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# West Pharmaceutical Services, Inc. (WST)

Q1 2016 Earnings Call

# CORPORATE PARTICIPANTS

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Eric M. Green
*Chief Executive Officer & Director*

William J. Federici
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# OTHER PARTICIPANTS

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*Janney Montgomery Scott LLC*

Larry S. Solow
*CJS Securities, Inc.*

Jared Meggison
*Jefferies LLC*

Sara M. Silverman
*Wells Fargo Securities LLC*

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, ladies and gentlemen and welcome to the First Quarter 2016 West Pharmaceuticals Services Earnings conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this call may be recorded.

I would now like to introduce your host for today's conference, Mr. Quintin Lai, Vice President of Investor Relations. Please go ahead, sir.

## Quintin John Lai
*Vice President-Corporate Development, Strategy & Investor Relations*

Thank you, Christie. Good morning and welcome to West's first quarter 2016 conference call. We issued our financial results this morning and the release has been posted in the Investors section on the company's website located at www.westpharma.com.

This morning CEO Eric Green and CFO Bill Federici will review our results, will provide an update on the business and provide an updated outlook and expectations for the full year. There's a slide presentation that accompanies today's conference call and you can find it on the Presentation Materials section of the Investors section of our website.

Turning to slide two, this is our Safe Harbor statement. Statements made by management on this call and in the presentation will contain forward-looking statements within the meaning of U.S. federal securities laws. These statements are based on management's beliefs and assumptions, current expectations, estimates and forecasts.

Many of the factors that will determine the company's future results are beyond the ability of the company to control or predict. These forward-looking statements are subject to known or unknown risks or uncertainties and therefore actual results could differ materially from past results and those expressed or implied in any forward-looking statement. For a non-exclusive list of factors which could cause actual results to differ from expectations, please refer to the Annual Report on Form 10-K most recently filed with the SEC, as well as today's press release.

In addition, during today's call management will make reference to non-GAAP financial measures, including sales at constant currency, adjusted operating profit, and adjusted diluted EPS. Reconciliations and limitations of the non-GAAP financial measures to the most comparable financial results prepared in conformity to GAAP were provided in this morning's earnings release.

I now turn the call over to West's President and Chief Executive Officer, Eric Green.

## Eric M. Green

*Chief Executive Officer & Director*

Great, thank you, Quintin. Good morning, everyone and thank you for joining us this morning. Q1 was a solid quarter. We're off to a good start to the year. Our team delivered strong results while executing on our market-led growth strategy focused on customer experience, operational excellence, and product and service differentiation.

Looking at our financial performance, the company generated overall organic sales growth of 10.5%. This result was across all customer groups and geographies. Gross margin in the quarter was 34%, a new record high and a 130 basis points better than prior year quarter. Adjusted operating margin was 15.4%, also a record high and 120 basis points better than prior year quarter. All this led to Q1 adjusted diluted EPS of $0.53, which is an 18% increase over the prior year quarter despite a $0.02 currency headwind. Excluding that impact, adjusted diluted EPS would have grown by 24%.

Turning to slide four, at the start of the year, we implemented our market-led growth strategy by aligning our organization into two business segments, Proprietary Products and Contract-Manufactured Products. Proprietary products, which represent about 80% of overall sales, includes the former PPS segment as well as proprietary devices such as Daikyo Crystal Zenith containers, SmartDose wearable injectors, and Medimop administration systems.

Within Proprietary Products, we have increased our focus on three market groups: biologics, generics, and pharma, and by aligning our commercial organization into each of these three groups, we are better able to address the specific needs and challenges of our customers in each market.

Sales of Proprietary Products grew 13% organically, driven by strong double-digit growth in biologics and generics and with mid-single digit growth in pharma. Our high-value product portfolio, which represents over 50% of the segment's sales, grew 22% organically. We saw strong customer demand across the high-value products, particularly for our higher performance FluroTec products, ready-to-sterilize and ready-to-use Westar products, Daikyo components, and increasing adoption of NovaPure offerings that ensure the highest standards of quality. We're also pleased with the strong double-digit growth achieved in administration systems and CZ containers.

Contract-Manufactured Products, which represents about 20% of overall sales, grew 1.4% organically led by customers ordering in core drug delivery and diagnostic systems. As we have mentioned in the past, the Contract-Manufacturing segment can be affected by customer timing of orders, and this quarter was impacted by a couple of delayed orders. For the full year, we continue to expect Contract-Manufacturing to grow in the mid-single digits with increasing demand for diabetes care products, including components for insulin pens and glucose monitoring devices.

I had the pleasure of attending a customer focus panel a few weeks ago after our reorganization was announced. It was great to hear the positive customer feedback that the new market-focused organization is better aligned to address in a more timely fashion their specific issues. The feedback from our customers is a reaffirmation that we're on the right journey and is providing good insight on how the whole organization – commercial, global operations, and innovation in technology can better serve them in the future.

Turning to our focus to operational excellence on slide five, we made great progress on increasing our manufacturing throughput with lean initiatives. I'm proud of our global manufacturing sites as they have responded to the increase in demand for our high-value products portfolio. This has fueled both top line growth as well as provided a lift to our overall gross margin.

We continue to make progress on our global footprint by expanding and optimizing our manufacturing capacity at sites such as Kinston, North Carolina and Waterford, Ireland. The construction of our Waterford facility remains on schedule and on budget. We expect to begin installing equipment at the site later this year with customer validation projects starting in early 2017, which keeps us on track for commercial capacity to come online in early 2018.

At the end of Q1, our backlog was $437 million, which is 24% growth at constant currency from last year and 5% sequential quarterly growth. As we discussed in the past, this growth is not necessarily a direct indicator for future growth; however, it increases our confidence in our thesis of 6% to 8% overall organic sales growth.

Focusing on products and service differentiation on slide six, our innovation and technology group also had a good start to 2016. With the announcement that Amgen's IMLYGIC is using break-resistant CZ vials, we have seen increased interest from other companies that are evaluating our CZ containment systems for extreme cold storage.

As we outlined at our Investor Day in New York, we have launched a new generation of seals for lyophilization vials to reduce particulates and streamline the sealing process, which increases quality and addresses a pressing issue for our customers. We are in the process of scaling up production for customer trials. We continue to work closely with customers that are evaluating our SmartDose wearable injector using the CZ silicone-free container system.

During this quarter, we also announced the development of a more advanced and novel wearable injector leveraging the flexibility of CZ cartridges and FluroTec laminated plungers. Earlier this week, we announced that the company has made an equity investment in NanoPass. NanoPass is a pioneer in the development and commercialization of intradermal delivery systems and collaborates with a variety of vaccine and immunotherapy product developers. This investment fits with our vision of becoming the world leader in integrated containment and delivery of injectable medicines, and lets us build a strong foundation of growth through organic development and collaboration such as the one with NanoPass.

We will continue a disciplined M&A approach to add and optimize our portfolio around this strategy to create long-term stakeholder value.

As we look at the full year on slide seven, we remain on track with organic sales growth guidance of 6% to 8%. With a good start to the year, we are raising the lower end of both sales and adjusted EPS guidance. We now expect full-year 2016 adjusted EPS to be in a range of $2.12 to $2.25.

 

Now, I turn it over to Bill Federici, our CFO, who will provide more color on our financial performance. Bill?

## William J. Federici
*Chief Financial Officer & Senior Vice President*

Thank you, Eric, and good morning everyone. We issued our results this morning, reporting first quarter 2016 earnings of $22.1 million or $0.30 per diluted share versus the $0.45 per diluted share we reported in the first quarter of 2015. Those results are summarized on slide eight. Excluding the effects on the current quarter of the restructuring charges and the Venezuelan currency devaluation charge, our Q1 2016 adjusted diluted EPS was $0.53, an 18% increase versus the prior year quarter despite the strengthening U.S. dollar, which reduced our adjusted diluted EPS by $0.02. Those non-GAAP measures are described in slides 15 and slide 16.

Turning to sales, slide nine shows the components of our consolidated sales increase. Consolidated first quarter sales were $362.1 million, an increase of 10.5% over first quarter 2015 sales, excluding exchange. Proprietary Products sales increased 13% versus the same quarter in 2015, excluding unfavorable exchange effects. Sales price increases in Proprietary Products were approximately 1.1 percentage points of the sales increase. The favorable mix of products sold and volume increases contributed to the remainder of the sales increase, with our high-value product components and systems increasing 22% versus the prior year first quarter.

The current quarter HVP sales as a percentage of total proprietary sales increased by approximately four percentage points versus the prior year quarter and represented more than 50% of our total Proprietary Products Q1 2016 sales.

CZ and SmartDose sales were $6.7 million in the current quarter versus $5.5 million in the prior year quarter. The rise in HPV sales was expected. Importantly, for the full year of 2016, we expect a high single digits to low double digits growth in high-value product component and system sales versus 2015. And full-year consolidated 2016 sales are expected to grow in the 6% to 8% range ex-currency.

While we achieved strong Q1 sales growth, we continue to manage the business for the long run and our long-term outlook remains unchanged with high-value component and system sales expected to grow high single digits to low double digits.

Contract-Manufactured Products net sales increased by 1.4% versus the prior year quarter, excluding exchange. A favorable mix of products sold was offset by the pass through to customers of the decrease in plastic resin prices. This quarter's growth was adversely impacted by some customer demand delays, but we still expect mid-single digit sales growth for the full year of 2016.

As provided on slide 10, our consolidated gross profit margin for Q1 2016 was 34% versus the 32.7% margin we achieved in the first quarter of 2015. Proprietary Products' first quarter gross margin of 38.8% was 130 basis points higher than the 37.5% achieved in the first quarter of 2015. The increase in gross margin is due to modest price increases, the favorable mix for more HVP sales, and higher plant efficiencies offset by normal inflationary increases in labor and overhead costs.

Contract-Manufactured Products' first quarter gross margin increased by 30 basis points to 14.7% compared to the prior year quarter. The current quarter's higher gross margin is primarily due to favorable mix of products sold offset by normal labor and overhead and cost increases.

As reflected on slide 11, Q1 2016 consolidated SG&A expense increased by $2.9 million versus the prior year quarter. As a percentage of sales, first quarter 2016 SG&A expense was 16% versus 16.4% in the first quarter of

2015. Pension costs increased by $800,000 in the quarter. Compensation expense and outside services costs also increased during the current quarter. Foreign exchange had a favorable effect, reducing SG&A expenses by $1 million.

Slide 12 shows our key cash flow metrics. Operating cash flow was $3 million for the current quarter, $5 million more than the prior year quarter, reflecting the higher net income before restructuring charges. Our capital spending was $39 million in the current quarter. We expect to spend approximately $150 million to $175 million in capital in 2016. More than half of our planned capital spending is dedicated to new products and expansion initiatives, including approximately $60 million for the construction of the new Waterford facility.

Slide 12 also provides some summary balance sheet information. Our balance sheet continues to be strong and we're confident that our business will provide necessary future liquidity. Our cash balance at March 31 of $178 million was $97 million less than our December 2015 balance. Approximately $68 million of the decrease is due to the payment at maturity of our Series B Euro notes.

During the current quarter, we utilized approximately $9 million of cash to buy back 142,800 shares under our board-authorized program. A large majority of our cash remains invested overseas and is generally not available to be repatriated to the U.S. without incurring tax consequences.

Debt at March 31 of $232 million was $66 million less than at year-end. Our net debt to total invested capital ratio at quarter end was 4.8%. Working capital of $389.6 million at March 31 was $30 million higher than at year-end. The majority increase is due to increases in inventory and receivables relating to the growth in our business.

Our backlog of committed Proprietary Products orders of $437 million at March 2016 was 5% higher than at year-end and 24% higher than at March 2015's backlog, excluding exchange. The backlog of committed orders continues to be impacted by our extended lead times for certain high-value products.

Based on our Q1 2016 results and our analysis of the orders on hand, we have increased by $0.02 the lower end of our full year 2016's earnings guidance in this morning's release. That guidance is summarized on slide 13.

We have based on our guidance on an exchange rate of $1.12 per euro, the same rate used in our prior guidance. Our 2016 guidance excludes any additional impact from further currency devaluations, including the Venezuelan Bolivar, as the company continues to operate primarily under the official exchange rates. It also excludes the expected additional expense associated with our restructuring program.

I'd now like to turn the call back over to Eric Green. Eric?

## Eric M. Green

*Chief Executive Officer & Director*

Thank you, Bill. In conclusion, we're off to a strong start to the year. Our teams are focused on executing our market-led growth strategy to enhance customer experience, drive operational excellence, and differentiate with novel containment and delivery systems. We have a great team, high quality products, and a strong customer base; we are working by their side to bring new drug therapies to the market.

Operator, we're ready to take questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator instructions]

Our first question comes from the line of Paul Knight of Janney Montgomery. Your line is open.

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William March
*Janney Montgomery Scott LLC* Q

Hi, guys, this is actually Bill March on for Paul Knight. How are you guys doing?

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William J. Federici
*Chief Financial Officer & Senior Vice President* A

We're good.

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Eric M. Green
*Chief Executive Officer & Director* A

We're doing well, Bill. Good morning.

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William March
*Janney Montgomery Scott LLC* Q

First question – maybe just looking at the sales numbers, with the backlog growing and the growth you're seeing from biologics and generics, could you maybe just talk a little bit about is that growth coming from new drug approvals or maybe existing customers migrating up the value chain to HVP products, maybe just what you're seeing from that volume and sales mix?

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Eric M. Green
*Chief Executive Officer & Director* A

Yes, Bill, thanks for the question. No, absolutely, what we're seeing in the biologics and generics space, obviously with strong double digit growth, it's really combination of both new product launches into the marketplace, but also a transition up the quality curve that we are uniquely positioned to provide with our high-value products portfolio. So we're seeing a combination of both and it makes us feel quite confident for our outlook this year and forward.

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William March
*Janney Montgomery Scott LLC* Q

Great. And then investment in NanoPass, I know that they're involved with microneedles for intradermal injections. How does that fit with your current product offerings, and where else do you maybe see applications for their Microneedle Technology? Thanks.

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Eric M. Green
*Chief Executive Officer & Director* A

Yeah, Bill when we look at – with the reorganization we went through, we pulled together our innovation and technology group to take a look at all of the innovation at West from containment to delivery devices. If you look at where we want to play and our vision and our focus of the company, we do want to bring on-board more capabilities around delivery devices. So we looked at NanoPass, we made a small investment into NanoPass that allows us to leverage their needle technology, which really supports again the delivery devices.

The key attributes when you look at their technology is around bioavailability and dose sparing, which are key issues that our customers are faced with today, and so we think this is another solution, part of a portfolio that can help us more long-term.

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William March
*Janney Montgomery Scott LLC*

Q

Great, thanks. I'll hop back into the queue. Have a good day.

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Eric M. Green
*Chief Executive Officer & Director*

A

Thank you.

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**Operator**: Thank you. Our next question is from Larry Solow of CJS. Your line is open.

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Larry S. Solow
*CJS Securities, Inc.*

Q

Hi, good morning, guys. Great quarter.

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Eric M. Green
*Chief Executive Officer & Director*

A

Hi.

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Larry S. Solow
*CJS Securities, Inc.*

Q

Can you just on the backlog of 24%, I realize, as part of that is due to some extension of the lead times – could you, maybe I think, Bill, last quarter you gave us an approximate of what you think backlog – would be up on a true basis. Can you discuss that and give us a little more color on where you stand with lead times, and have some of your throughput improvements helped?

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William J. Federici
*Chief Financial Officer & Senior Vice President*

A

Yeah, sure. Thanks, Larry, for that question. And yeah, you're right – there is a combination of things impacting our backlog: real growth, and we know that that's happening, but we do know that customers continue to be – place orders in advance of what they normally would given our current situation of, in their minds, high lead times for certain of our high value products in certain of our plants.

So it's impossible for us to give you an exact number there. But we don't see any real change in the overall growth trajectory of the business. We know that we continue to see growth in our high-value products, in that high singles to low doubles, being driven by the increased incidence of chronic diseases treated with biologics. And also in the generic space, we see a lot of growth in the generic space as well.

But to give you an exact number, I can't, but I can tell you we still feel very, very comfortable that our growth trajectory for the full year of 2016 is going to be in that 6% to 8% range still.

Larry S. Solow
CJS Securities, Inc.

Q

Got it. Do you have the gross margin by segment? I realize that will probably be in the Q, but can you just -

William J. Federici
Chief Financial Officer & Senior Vice President

A

Well, segment meaning the -

Larry S. Solow
CJS Securities, Inc.

Q

Gross margin by – between Proprietary and Contract-Manufactured?

William J. Federici
Chief Financial Officer & Senior Vice President

A

Proprietary and Contract-Manufacturing is in there. It's 38.8% for the Proprietary Products and it was 14.7% for Contract-Manufacturing. So what we continue to see obviously is strong growth in Proprietary Products, being driven a little bit by pricing, but most of it being driven by the favorable mix shift that we've been describing this morning. With high value products up 22% versus the prior year first quarter, that really is a supercharger to the margin and has the effect of more than offsetting the increases, normal inflationary increases in our costs.

Larry S. Solow
CJS Securities, Inc.

Q

Right, and that was obviously a great number, not sustainable, and obviously in your guidance sort of incorporates that coming back down.

William J. Federici
Chief Financial Officer & Senior Vice President

A

Yeah, and Larry, we've talked about this a number of times.

Larry S. Solow
CJS Securities, Inc.

Q

Absolutely.

William J. Federici
Chief Financial Officer & Senior Vice President

A

Our business is impacted by not only what we do, but we're a made-to-order shop, so as our customers order – and their order patterns and customer inventory management scenarios have an outsized impact on a small company like West. So while we continue to see very, very strong growth, we don't believe that that 22% growth in the – or 24% growth in the backlog and the 22% growth in high value products is really all growth. We think there's are some obvious inventory management issues going on in there.

Larry S. Solow
CJS Securities, Inc.

Q

Got it. Just lastly, unless I missed it, can you just tell us on the $15 million write-down for some of the – on the discontinued use of some equipment and trademarks, what that was?

William J. Federici
*Chief Financial Officer & Senior Vice President*

A

Yeah, we had – when we announced the board-approved restructuring plan, we knew that there were going to be things that we were doing where we were taking a look at realigning our operations more towards the future customer-facing organization that we want to be. One of the things was we wrote down our use – we had an asset on the books for the Tech name and we wrote that down. That was about $10 million of that $15 million, and then the rest of it was writing down some of the intangibles associated with some of our development projects.

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Larry S. Solow
*CJS Securities, Inc.*

Q

Got it, that's great.

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William J. Federici
*Chief Financial Officer & Senior Vice President*

A

[indiscernible] (25:23).

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Larry S. Solow
*CJS Securities, Inc.*

Q

Got you, great. Thank you very much.

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William J. Federici
*Chief Financial Officer & Senior Vice President*

A

You're welcome, Larry.

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**Operator**: Thank you. Our next question is from Dave Windley of Jefferies. Your line is open.

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Jared Meggison
*Jefferies LLC*

Q

Hi guys, thanks for taking the call. This is Jared Meggison on for Dave this morning. How are you guys doing?

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Eric M. Green
*Chief Executive Officer & Director*

A

Doing well, thank you.

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Jared Meggison
*Jefferies LLC*

Q

So just real quick, is there any chance you guys could break out from the high value products, break out legacy proprietary product additions that were in delivery from the kind of traditional high-value products?

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William J. Federici
*Chief Financial Officer & Senior Vice President*

A

Not easily. I don't think we want to be giving you that level of detail. Again, we feel very, very comfortable in the long-term growth trajectory for Proprietary Products. We continue to see the big driver there in the near term being our biologics and generics customers, which are driving growth at high-value products in the high singles to low doubles. We do know that the delivery system part of the business is growing. I mentioned it in my prepared remarks that CZ and SmartDose were $6.7 million versus $5.5 million in the prior year quarter, a growth of 20%, so we see good growth going there.

The things that are growing within the high-value product portfolio are the things you'd expect – Westar, both RS and RU, we're seeing a lot of FluroTec growth, and we're also seeing a lot of growth in demand for Daikyo products. So if I had to – I don't want to give you – we don't want to get into that level of detail, but those were the main drivers, and again we feel very, very comfortable in our – that none of this is – that we've seen in this quarter changes our near term or longer term growth trajectories for the business.

**Jared Meggison**
*Jefferies LLC* **Q**

Got it, thanks for that. What's the current count of CZ development projects and SmartDose, how many of those are in trials currently? Is there any update to the seven we had talked about before, seven or eight?

**Eric M. Green**
*Chief Executive Officer & Director* **A**

Well, a couple comments around the CZ portfolio and platform. We've seen a slight uptick with additional formal stability. Obviously, we announced one coming up from formal stability into commercial at this point, so today we have commercial, a couple vials, and one potential cartridge once the pathway is approved, and SmartDose and CZ cartridges obviously on that product.

What we're seeing also with the CZ, is we announced obviously with the IMLYGIC, which is a unique characteristic around extreme cold storage. That has opened up other conversations, so we believe not just delamination, resistance to breakage, but in the attributes of glass versus CZ, we're also seeing extreme cold storage as being an attribute customers are looking at, so those conversations continue to take place. So we're quite pleased with the progress we're making there.

On the SmartDose, there's two ways of looking at it. One is the existing platform that we have been working with customers on, we currently have seven in trial at this point. When you look at beyond that, we introduced the new version or next generation of prefilled solution to the marketplace, and that's opened up a lot of conversations. So we believe not only are we staying within an existing platform that has some traction, but we're also seeing the new generation create a lot of interest in the marketplace.

**Jared Meggison**
*Jefferies LLC* **Q**

And then just kind of a follow-up on the IMLYGIC there, can you give us any update on the uptake of the two CZ approvals, one being IMLYGIC and the other one that was previously announced, is – you know the combined $5 million to $6 million run rate is still the correct way to think about those two?

**William J. Federici**
*Chief Financial Officer & Senior Vice President* **A**

Yes, that's absolutely correct. No change there.

**Jared Meggison**
*Jefferies LLC* **Q**

Okay, and then just last one real quick, can you give an update on the high-value components as a percentage of total volume? How much penetration is left there?

William J. Federici
*Chief Financial Officer & Senior Vice President*

A

Well, it's a complicated – I'll give you a short answer and then the complication. High-value products is a series of products, so a series of things that we do to the core components after they've been manufactured. So something like Westar and FluroTec are very well penetrated in western markets, but there is still a lot of runway in front of them. But newer high-value product initiations like our Envision product – which is using vision systems to help increase quality, as well as NovaPure, those are still small and their penetration rates are very, very small, but we see great promise for them in the future.

So if you look at as a percentage of our total manufactured products within the Proprietary Products space, we're less than 20% of our volume is high-value product. What that number could be is really a factor of a lot of things, including the age of that high-value product and the newer products coming into the market. So we believe that a lot of the – almost all of the biologics will use high-value products in some way, shape, or form. A lot of the generics are going to use our high-value products in some way, shape, or form. So we believe there's a tremendous amount of runway in front of this, and that's what gives us confidence, one of the things that gives us confidence in our ability to say that that part of our portfolio will continue to grow in the high singles to low doubles for a very, very long time.

Jared Meggison
*Jefferies LLC*

Q

Got it, thanks, guys. Congrats on the quarter again.

William J. Federici
*Chief Financial Officer & Senior Vice President*

A

Thank you, Bill.

Eric M. Green
*Chief Executive Officer & Director*

A

Thank you.

**Operator**: Thank you. Our next question is from Sara Silverman of Wells Fargo. Your line is open.

William J. Federici
*Chief Financial Officer & Senior Vice President*

A

Oops, Sara?

Sara M. Silverman
*Wells Fargo Securities LLC*

Q

Can you hear me?

Eric M. Green
*Chief Executive Officer & Director*

A

Sara?

**Sara M. Silverman**
*Wells Fargo Securities LLC*

Q

Yeah, can you guys hear me?

**Eric M. Green**
*Chief Executive Officer & Director*

A

Operator, maybe help?

**William J. Federici**
*Chief Financial Officer & Senior Vice President*

A

No, we can't hear you Sara – I – can you?.

**Sara M. Silverman**
*Wells Fargo Securities LLC*

Q

Hey, can you guys hear me?

**William J. Federici**
*Chief Financial Officer & Senior Vice President*

A

There you go, okay. Now we can hear you.

**Sara M. Silverman**
*Wells Fargo Securities LLC*

Q

Okay. Hey, sorry about that. I'm just going to ask, Bill, can you remind us how much of the annual restructuring savings of $8 million to $10 million is expected to be in direct costs versus OpEx, and then how much of those savings you plan to reinvest?

**William J. Federici**
*Chief Financial Officer & Senior Vice President*

A

Well, I don't have the breakout for you, but what we did say, as you suggested, in this year it will be less than that. In 2016, we're expecting somewhere on the order of $4 million to $6 million. So that's where we are for the current year, and it will be more in the future years as you get a full year's worth of benefit out of these.

As you know, some of the restructuring charge has been taken, some of those actions, but some of them have not yet been taken. It takes some time to get through all of those. We expect them to be done the later part of this year or early part of 2017, so our run rate on the savings will be, as you suggested – will be more fully affected in 2017 and beyond.

In terms of reinvestment, we expect to reinvest the majority of that back into the business on the commercial side of the business and in innovation and technology. So you know, our belief, Sara, continues to be that this is a tremendous growth engine for West, continuing to work on the combination of our containment systems with the delivery system to create solutions for our customers' very novel products, and that combination we believe is very strong and is the right way to invest our funds today to make sure that we're able to satisfy those demands.

**Sara M. Silverman**
*Wells Fargo Securities LLC*

Q

Okay, great. Thanks for taking my question.

Eric M. Green
*Chief Executive Officer & Director*

A

Thank you, Sara.

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**Operator**: Thank you. Our next question is from Derik De Bruin of Bank of America Merrill Lynch. Your line is open.

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Juan Esteban Avendano
*Merrill Lynch, Pierce, Fenner & Smith, Inc.*

Q

Thank you. This is actually Juan Avendano for Derik De Bruin.

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William J. Federici
*Chief Financial Officer & Senior Vice President*

A

How you're doing, Juan?

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Juan Esteban Avendano
*Merrill Lynch, Pierce, Fenner & Smith, Inc.*

Q

Good, and you?

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William J. Federici
*Chief Financial Officer & Senior Vice President*

A

Good, thanks.

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Juan Esteban Avendano
*Merrill Lynch, Pierce, Fenner & Smith, Inc.*

Q

Good. I had a question on the CMO business. Understand that it's lumpy, that it's dependent on the timing of customer orders. Is there any particular seasonality pattern on a quarterly basis that you could share with us to help us model it?

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Eric M. Green
*Chief Executive Officer & Director*

A

No, I think the way to look at the Contract-Manufacturing business is more over a period of the year. The size of orders that we're producing for our clients – and again, these are long-term agreements that we have because we're making investments into our facilities that run these dedicated products for quite a period of time, so we are seeing the lumpiness from quarter to quarter, but if you look at it from an overall year period of time, it's probably the best way to look at that business.

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Juan Esteban Avendano
*Merrill Lynch, Pierce, Fenner & Smith, Inc.*

Q

Okay, got it. Then on a segment basis, I was wondering if you could share with us what the SG&A was?

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William J. Federici
*Chief Financial Officer & Senior Vice President*

A

We have it in the release, I believe. So the SG&A – give me a moment here, by segment. Okay, so Proprietary SG&A was $41.6 million, and the Contract-Manufacturing was $3.8 million. Those are at our quoted rates there.

Juan Esteban Avendano
*Merrill Lynch, Pierce, Fenner & Smith, Inc.*

Q

Okay, good, thank you. That was it.

William J. Federici
*Chief Financial Officer & Senior Vice President*

A

Thank you.

**Operator**: Thank you, and that does conclude our Q&A session for today. I would now like to turn the call back to Mr. Quintin Lai for any further remarks.

Quintin John Lai
*Vice President-Corporate Development, Strategy & Investor Relations*

Thank you. I'm going to hand it over to Eric here for closing comments.

Eric M. Green
*Chief Executive Officer & Director*

Thank you, for everyone for dialing in. We appreciate your interest in West and we look forward to the next call after the second quarter. Thank you very much.

**Operator**: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone have a great day.