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MANAGEMENT DISCUSSION SECTION

Tycho W. Peterson
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All right. We're going to go ahead and get started. I'm Tycho Peterson from the Life Science team. It's my pleasure to introduce our next company, West Pharmaceutical Services. The breakout will be right across the hall in the [ph] Boucher (00:00:08) room; and with that, let me turn it over to Eric.

Eric Mark Green
President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.

Great. Thank you, Tycho, and thank you for the invitation to be here today with the JPMorgan Conference. Fantastic day of discussions, and I'm excited to be here to tell you a little bit about the West story. Before we get started, I just want to remind us of the Safe Harbor statement, you can find this online with our website and also it's posted here in front.

Let's get started about West. It's a fantastic organization that's been around 75 years and our focus has been always around primary containment of injectable drugs that are administered to patients around the world. Our mission really is to contain and deliver injectable therapies to improve patient lives, and our whole focus is in – the whole focus is around primary containment and delivery devices for injectable medicines. We've had a tremendous 95-year history and I'd like to share with you where we are today and also how we're going to take this forward over the next several years.

The business is really broken up in two segments when you look at it. Roughly around three-fourths of the business is what we call Proprietary Products. These are products that we manufacture in different plants around the world. We have 28 manufacturing plants and – of which – of our 41 billion, 42 billion components we manufacture every year, roughly around 32 billion components are within Proprietary Products. These are typical – the products that you would find as stoppers and seals for vial containment; you think about prefilled syringes and components for – in safety devices for syringes and also cartridges; we have alternated to glass around our Crystal Zenith portfolio; we also are manufacturing products and devices that are used for IV administration in a hospital setting.

And to wrap up the Proprietary Product portfolio, we have a portfolio of self-injection devices that I'll talk a little bit later in a moment.

The other 25% of our business approximately is what we call Contract Manufacturing. This is a part of our business that we acquired roughly around 13 years ago and has really developed well within our portfolio of

designing, scaling and mass manufacturing of components, and particularly in the healthcare sector on behalf of our customers. So we will invest and make sure that we are able to manufacture on a large scale, high quality, on a global basis.

When you think about the diversification of the business, roughly – it's really very diverse when you think about geography, you think about the type of product portfolio that we manufacture and sell, and also from a market segment point of view. From a geography point of view, roughly over 50% of the business is outside the Americas. We look at about 44% in Europe and less than 10% in Asia-Pacific, which I'll get into greater detail, but the Asia-Pacific and South America markets, where we actually have presence and assets on the ground, we have opportunity for additional growth.

From a portfolio perspective, the high-value product components portfolio is roughly 42% of the consolidated revenues and that is the fastest growing, historically, over long periods of time of our entire portfolio. The delivery devices, which is another exciting area of development for West is only 3%, but the pipeline and opportunities continue to give us great confidence for that particular portion to grow even faster and then it [ph] balances (00:03:45) off with the Contract Manufacturing.

From a market segment, roughly around two-and-a-half years ago, we reorganized our company into market segments. We looked at a cluster of customers to identify the unique value propositions that we can bring to the table to drive value for our customers and help them deliver those drug molecules into the marketplace.

When you look at it from a perspective of the markets, small molecules which we consider as Pharma is roughly 35% and the balance of the portfolio is spread between Generics, Biologics, and again, Contract Manufacturing. And I have to say that we have over 2,000 customers; large, medium and a lot of emerging customers around the world, and our largest customer is roughly around 7%, so we have a good diversification of customers and we have about 7,500 employees operating in 28 plants and 50 locations around the world.

I mentioned we are organized around the market-led customers. We clustered customers together and that was driven by a long-term strategic growth strategy we put together, and there's really three pillars that are driving performance for West today. The first one is really around the market-led approach; and I'll get in greater detail in a moment. The second is operational effectiveness and really taking 28 independent manufacturing sites on a global basis and bring it together and globalize the operations. The third is very important; it's taking the insights from our markets and driving new products and services that truly differentiate West in the marketplace, and ultimately, by executing those three pillars, we're going to be driving shareholder value or stakeholder value for our customers, for our shareholders, and obviously for our employees within the organization.

We have three core values at West that we really talk about on a continuous basis throughout the organization, and it's from a passion for customers, leadership in quality, and One West team – and I'll talk about how these values intertwine in our initiatives and our strategy to drive performance at West.

The first one is passion for our customers. What we look at is a continuous improvement mindset at trying to identify the unmet needs of our customers and bring it back into our operations and our R&D organizations, to drive further enhancement of product portfolio [ph] does impact (00:06:14) patients. And I can tell you that it's very important – as we go to the different sites around the world, the level of passion is consistent, whether it's in the U.S., in Asia, South America or even Europe.

Let's start talking about the Proprietary segment of our business. I mentioned we segmented our business with Pharma, Biologics and Generics. The reason why we've done that is the unique needs and the value propositions

that we're able to put together. If you think about the Pharma segment, it's around total cost of ownership. You can think about the value proposition of moving our pharma customers from standard to high-value products, really take cost out of their system.

In the Biologics area, West's position is the leading supplier of products in the biologics space. When you look at the pipeline and you look at the products that have been approved in the marketplace, West and our partner Daiichi, out of Japan, has the highest participation rate on all molecules through that pipeline.

And the third area is around the Generics, and I think this reorganization of the company has given us a new lens into the generic space, has given us additional acceleration of growth because we've realized that at this point of time, it's around speed-to-market and efficient manufacturing. And the value proposition, I'll talk about one of the new portfolios that we came forward with, really resonates well with the Generic customers.

So when you think about the structure that we put in place, we are truly capturing new opportunities, which is coming back in the organization to identify how to better position our portfolio for the customers. What we have today, we're operating from a position of strength. When you look at – we talked about 41 billion components produced every year at West and growing; we have standard products that we've been producing for 95 years and more recently, developed this high-value product continuum, really focused on driving to Westar, washing capability, coating capabilities for the most complex biologic molecules in the marketplace, Envision inspection that allows us to ensure 100% compliance in each and every product in the lowest level, the particulate levels, and then get into quality by design, which is with our NovaPure portfolio, which is resonating really well with the emerging biotechs, and also the more complex biologics or our biologic customers, leading all the way up to self-injection. This is a new area that we have been investing in over the last several years and we're starting to see good traction and starting to get products into clinical studies around our SmartDose and SelfDose product portfolio.

But that's really to fill additional gaps and capabilities with our customers; our R&D is supporting really the three pillars. When you think about their – the level of spend, focus and energy with our scientists and engineers, it's around elastomer innovation. When you start thinking about our entire portfolio, how do we expand the portfolio but continue to drive more high-value price like NovaPure in the biologic space. It's about the processing. I'll give you a good example of what we've done there and also delivery devices.

Let's talk about the first one, elastomeric innovation, AccelTRA. It's for the generics marketplace. In this particular portfolio, we've identified that there is a tremendous number of formulations that our customers have been using. We've been able to work with the top generic companies to identify streamlining into less than a dozen formulations; we're able to actually streamline our operations to be more efficient, drive quality at a new level, and also drive performance. But more importantly, the documentation we're able to provide with our customers allows them to file faster, which enables them to get into the market quicker.

The second area that we launched was – this past year is Westar Select, really instrumental with the investment we made in Waterford, Ireland. That particular asset allows us with the latest technologies to mirror what we're doing in Kinston, North Carolina. And so our customers are able to validate the process versus the site.

What does that mean? When we have new products that are on molecules going to commercial stage, we're able to have our customers point to the process and as they look for future order demands, we're able to level load between two sites or three sites, multiple sites allows us to be more effective versus pointing in a particular location. This Westar Select brings the highest level of quality, the documentation, and the speed to the market is allowing us to be more effective with our pharma customers.

The third example I wanted to show you around the devices is that we've launched in 2018 a new device, a commercial launch with SelfDose, which is a form of an auto injector that – it received a number of recognitions and award last year and the interest level continues to climb not just in the areas of pharma, but also in the generics space and we're very proud to work with our customers to help them differentiate their molecules in the market and make it easier for patients to take their drugs on a regular basis.

When we started thinking about the – how we are driving towards high-value products, the AccelTRA, the Westar Select, new delivery devices that is driving the continuum in high-value products. But I think the journey is very early. We've been talking about that for a few years, but just look at the numbers. Today, in a high-value product, total Proprietary units sold. So I mentioned about 32 billion components a year in Proprietary. Only roughly 20% of that is in with the high-value products. Again, over the last five years that's incremental about 600 or 700 basis points over the last five years. The type of revenue growth that's been driving that is well in the double digits and as a percentage of total sales within Proprietary it's now up to about 58%.

So you can see 20% of units with 58% of the revenues. If you look at the middle section of the chart, you'll see the economics behind this. The high value products is the fuel of the growth of the top line for West, but it's also a driver of margin expansion. And natural lift – margin shift when you sell more high value price versus standard products.

To give you an example, the high value products is roughly around 55% to 60% margin when the standard products are a little bit less than 30%. Again, you can see the catalyst which is driving the performance of the organization. Let's take a look at Contract Manufacturing for a moment here. This is the 25%, 23% of our business year-to-date last – this – in 2018.

And really what's unique about this business it is about design and scalability and sustainability at the highest level of quality for our customers. Types of products that you'll find if you walk into one of our Contract Manufacturing plants would be auto injectors. You look at insulin pens, you look at other types of devices for diagnostics in the diabetes sector.

So we're very proud how we represent with a number of customers and a number of areas within the Contract Manufacturing. What's really interesting with the strategy that we've laid out with Contract Manufacturing is that when we acquired the firm, [ph] there's (00:13:43) roughly a little over half of the business was in consumer products. And our business at West, one of the key growth drivers and sustainability is the regulatory barriers, there's tremendous moats around the business. And we think about in the healthcare about over 50%, when we acquired the firm this – last in 2018 is less than 10% of the business is now in consumer products, that was deliberate and the reason why is that we want to continue to focus the resource and the energy around our Contract Manufacturing in the healthcare space.

Again in the diabetes sector, you're thinking about the auto injectors and many different disciplines, and you can see what's happening and the healthcare is growing and the consumer products has not grown. Obviously, the first nine months in 2018 Contract Manufacturing continued to grow well in the double-digits, and we know what a lot of the drivers are, it's not one product or one customer, it's multiple. They tend to be around the diabetes space.

When you think about the capabilities in Contract Manufacturing, we've taken the same discipline as we did with Proprietary. We're asking the question of what more can we do within this part of the business to drive high value products and also to drive margin expansion. We've recently launched capabilities both in Ireland, and also here

in the United States for cold chain package drug handling which is very important. We started thinking about in the biologics space. We've also added the capabilities around unit serialization, final assembly and packaging capabilities for our customers and then also electronic integration, getting into the digital aspect [ph] that will (00:15:21) support our customers.

You started thinking about how we can get closer to the patient and get more integrated into the supply chain. This is exactly what we're doing within our Contract Manufacturing. To be clear, while we report the revenues differently, when we engage with our customers is to design their product and scale and do mass manufacturing. There is a primary containment element to it, and therefore obviously, naturally we're bringing in the Proprietary Products into that conversation. So it is a more comprehensive solution to our customers.

We launched recently late in 2018 a new initiative that is resonating really well with our customers. If you walk into our laboratories and throughout in Europe, U.S., and also in Asia, you'll find that we're doing more than just testing our own products. We're actually handling some drug compound. We're actually looking at the entire primary containment, whether it's our product or somebody else's product to help our customers determine if the right path they're taking is the right solution for their final drug being launched into the market.

I'm really excited for the team that had put this together, a fully integrated solution of current capabilities and some adjacent capabilities through partnerships allows the complete package for our customers. I would say stay tuned but the initial reaction – response and anticipation for further demand in 2019 is taken off.

The other area of a lever of growth that we don't really talk a lot historically but more recently we're bringing it to the forefront because our customers are pulling us into the conversation is around Asia-Pacific primarily in some South America activity. We do have business, we do have assets in those markets where we manufacture products in China, India, Singapore and also in Brazil. But what's interesting is that our expertise on the regulatory side is enabling us to help them get their drug approved in markets like China and to assure that our primary packaging is coming from West.

Our position in these markets is to continue to provide the premium level of quality and position in the marketplace and we're not going to go after the lower end. And as the regulatory requirements continue to rise, we're in a very good position for the next several years to capture – continue to capture growth in these particular markets.

This part of the business does – from a geographic point of view, is growing faster than the rest of the business. And it's in areas of vaccine. And it's in areas of generics and also it's in the area of growing biologics and biosimilars in the particular market.

One of the areas I'm very proud about at West that I've come to appreciate over the last couple of years of being part of the organization is the scientific expertise we bring to the table. There's many times when we were sitting and talking with a customer and the key – the questions were being brought to the table to have questions around how can you help us solve this problem. It's not about the component, but it's about the complete solution.

We think about the number of audits we have throughout our facilities. It's roughly almost one – a little bit more one a day working day in our 28 manufacturing sites around the world. We are asked by our customers to support and help them file the regulatory filing documentation.

I'm very pleased and proud to say my colleagues are spending more time not in investor podiums but in the scientific podiums throughout the world giving scientific discussions and talking about how to advance, how to

drive [indiscernible] (00:18:56) the industry, how to advance to the re-mechanisms for the most complex products that are being introduced into the marketplaces.

And our scientists and engineers continue to innovate. I think over the last couple of years, we've been averaging over 100 patents per year. I think for the size of our portfolio, size of our firm, that's a pretty impressive track record, and it only allows us to give a stronger platform going forward.

Another pillar of growth that we've introduced at West more recently is starting to digitize the organization. I think if you walk the halls of West, you'll hear me say how you take a very successful 95-year-old company from an analog environment to a digital environment. And I think there's a lot of discussion in the industry about what does that really mean. Well for us, there's really three key pillars that we're looking at. One is how do we drive digital experience for our customers, for their supply chain, for the technical expertise on their side. The second is really how do you drive the digital experience for our colleagues around the world. So we have information at our fingertips to go back to one of our core values [ph] of past (00:20:03) for our customers to be able to respond to our customers immediately with relevant information. And the third pillar is how do we digitize and automate our facilities, our manufacturing sites and also our products. As you know, we're getting into, more into self-device items and therefore there's digital component that's attached to it.

There are two examples from a customer point of view where we've actually collated all the market now or the technical knowledge that we have. You can go to our website. You can sign up in this [ph] analysis center (00:20:36) at West that we are pulling information, not just our own domain information, but other information that's relevant to the end customers and [indiscernible] (00:20:45) a scientific destination of choice.

We just recently launched a new web online ordering capabilities. So I come from the life science tools space and know how important that was for the growth of research. I think in the West environment, it's as important. And so we've recently launched a portal or capability internally that's totally connected to all our systems. So you can see how will this advance, not just support on the procurement side, a selection of which is the right primary component, especially in the emerging biotech and the small pharma customers, but also sort of thinking about managing supply chains interactively between the two firms.

So I'm really excited about this area. We've brought in some expertise, leadership and digital and transformation, and we're building this competency internally at West and more will come. The other value we talk about is around leadership, around quality. I'm very proud about, this is part of the DNA for this company for decades. This is nothing new. I think when you talk to West, me and my colleagues around West, where quality is paramount. Number one, it's around the patient focus, around the organization. We call it every dose, every time 100% commitment.

And that's driven – one of the primary areas [ph] is driven (00:22:03) around our operations. We do have a lot of complexity in our operations with 28 manufacturing sites. We are in the process of reducing that footprint by a couple. So we'll have about 25 by the end of 2019 because we can optimize and use more automation.

But what's really pleasing when I started thinking about over 110 million components per day. When I go to the sites, I always ask our colleagues that are operating the equipment, ask them how do you ensure that each and every one that you're producing actually is [ph] going out with (00:22:37) the highest level of quality as possible. They remind me, Eric, each and every one of these components has a patient name on it. And that's very powerful and all 7,500 employees believe in that truly at West.

We launched recently a program called One West and this is that whole globalization of the operations. It's really taking 28 manufacturing sites and bringing it together and having a consistent strategic approach on how do we – can leverage the competencies between different parts of the organization. You can imagine, automation is paramount and part of the engineering mindset within Contract Manufacturing to get to the scales that they're producing for our clients. And then Proprietary is taking that knowledge and bringing it over and saying how do you start automating work [indiscernible] (00:23:24) no human interaction with any of the products. And so there's this pollination of expertise across all our 28 sites with clear line-of-sight of where the strategic levers that we're going to pull.

I'm really pleased to say, we have a record setting results in 2018 when it comes to safety, quality, service and cost. And that is a real testament to the globalization. It's new, it's been in place for a little over a year and a half, more to come. And I think this will help us drive continued margin expansion in our business.

The last here I just talked about is the One West team. We historically ran businesses somewhat independently. We have brought that together and we're driving safety as I mentioned earlier. We're thinking about how we operate in the local communities and what we represent, not just within the offices but also how we work and live and play in the communities that we live and operate.

This has delivered consistent results at West. So you think about over 6% constant currency CAGR on revenue, over 14% on diluted EPS – adjusted diluted EPS for the last five years. And also the stock price performance against a couple of major indices kind of give you an indication of how the performance of the organization. I'm not going to say much about December stock situation but otherwise it's been a pretty good – pretty good result for the organization.

To summarize, we have a very clear strategy, market-led organization, globalize the operations, drive R&D and innovation from the market insights we get from the distinct groups that we are servicing. And I truly believe that the management team we put in place over the last couple of years to supplement what was in place already has really taken us to the point of not where we want to go but individuals that have been there, done it and how we're going to get there and be very clear line of sight.

All of this is driving values for the patient, for our customers, for the shareholders and for my colleagues across the globe. So I want to thank you for your time and your attention. I hope you got a little more insight about where West is today and where we are on the journey and I look forward to speak to you at a later date. Thank you.

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