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# West Pharmaceutical Services, Inc. (WST)

Q1 2023 Earnings Call

# CORPORATE PARTICIPANTS

### **Quintin John Lai**

Vice President-Strategy & Investor Relations, West Pharmaceutical Services, Inc.

#### Eric Mark Green

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

### Bernard J. Birkett

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

# OTHER PARTICIPANTS

Larry S. Solow

Analyst, CJS Securities, Inc.

**Paul Richard Knight** 

Analyst, KeyBanc Capital Markets, Inc.

Matt Larew

Analyst, William Blair & Co. LLC

**Jacob Johnson** 

Analyst, Stephens, Inc.

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Analyst, BofA Securities, Inc.

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Analyst, UBS Securities LLC

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day and thank you for standing by. Welcome to the West Pharmaceutical Services First Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

Please be advised that today's conference call is being recorded. I would now like to hand the conference over to your speaker today, Quintin Lai, Vice President of Investor Relations. Please go ahead.

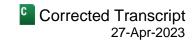
### **Quintin John Lai**

Vice President-Strategy & Investor Relations, West Pharmaceutical Services, Inc.

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

On slide 4 is our safe harbor statement. Statements made by the management on the call – on this call and in the accompanying presentation contain forward-looking statements within the meaning of US federal securities law. These statements are based on our beliefs and assumptions, current expectations, estimates, and forecasts. The company's future results are influenced by many factors beyond the control of the company. Actual results could differ materially from past results, as well as those expressed or implied in any forward-looking statements made

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here. Please refer to today's press release as well as any other disclosures made by the company regarding the risks to which it is subject, including our 10-K, 10-Q, and 8-K Reports.

During today's call, management will make reference to non-GAAP financial measures, including organic sales growth, adjusted operating profit, adjusted operating profit margin, and adjusted diluted EPS. Reconciliations and limitations of the non-GAAP financial measures to the most comparable financial results prepared in conformity to GAAP are provided in this morning's earnings release.

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

### **Eric Mark Green**

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

Great. Thank you, Quintin, and good morning, everyone. Thanks for joining us today. We will start on slide 5. On April 14, West turned 100 years old. This is a major milestone that we're very proud of. Over the course of our 100-year history, the West name has come to mean so much to so many people. I would like to recognize our founder, Herman O. West, and the past generations of leadership that have built West to who we are today. In addition, I want to especially thank our 10,000-plus team members who are motivated by our purpose of improving patient lives and making a difference in the communities in which we work and live.

Moving to slide 6, I am pleased to report that we delivered a solid first quarter. This was driven by overall organic sales growth of over 2%. Excluding COVID-19, our base organic sales grew high-teens. Our end markets remained stable even in this uncertain macroeconomic environment. As expected, we saw a drop in COVID-19-related sales compared to last year. That said, our Biologics market unit, excluding COVID, again grew double-digits, and we expect this trend to continue for the rest of the year.

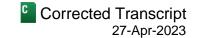
With a focus on reprioritization of longer lead time components, our Generics and Pharma market units delivered an especially strong quarter of double-digit organic growth. In addition, our Contract Manufacturing had solid growth with – while delivering of components for injection-related devices. This overall performance is a result of our team members across the globe as they remain focused on our strategic initiative of execute, innovate, and grow. The resiliency of the business continues to be a reflection of our team members, and I want to acknowledge these efforts to say thank you.

Turning to slide 7. In addition to our financial performance, there were several other significant accomplishments in our quarter. I would like to highlight a few. In February, we opened our new R&D lab in Radnor, Pennsylvania. This investment supports our capability enhancements while meeting the growing needs of customers in a changing regulatory environment across the globe. The lab's applied research will include containment and systems for advanced therapies and biomaterials, along with advanced design and engineering for drug delivery. In addition, the lab will also test and develop elastomer glass systems; and the work done here will support our future R&D ambitions for new containment and packaging solutions.

Our product innovations have been recognized with several notable awards, including the Best Technologies Award at INTERPHEX for our West Ready Pack with Corning's Valor ready-to-use vials. And as we continue to make tremendous stride in ESG, we have announced a stability (sic) [sustainability] partnership with the Philadelphia Eagles, who are recognized as environmental stewards across all areas of their business. We look forward to sharing more detail on our ESG efforts in our Corporate Responsibility Report to be published shortly.

Shifting to slide 8. Our robust capital investments through expansions and optimizing productivity across our global operations remain on track. We continue to drive forward the expansion of additional HVP capacity, with

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the anticipated growth of our customers' biologic portfolios and drug launches. This includes the installation and validation of new manufacturing equipment for HVP plungers and finishing capabilities, which will continue to come on-line throughout 2023 and into 2024.

Moving to slide 9. We are reiterating our full year 2023 organic sales growth outlook of 3% to 4%, and are raising our 2023 financial outlook for overall net sales and adjusted diluted EPS. While Bernard will go over more details in his remarks, I want to make a few high-level comments. We continue to see a decline in overall COVID-19 sales, and now expect \$60 million for the full year 2023, instead of \$85 million. Even with this change, we are reaffirming full year 2023 overall organic sales guidance. We continue to expect mid-teens Proprietary Products base organic sales growth for the year. Contract-Manufactured is now expected to be double-digit growth compared to prior high-single digit outlook, as we expect to see continued demand for certain injection devices, as seen in Q1.

Now, I'll turn the call over to Bernard. Bernard?

### Bernard J. Birkett

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

Thank you, Eric, and good morning. We'll first look at Q1's 2023 revenues and profits, where we saw low-single digit organic sales growth and a decline in operating profit and diluted EPS compared to the first quarter of 2022. I will take you through the drivers impacting sales and margin in the quarter, as well as some balance sheet takeaway. And finally, we will provide an update to our 2023 guidance.

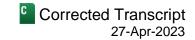
First up, Q1. Our financial results are summarized on slide 10, and the reconciliation of non-US GAAP measures are described in slides 17 to 20. We recorded net sales of \$716.6 million representing organic sales growth of 2.3%. COVID-related net revenues are estimated to have been approximately \$23 million in the quarter, an approximate \$88 million reduction compared to the prior year. These net revenues in 2022 included our assessment of components associated with vaccines, treatment and diagnosis of COVID-19 patients, offset by lower sales to customers affected by lower volumes due to the pandemic.

Looking at slide 11, Proprietary Products' organic net sales remained flat in the quarter. High-value products, which made up more than 70% of Proprietary Products sales in the quarter, declined by low-single digit due to the reduction in COVID-related net revenues. Looking at the performance of the market unit, the Generics market unit delivered high-double digit growth led by sales of Westar component, while the Pharma market unit experienced low-double digit growth led by Envision and Westar components, as well as admin systems. And the Biologics market unit saw a double-digit decline due to a reduction in sales related to COVID-19 vaccine.

Our Contract Manufacturing segment experienced double-digit net sales growth in the first quarter, primarily driven by an increase in sales of components related to injection-related devices. Our adjusted operating profit margin of 23% was a 340-basis-point decrease from the same period last year. Finally, adjusted diluted EPS declined 13.9% for Q1. Excluding stock-based compensation tax benefit, EPS decreased by approximately 16.1%.

Now, let's review the drivers in both our revenue and profit performance. On slide 12, we show the contributions to organic sales growth in the quarter. Sales price increases contributed \$38 million or 5.3 percentage points of growth in the quarter. Offsetting price was a negative mix impact of \$21.3 million, primarily due to a reduction in COVID-19-related net demand and a foreign currency headwind of approximately \$20.1 million.

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Looking at margin performance, slide 13 shows our consolidated gross profit margin of 37.9% for Q1 2023, down from 39.5% in Q1 2022. Proprietary Products' first quarter gross profit margin of 42.5% was 90 basis points lower than the margin achieved in the first quarter of 2022. The key drivers for the decline in Proprietary Products' gross profit margin were unfavorable mix from a reduction in sales related to COVID-19 vaccines and continued inflationary pressures on our planned costs including labor, raw materials, and overheads. These factors were partially offset by sales price increases and production efficiencies. Contract Manufacturing first quarter gross profit margin of 17.6% was 250 basis points below the margin achieved in the first quarter of 2022, primarily due to mix of products sold.

Now, let's look at our balance sheet and review how we've done in terms of generating more cash. On slide 14, we have listed some key cash flow metrics. Operating cash flow was \$138.1 million for the three months ended March 2023, a decrease of \$13.1 million compared to same period last year, a 8.7% decrease primarily due to a decline in operating results. Our first quarter of 2023 year-to-date capital spending was \$82.1 million, \$16.3 million higher than the same period last year. We continue to leverage our CapEx to increase our high-value product manufacturing capacity within our existing facilities in the US, Germany, Ireland, and Singapore.

Working capital of approximately \$1.4 billion at March 31, 2023 remained consistent from December 31, 2022. Our cash balance at March 31 of \$886.3 million was \$8 million lower than our December 2022 balance. The decrease in cash is primarily due to our share repurchase program and higher CapEx, offset by operating cash flow for the first quarter.

Turning to guidance, slide 9 provides a high-level summary. We are updating our full year 2023 net sales guidance and expect net sales to be in the range of \$2.965 billion to \$2.99 billion, compared to our prior guidance range of \$2.935 billion to \$2.96 billion. There is an estimated full year 2023 tailwind, \$15 million based on current foreign exchange rates, compared to prior guidance of a 2023 headwind of \$30 million. We expect organic sales growth to be approximately 3% to 4%, unchanged from prior guidance. We expect our full year 2023 adjusted diluted EPS guidance to be in a range of \$7.50 to \$7.65, compared to a prior range of \$7.25 to \$7.40. Also, our CapEx guidance is \$350 million for the year, unchanged from prior guidance.

There are some key elements I want to bring your attention to as you review our guidance. We expect full-year COVID-19-related sales to be approximately \$60 million, compared to prior guidance of approximately \$85 million. Net sales guidance also includes a reduction of \$8 million resulting from an expected divestiture of a European facility that produced standard Proprietary Products components. Full year 2023 adjusted diluted EPS guidance range includes an estimated FX tailwind of approximately \$0.02, based on current foreign currency exchange rates compared to prior guidance of a headwind of \$0.11. The updated guidance also includes EPS of \$0.15 associated with first quarter 2023 tax benefits from stock-based compensation. Our guidance does not include potential future tax benefits from stock-based compensation.

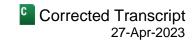
I would now like to turn the call back over to Eric.

### Eric Mark Green

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

Thank you, Bernard. To summarize on slide 15. The solid financial performance and execution in Q1 continues to reaffirm we have a strong base business and are delivering unique value to our customers. While there may be instability in some small cash-dependent biotechs, these customers are not a substantial portion of our business. Our end markets remain stable, and there continues to be a promising pipeline of new drugs that could have meaningful launches and/or expansions over the next few years, which means more HVP sales opportunities for West.

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Our global operations team is efficiently manufacturing and delivering products in this complex environment with a focus on service and quality, and we're continuing to progress capital spending across our operations to meet current and anticipated future growth. With great pride, we realize this criticality of our products for healthcare across the globe, which is why our purpose to improve patient lives propels us each and every day.

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

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Please stand by while we compile the Q&A roster. One moment for our first question. Our first question comes from the line of Larry Solow with CJS Securities. Your line is now open.

### Larry S. Solow

Analyst, CJS Securities, Inc.

Great. Thanks. Good morning, guys. Congrats on another good start to the year. Eric, just sort of a – I guess, a little bit of a quick question on the quarter and a little bit more high-level, just the – obviously, a little bit of a step up, an acceleration in sort of core growth. I think you mentioned mid-teen to high-teens growth this quarter in Proprietary Products, and I think your guidance kind of points to the sort of mid-to-high teens growth for the year. And obviously, it's a little bit of a shift away from COVID for you guys.

Are your customers – from their perspective, has that helped to, in terms of less focus on – at some of your customers on COVID treatments and more back to their core? I'm just trying to bucket sort of the drivers of that, the acceleration in growth between COVID, perhaps a little bit waning COVID impacts and just more growth, I guess, in NovaPure and other high-value products. And I guess, the third thing is just the overall growth in Biologics. But I'm just trying to get a feel for how those three drivers sort of line up, if you will.

#### Eric Mark Green

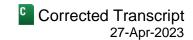
Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah. Great. Thank you, Larry, and good morning. We have seen – we're seeing that, obviously, as COVID demand decreases, we've been able to, through the reprioritization of the long lead time items, we're able to bring them back in line what we expect for the market. And therefore, you're seeing us with a very strong growth in both the Pharma and the Generics market units, which is significantly higher than what you would see from a market volume demand perspective.

So, that's where you see the benefit, specifically on Generics, is really due to the long lead times that have been brought in. We did see a little bit better performance in our Contract Manufacturing. And as we've been making investments, and specifically in that area, very targeted investments, those are coming on-line and we're starting to see the benefit, and that's the reason why we moved up the full year look.

On the Biologics side, I have to be – I'm very proud on how we continue to do very well in that area, not just on current drugs in the market but also new drug launches, and our participation rate is – remains very high. And so, we were excited to carry on that growth. But you're absolutely correct, the COVID reduction mutes that overall number, and that's why we're trying to be very more transparent about the quarter itself. So, we're very – we're pleased across the board on the execution. And overall, it's a very strong start to the year.

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### Larry S. Solow

Analyst, CJS Securities, Inc.

And in terms of capital projects, capital expansion plans, obviously, you've – guys, I think, you have more than probably doubled capacity over the last couple years or last three years. As you go out into 2024, do you see – I suppose, at some point, we'll have a slowdown or a pause in the expansion. And do you view this or how do you sort of view the – your longer-term plans out beyond sort of next 12 months?

**Eric Mark Green** 

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

Yeah. Larry, it's – you're right, we had some significant capital investments over the last couple of years. One was to fuel or build to support the vaccines during the pandemic. And, fortunately, the team was very focused on helping our customers with these solutions around the higher end of high-value products. But – so this equipment is fungible. We're still leveraging that existing equipment for base business growth, particularly on the Biologics area.

And we're continuing to add, layer in more capital. The capital that we are layering in right now is shifting a little bit away from what I would call the vial configuration to more pre-filled syringes and, i.e., our plunger manufacturing capabilities, which are coming on-line this year and then in 2024. But that is based on demand that we have in our hands today and into the next couple years.

So, we will continue to layer in capital when the growth profile remains as we're seeing today. But you're right, Larry, if there's opportunities to continue to leverage existing assets more effectively, we – that's the first thing we'd look at. How do we leverage what we currently have, create efficiencies, higher automation before we start investing more? And that's our sort of daily framework as we think about capital investments.

So, the long story short would be, if we continue to invest as we are, it's because the growth of the business is greater than we anticipated.

Larry S. Solow

Analyst, CJS Securities, Inc.

Got you. And then, just lastly, a quick question for Bernard. On the – on Proprietary Products, gross margin down a little, I think 90 bps, year-over-year. But I think it absorbed like a \$90 million or so drop in COVID sales, right, so or something around. I don't think you gave the actual quarter number, but somewhere around there. So, I'm just trying to – going forward, gross margin, it feels like most of the COVID benefit is added there, right, so should we kind of expect Proprietary Products gross margin to just be maybe a good number, a good starting point and maybe we can grow a little bit off of this gross margin base?

Bernard J. Birkett

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

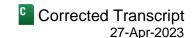
Just on the COVID, we did – as you kind of said there, we did \$88 million I think in Q1 2022 and it was about \$23 million in this quarter. So that drop was pretty significant.

Larry S. Solow

Analyst, CJS Securities, Inc.

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

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But we have been really focused on increasing the level of efficiency through our plants, really understanding the cost base. And as we were progressing through 2022, we're already lining up some of those changes. We're starting to see the impact there. Also, the price that we've been able to get, which is above what we'd normally see, that...

Larry S. Solow

Analyst, CJS Securities, Inc.

Right.

Bernard J. Birkett

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

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... [ph] more than 5% (00:22:46), that's also helping with that margin and to absorb some of the inflationary costs. So, I would expect it to – it is a good start for the year. So there's obviously a lot of puts and takes, Larry, given what's going on within the macro environment. And – but we're...

Larry S. Solow

Analyst, CJS Securities, Inc.

Sure.

Bernard J. Birkett

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

...confident on – to deliver within our guidance.

Larry S. Solow

Analyst, CJS Securities, Inc.

Got it. Okay. Great. Thanks. I appreciate the color, guys.

**Operator:** Thank you. One moment for our next question. Our next question comes from the line of Paul Knight with KeyBanc Capital Markets. Your line is now open.

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.



Hi, Eric. When – on the CapEx side, is Michigan now on line? And then, when you do deploy this CapEx, when does that start to deliver revenue? Is it a one-year, is it a two-year lag? And then, my last question would be, where do you benefit from this growth in GLP-1s? Thanks.

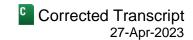
Eric Mark Green

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

Yeah. Thanks, Paul, and good morning. So, in the capital, fortunately, we're in a good position over layering in the capital once we saw and then validate revenues that are coming up rather quickly. So, you mentioned about Grand Rapids, Michigan, is one of our Contract Manufacturing sites. When the lines are ready to go, we're turning them on and to be able to meet the demand requirements, and that's very consistent across Proprietary and also CM in today's environment.

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I would say, if you look back historically, while we made the right investments, and sometimes we do greenfield, those are the ones that take longer period to get the demand to fill those plants. But the investments we're making today are really about more near-term demand requirements. In some cases, we're trying to catch up.

On the GLP-1, there's – it's an interesting dynamic that is occurring. As you can imagine, West, as we did with the vaccines in the pandemic, you can imagine that our participation in the GLP-1 with multiple customers, multiple components, both in the Proprietary area but also in the Contract Manufacturing from a injectable device perspective. So, we are obviously participating in that area. We're seeing the demand. We don't call out specific drugs or customers and – but we are investing particularly around plungers and also in the Contract Manufacturing area about injectors, auto injectors. So, you're seeing that in both camps as we speak today.

### **Paul Richard Knight**

Analyst, KeyBanc Capital Markets, Inc.

And then, last question would be for Bernard. Bernard, what's your implied operating margin for the – or guide for the year?

### Bernard J. Birkett

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

Approximately 23%.

### Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

Okay, thanks.

### Bernard J. Birkett

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

And just on Larry's question, I just want to clarify one thing. The differences on the COVID revenues between Q1 2023 and 2022 was \$88 million. Just to clarify that, the drop was \$88 million.

**Operator**: Thank you. One moment for our next question, please. This question comes from the line of Matt Larew with William Blair. Your line is now open.

#### Matt Larew

Analyst, William Blair & Co. LLC

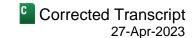
Hi. Good morning. For the space more broadly, [indiscernible] (00:26:23) destocking has been an issue and I would say that's further upstream and not something that's really has affected [ph] through your (00:26:30) business. But just some – subject to visibility, can you maybe speak to your visibility into customer demand right now, particularly around [ph] A3P (00:26:38), and maybe how that compares to your historical visibility over the last three to five years or so?

### **Eric Mark Green**

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

Yeah, Matt. I think before COVID, we were continuously building the capabilities to have better visibility with our customers in the markets around demand, and we have been building that. I would say, during the COVID period, it's been a little more volatile. But now, we're back into the environment, have better visibility, better – as we do

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make to order, our customers are giving us visibility of their demands over the next several quarters, and then we plan accordingly in our global operations. We'll support them on existing drugs but also new launches.

On – in regards to any movements of stocking or working capital, we do see some of that in certain parts of the business, and we take that in consideration and when we think about our forecast or guidance for the full year. There are certain areas, I would say, probably more in our – on our non-HVP area that might have more volatility.

On the H – on the high-value product area, that is, going back to our capital investments, we need to continue to feel that to try to get ahead of the curve, versus trying to maintain where we are right now. So, we – the demand is greater than we have capacity. So, therefore, [indiscernible] (00:28:04) and as we speak. So, it's an interesting blend right now, Matt, and we have better visibility, but it's not consistent across the whole portfolio, but I think we're responding appropriately.

#### **Matt Larew**

Analyst, William Blair & Co. LLC

Okay. And then, decommissioning a plant in Europe making bulk products amidst significant investment in HVP capacity. I guess, that speaks to the changing order book. But maybe could you just, I guess, give us a sense for – as we think about order book occurring today and what's your – what's in your order pipeline over the next 6 months, 12 months, how that really compares to three, five years ago? And then, specifically on – you mentioned on the GLP-1s, you participate on the plunger side, are those NovaPure plungers, I assume?

### **Eric Mark Green**

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

Well, Matt, a couple points there. One is, you're right, the decommissioning of the plant, that is – that's a plant that has a single product, single customer. And we're very pleased on how that is now...

### Bernard J. Birkett

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

That was a standard product, but it wasn't anything in relation to high-value products.

#### Eric Mark Green

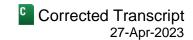
Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Right. It's a standard product that is – basically, we've had this discussion for a long time, it doesn't fit our growth strategy. So, therefore, we've made the decision with our customer, and also another party, to make sure that they can continue on producing those products for our customers, but in someone else's hands.

I think from a order book perspective, if you think about where our growth profile is, it really is around the Biologics. We obviously have high growth right now in Generics and Pharma. We'll continue to see that over the course of 2023. But really, as you think about the future longer-term, it is around the Biologics, in that multiple therapeutic categories and it tend to be the higher end of our high-value products.

The plungers specifically, it's a range of different types of plungers within high-value products. So, it ranges anywhere from FluroTec all the way up to NovaPure, depending on the customer's needs, so it is kind of a range. But our – the optics of our order book continues to be strong, but this portion of that tends to be more around the high-value products and the higher end of that.

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#### Matt Larew

Analyst, William Blair & Co. LLC

Okay. Thanks, Eric and Bernard.

**Operator:** Thank you. One moment for our next question. Next question comes from the line of Jacob Johnson with Stephens. Your line is now open.

#### **Jacob Johnson**

Analyst, Stephens, Inc.

Hey. Thanks. Good morning. Maybe, first, just sticking on the GLP-1 topic. And as it relates to Contract Manufacturing, I think that's a business that, at times, kind of the work you do as customers can vary year to year. Obviously, a strong start to the year. You're increasing expectations there. Is this something that is kind of sustainable growth for you all or is there something about 2023 that maybe we shouldn't carry this forward into 2024 and beyond?

#### Bernard J. Birkett

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

Yeah, Jacob. We typically would see the growth rate in Contract Manufacturing around mid-single-digits and within our longer-term construct. Last year, we had declines in the Contract Manufacturing business, and now we're seeing a bit of a rebound. So, if I'm looking out past 2023, I would see kind of more than mid-single, high-single-digit growth rate.

#### **Jacob Johnson**

Analyst, Stephens, Inc.

Okay. Thanks for that. And then, just a couple kind of clean-ups on some of the commentary around the outlook for this year. If I'm not mistaken, I think you said mid-teens ex-COVID growth in Proprietary Products, but I think that was high-teens last – on the last call. And then, also 23% off margins. I think that was 23% to 24% last quarter. Is this something to do with kind of the stronger Contract Manufacturing process in the – for the year? Just anything you can kind of flesh out in terms of that commentary.

### Bernard J. Birkett

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

Yeah. On the operating margin, a little bit of it is around the Contract Manufacturing. And then, the having less of that COVID business coming through versus what we expected. So, they're the primary drivers there.

### **Eric Mark Green**

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

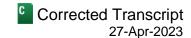
On the revenue side, when we talk about the Proprietary outlook, it's relatively – it's pretty consistent to the – what we've guided in February without COVID. So, the – all three units will be very strong throughout the full year and relatively consistent, so – price performance in that area.

#### Jacob Johnson

Analyst, Stephens, Inc.

Okay. Got it. I'll leave it there. Thanks for taking the questions.

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**Operator**: Thank you. One moment for our next question, please. Our next question comes from the line of Derik de Bruin with Bank of America. Your line is now open.

Derik de Bruin

Analyst, BofA Securities, Inc.

Hi. Good morning.

**Eric Mark Green** 

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

Morning, Derik.

Derik de Bruin

Analyst, BofA Securities, Inc.

Hey. A couple of questions. Is there a good rule of thumb to think about your CapEx in terms of revenue generation? For every dollar you'd spend in CapEx, it can generate X amount of revenues. I'm just really trying to think about future opportunities and just sort of thinking about all the spend and how West will build it out.

Bernard J. Birkett

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

Yeah. We haven't communicated that in the past. I think we already – what we have communicated is to say that a larger portion of our CapEx spend over the last number of years has been focused on growth, and that growth is really within high-value products. So, the investment in CapEx is driving obviously both revenue improvement, but also delivering on that operating margin improvement so it's encompassed in that.

Derik de Bruin

Analyst, BofA Securities, Inc.

And so, I was going that – I was going to the mix shift next because obviously that has accelerated recently. When you think about your forward model construct, are – is – does that margin sort of look more like 150 basis points or are you still thinking about 100 basis points is where you should come out on the – on margin expansion on an annual basis, just given the mix?

Eric Mark Green

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

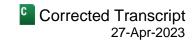
Yeah, Derik, I mean, I could give you a number, but we've said that we will achieve 100-plus basis point margin expansion year-over-year for a number of years. And – but as an organization, as a team, we're really focused on how we continue to beat that. Looking through automation, looking at the mix shift effect that that's happening. Really when you think about the biologics, just reviewing the – our participation in biologics more recently continues to remain extremely strong, I'm very proud of that. And so, we believe – well, we're going to commit to the 100-plus basis points on operating margin, but we do believe there's opportunities to continue that and stay aggressive.

Derik de Bruin

Analyst, BofA Securities, Inc.

Great. And just one more. So, I'm thinking about some of the newer drug opportunities. I mean, obviously, there's a lot of interest and discussion on GLPs. But you've had to build capacity for a number of – I mean, this isn't like

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COVID where it suddenly popped up overnight. I mean, you've been building capacity for a while, you've known there were trials coming.

So, I'm just sort of curious, like what do we need to see in sort of some of the GLP trends in the market, prescription trends to sort of think about what the upside driver of that could be to your business, because there's clearly something already embedded in, it isn't like a virgin market where you are. So, I'm just really curious on how you're thinking about that market as it expands.

Eric Mark Green

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

There's two areas. One area, specifically around our product portfolio. Unlike what we've seen in other types of configurations, like vial configuration, we get multiple doses of vial. In this particular area, it's single dose, right? And so, as the – as pre-filled syringes continue to grow, we're going to need to continue to invest in plungers, and that's what we're seeing and that's where our areas of investments are going.

And we'll continue – we respond to our customers' forecasted demand. And again, it's more than just one customer, it's multiple customers. So, that's one. It's around the conversations with our customers, planning ahead, not on just existing solutions in the market but future drug launches that they're planning, that's where our conversation is. If we're waiting to the commercialization of them, we're too late and they're too late.

Derik de Bruin Analyst, BofA Securities, Inc. Yeah. Eric Mark Green

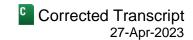
Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

So, that's one area. On the Contract Manufacturing side, it's a little different. Where, as you know, we've been very clear about the – that part of our business, unlike our Proprietary business, where if you're on the molecule, you're pretty much the main provider of those components. In the Contract Manufacturing, our customers tend to diversify with multiple companies to build, reproduce those, i.e. auto-injectors. So, while that volume goes up, I wouldn't say its one-to-one [indiscernible] (00:37:41). It's clear in the Proprietary side, but not as much on the Contract Manufacturing side. So, hopefully, that gives you a little bit of...

Derik de Bruin Analyst, BofA Securities, Inc. Yeah, yeah. Eric Mark Green Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc. ...kind of visibility, and particularly around the GLP-1 specific area. Derik de Bruin Analyst, BofA Securities, Inc.

Great. Thank you.

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#### Eric Mark Green

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

Okay.

**Operator:** Thank you. One moment for our next question. Question comes from the line of John Sourbeer with UBS. Your line is now open.

John Newton Sourbeer

Analyst, UBS Securities LLC

Hi. Thanks for taking the questions. So, I think it sounds like that you guys – you said that Contract Manufacturing, that that could grow from mid-single digits, I think, was the previous long-term target there to midsingle to high-single digits. Is that increase over the long-term, is that all GLP-1s? Are there other drivers there that would be driving that upside?

Eric Mark Green

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

Well, I would say it's just a mixture of multiple – a few different customers and a few different products. GLP-1 would be one area, but not the only area of growth. So, the investments that we've been layering in, specifically in Contract Manufacturing, have been coming on board end of last year into this year; and we'll continue to layer that in if and when necessary with our customers. So, yes, there's a portion of it is due to GLP-1.

John Newton Sourbeer

Analyst, UBS Securities LLC

Just when you look – I think the company's has framed that the long-term revenue target in that high-single-digit range. But now, you're seeing strong trends throughout the portfolio, some increases in Contract Manufacturing. Just any thoughts on how that revenue growth could look like beyond 2023?

Eric Mark Green

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

Yeah. I think just staying focused in the long-term construct [ph] with CLOs (00:39:28), there's 7% to 9% organic sales growth. We're excited that obviously we do have a role to play with the GLP-1 as that evolves. I'm excited because, as an organization, we can support our customers in multiple fronts, i.e., in multiple different components in Proprietary. That, to me, has a higher profile – economic profile for us and – than the Contract Manufacturing. While we play in both, higher dependency on the Proprietary side.

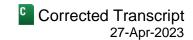
But I would say that our growth, when we say the 7% to 9% organic growth outlook, it's not solely reliant on that category. We have numerous customers with different types of launches that are occurring and an uptick of current drugs in the market that we need to keep fueling. So, it is - it's a mixture of multiple drugs, multiple customers and multiple therapy classes. Yes, we participate in GLP-1, but I want to make sure that the - it's - the growth of this business is very diversified.

John Newton Sourbeer

Analyst, UBS Securities LLC

Great. Appreciate the color. Thanks for taking the questions.

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#### Eric Mark Green

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

Yeah. Thank you, John.



**Operator**: Thank you. And I'm currently showing no further questions at this time. I'd like to hand the conference back over to Quintin Lai for closing remarks.

## **Quintin John Lai**

Vice President-Strategy & Investor Relations, West Pharmaceutical Services, Inc.

Thank you, Norma. And thank you, all of us, for joining on – us on today's conference call. An online archive of the broadcast will be available on our website at westpharma.com in the Investors section. Additionally, you may access a replay for 30 days following this presentation by using the instructions at the end of today's earnings release. And in acknowledgment of our sustainability partnership with the Philadelphia Eagles, it gives me a unique opportunity and to conclude the call with fly, Eagles, fly. Have nice day.

**Operator**: This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.

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