makes sense. We have seen that biological is a segment which is growing. I'm talking really about the biological drugs. We see also that you have a geographical expansion, so I think you need to really look on your business from a segment view, so really how the growth is really going and what kind of products are used on the market and then also looking where the need is and where you have to deliver your product. I would really look on how the business is also developing on the emerging market.

[00:47:46]

Q: Speaking of capital allocation, I was looking at the numbers for West Pharma's generics and biologics segments. Right now, the generics segment seems to be growing a little bit more than the biologics segment, but given the increased focus on biologics in the market, might it make sense for the company to divest its generics market unit and focus solely on the biologics segment?

LF: I think we need to keep in mind that, eventually, all drugs will become generics when they will lose their patents, so I think it's really a segment which is really worth to focus on and to be in and you need to have not really all the eggs in the same basket. Of course, you have growth in the biologic, but keeping in mind that the business that you have in one segment is recurrent, that you have some kind of organic growth. I would be surprised if West would disinvest from the generic.

[00:49:05]

Q: Do you think there are any cost-cutting levers in terms of the closing and consolidating of some plants? I have heard of West Pharma doing that over the past year or so, even post-pandemic, so I'd like to understand whether that's indicative of some kind of concern. What do you think the company can do to reduce expenses?

LF: No, I'm not close enough from specifically their business and internal business to comment on that. I think that all companies, they have to make sure that they have a cost-efficient operation network, but after it's really up to them to decide where they need to cut or why they need to invest.

[00:50:11]

Q: Speaking of guidance and what problems we should be expecting, I saw that West Pharma's

management has trimmed net sales guidance for 2023 to reflect the potential impacts of customer restocking trends in Q4. What is your anticipation of some of those challenges and restocking trends in 2024?

LF: I think it will come. To tell you exactly when, it's difficult to say. The market has been already through this kind of wave where stock was made when we had the H1N1 pandemic, so we know that the business will come back to normal growth range. When this will come, to be honest, it's very difficult to say.

RS: Can you broadly comment on those restocking trends, maybe in the current quarter? What is going on and what is leading to the downturn?

LF: For sure, COVID has an impact. The company making the COVID vaccines, they have big inventory to ensure the supply and really follow the demand. I think also the pharma industry was concerned to see the capacity moving to the production of COVID because a lot of them are supplying drugs saving lives. It has probably really boosted the level of inventory, and we have seen that now really the COVID demand is behind, but anyway there are new also products and projects coming on stream so, at the end, this shouldn't last for too long.

[00:52:21]

Q: If you had to speculate, for how many quarters should we expect the inventory management challenges to continue?

LF: No real idea. It should not be more than one year, max.

[00:52:48]

Q: What are 2-3 key questions investors should be asking West Pharma's leadership in terms of growth going forwards? What are some of the most important issues that management needs to address?

LF: It's really managing the capacity. I think that's really what they are focusing on, making sure that they are continuing to invest in their manufacturing network. I would ask some questions about their plan and how they want to do that in the next 2-3 years.

[00:53:27]

Q: What are some big surprises that investors should expect in 2024 as it pertains to West Pharma and the broader primary packaging and injectable device market? This can be product innovation, consolidation or anything that's exciting to you.

LF: What is exciting is, of course, the GLP-1 demand. When we see the projection on the next 3-4 years it's really a lot of volume so I think it's really one of the most exciting opportunities that we can see, but there's also a very strong pipeline for a new pharmaceutical injectable drugs so I think that's really the good news. I have no crystal ball and I don't know what kind of surprise we could be faced with. I think nobody was expecting COVID when it came, but we know that the business is more and more global. We will see mergers and acquisition because the pharma market is not very concentrated. We know that the cost pressure on the pharma industry will continue with all what is happening with the healthcare system all over the world, so we know that this will not go down. We know also that the regulatory pressure also will not decrease because all the health authorities across the world want to have really safe product. Nobody wants to have any kind of issue, because we are very often talking about a drug saving lives and nobody wants to be on the front page of the newspaper. Apart from that, I do not really see anything specific.

[00:55:27]

Q: You brought up the GLP-1. Is there a risk of overstocking and potential underutilisation? Are we overestimating demand here, given there's a lot of evidence but not enough clinical evidence as of yet?

LF: It's a difficult question and the way the pharma players will manage it is not really known. We see volumes, we see investment on the market, so we just have the news that Lilly is building a new site in Germany to produce injectables, so we know that the growth is there. After the question will be really about how this will be faced over the time, and it's very difficult to answer so far, but I would say that the growth is there anyway.

RS: Definitely a big question to ask but definitely a great one to end on. Thank you so much, Laurent. This has been very helpful and I really appreciate you taking the time.

LF: You're welcome.

RS: Thank you. I hope you have a great rest of your evening.

Transcription ends at 00:57:34 of the recorded material.

If you'd like to speak to Laurent Frechin in a private call or meeting, please let your relationship manager know.