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West Pharmaceutical Services, Inc. (WST)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

John Sweeney

Vice President, Investor Relations, West Pharmaceutical Services, Inc.

Eric Mark Green

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

Bernard J. Birkett

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

OTHER PARTICIPANTS

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

Lawrence Scott Solow

Analyst, CJS Securities, Inc.

Justin Bowers

Analyst, Deutsche Bank Securities, Inc.

Michael Ryskin

Analyst, BofA Securities, Inc.

Matt Larew

Analyst, William Blair & Co. LLC

Jacob Johnson

Analyst, Stephens, Inc.

Dan Leonard

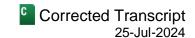
Analyst, UBS Securities LLC

David Windley

Analyst, Jefferies LLC

Thomas DeBourcy

Analyst, Nephron Research LLC



MANAGEMENT DISCUSSION SECTION

John Sweeney

Vice President, Investor Relations, West Pharmaceutical Services, Inc.

Good morning, and welcome to West Second Quarter 2024 Conference Call. By way of introduction, this is John Sweeney, the new Head of Investor Relations at West. I'm delighted to be here and I look forward to working with all of you.

We issued our financial results earlier this morning and the release has been posted to the Investors section on the company's website located at westpharma.com. On the call today, we will review our financial results, provide an update on our business and present an updated financial outlook for the full year 2024. There's a slide presentation that accompanies today's call and a copy of the presentation is available on the Investors section of our website.

On slide 4 is our Safe Harbor statement. Statements made by management on this call and in the accompanying presentation contain forward-looking statements within the meaning of the 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 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 our 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 comparable financial results prepared in conformity to GAAP are provided in this morning's earnings release.

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

Eric Mark Green

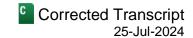
Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Thank you, John, and welcome to West. And I would like to thank Quintin Lai for his partnership over the past eight years and for his many contributions at West. Thanks for joining us today.

We will start on slide 5, where I will cover three main topics. First, examine the drivers of Q2 performance; second, discuss a revised outlook for the remainder of 2024; and third, provide insight on our long-term financial outlook and why we remain confident in our growth strategy.

Let's begin with Q2 performance. We had a lower than expected second quarter, impacted by continued customer destocking. That being said, we are seeing promising signs from our customers that give us confidence of a turning point in this trend. Looking ahead, we expect the second half of the year to be stronger than the first half with a return to the year-over-year organic growth in the fourth quarter, led by our Proprietary Products segment, specifically Biologics.

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We have adjusted our full year 2024 guidance to reflect a more gradual recovery as compared to our previous expectations. While I'm disappointed that we're lowering our guidance, I want to reiterate my confidence in West proven market-led strategy and attractive long-term growth potential.

Turning to slide 6. We are the market leader in containment and delivery of injectable medicines, which is one of the fastest growing areas of healthcare. We have an even stronger position in Biologics, which is the fastest growing segment with injectables. Our products are addressing the most critical therapeutic areas, including immunology, oncology, rare diseases and obesity. And for the past five years, West has achieved a CAGR of double-digit organic revenue growth, demonstrating that we have been able to deliver our long-term financial construct of 7% to 9%.

Moving to slide 7. Our confidence in our medium to long-term trajectory is underscored by our ongoing capital expansion projects. The investments we have made to address COVID are now being repurposed to drive increased capacity to address new opportunities. In addition, we have expansion plans focused on HVP products that provide a combination of increased manufacturing capacity and higher level of global standardization through our network.

[indiscernible] (00:04:35) Biologics, GLP-1s and changing global regulatory requirements, we are seeing increased customer interest for higher quality, lower particulate and more standardized solutions. This favorably positions West's innovations and leading products such as Westar Select and NovaPure.

Another focus for our capital allocation is our HVP devices, which includes our self-injection devices. Our platforms are an integral part of our customers' drug-device combination products that are making a difference to patients. These expansion projects remain on target for the back half of the year and 2025.

And lastly, before contract manufacturing, we have an exciting growth contribution from our new capacity at our Grand Rapids site. A few weeks ago, I had the opportunity to join our team as we open this new portion of the state-of-the-art facility in support of our customer's injection device platform and producing product in Q4. And we have the ongoing expansion in Dublin, which is already dedicated to contracted demand for components associated with drugs for diabetes and obesity. We expect it to be completed by the end of Q3. Our promising growth drivers have us positioned to drive significant value for our customers, for patients and shareholders as we move forward.

Shifting to slide 8. At the end of June, we published our 2023 sustainability report on the company website. Proudly, we received several accolades, including being named as one of the America's most responsible companies by Newsweek.

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

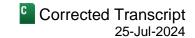
Bernard J. Birkett

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

Thank you, Eric, and good morning. Let's review the numbers in more detail. We'll first look at Q2 2024 revenues and profits, where we saw a mid-single-digit decline in organic sales as well as declines in operating profit and diluted EPS compared to the second quarter of 2023, given the current market dynamics. I will take you through the drivers impacting sales and margin in the quarter as well as some balance sheet takeaways. And finally, we will provide an update to our 2024 guidance.



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First up, Q2. Our financial results are summarized on slide 9 and the reconciliation of non-US GAAP measures are described in slide 17 to 22. We recorded net sales of \$702.1 million, representing an organic sales decline of 5.9%.

Looking at slide 10, Proprietary Products' organic net sales decreased 8.4% in the quarter as customer destocking continued at a higher rate than anticipated. High-value products, which made up approximately 71% of Proprietary Products sales in the quarter, declined by double digits, primarily due to decreased sales of our Westar, Daikyo Crystal Zenith and FluroTec products.

Looking at the performance of the market units, the Biologics market experienced a mid-single-digit decline, primarily driven by lower volumes of Daikyo Crystal Zenith and Westar products. The pharma market unit saw a low single-digit decline, primarily due to a reduction in sales of Admin Systems and Westar products, while the generics market unit declined double digits, primarily due to lower volumes of our FluroTec and Westar products.

Despite these revenue declines in the quarter, we do expect revenues in the second half of 2024 to be greater than the first half. Our Contract Manufacturing segment experienced mid-single-digit net sales growth in the second quarter, led by growth in sales of components associated with injection-related devices.

Our adjusted operating profit margin of 18% was a 650 basis point decrease from the same period last year. Finally, adjusted diluted EPS declined 28% for Q2. Excluding stock-based compensation tax benefit, EPS decreased by 28.4%.

Now, let's review the drivers in both our revenue and profit performance. On slide 11, we show the contributions to organic sales decline in the quarter. Sales price increases contributed \$21 million or 2.8 percentage points of growth in the quarter. More than offsetting price was a negative volume and impact mix of \$65.5 million, primarily due to lower sales volume caused by customer inventory management decisions in the period and a foreign currency headwind of approximately \$6.1 million.

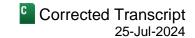
Looking at margin performance, slide 12 shows our consolidated gross profit margin of 32.8% for Q2 2024, down from 38.7% in Q2 2023. Proprietary Products' second quarter gross profit margin of 37% was 690 basis points lower than the margin achieved in the second quarter of 2023. The key drivers for the decline in the Proprietary Products' gross profit margin were lower production volume due to the reduced customer demand in the period and an unfavorable mix of products sold, partially offset by increased sales prices.

Contract Manufacturing second quarter gross profit margin of 16.2% was 80 basis points greater than the margin achieved in the second quarter of 2023, primarily due to increased sales prices.

Now, let's look at our balance sheet and review how we've done in terms of generating cash for the business. On slide 13, [indiscernible] (00:10:53) metrics. Operating cash flow was \$283.2 million for the six months ended June 2024, a decrease of \$24.1 million compared to the same period last year or a 7.8% decrease, primarily due to a decline in operating results, offset by favorable working capital management.

Our second quarter 2024 year-to-date capital spending was \$190.8 million, \$33.3 million higher than the same period last year. We continue to leverage our CapEx to increase both our high-value product and our Contract Manufacturing capacity. Working capital of approximately \$849.3 million at June 30, 2024, decreased by \$415.3 million from December 31, 2023, primarily due to a reduction in our cash balance.

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Our cash balance at June 30, 2024, of \$446.2 million was \$407.7 million lower than our December 2023 balance. The decrease in cash is primarily due to \$454.1 million of share repurchases and our capital expenditures offset by cash from operations.

Turning to guidance. Slide 14 provides a high-level summary. We are updating our full year 2024 net sales guidance to a range of \$2.87 billion to \$2.9 billion from a prior range of \$3 billion to \$3.025 billion. There is an estimated full year 2024 headwind of approximately \$5 million based on current foreign exchange rates.

We expect organic sales to decline approximately 1% to 2% compared to our prior guidance of 2% to 3% growth. We are updating our full year 2024 adjusted diluted EPS guidance to be in a range of \$6.35 to \$6.65 compared to a prior range of \$7.63 to \$7.88.

Also, our CapEx guidance is expected to be \$375 million for the year, which is an increase from the previous guidance of \$350 million. The increase in CapEx is driven by additional investments in growth initiatives and the timing of spend on one of our major projects.

There are some key elements I want to bring your attention to as you review our guidance. Full year 2024 adjusted diluted EPS guidance range includes an estimated FX headwind of approximately \$0.03, based on current foreign currency exchange rates, which is a decrease from the prior guidance of \$0.04. The updated guidance also includes EPS of \$0.22 associated with first half 2024 tax benefits from stock-based compensation. Our guidance excludes 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, we are the market leader in injectables with an even stronger position in Biologics. We are seeing promising signs from our customers that destocking is at a turning point. We are investing significant capital in higher growth areas with the expanded margins and cash flow. And I'm confident that we'll achieve our long-term financial construct with our proven market-led strategy and future growth drivers.

With great pride, we will continue to live by our purpose and make a positive impact on patient lives.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first 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. I've got two questions. Number one, in this destocking environment, is it things related to COVID or is it broader than that, like injectable drugs, et cetera, if you could kind of give color on that? And then lastly, this new expansion specifically cited in Kinston and Grand Rapids, do they contribute to revenue here in 2024 and therefore, your improved 2H?

Eric Mark Green

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

Yeah. Thank you, Paul. The destocking activity that we are seeing is actually a combination of both. Obviously, we're still seeing a little bit of destocking in the COVID vaccines, but also during the pandemic, there was several of our customers when we are having discussions with them, were increasing their safety stock levels significantly to – from several months to – because our lead times got a little bit longer. Now that we've installed the capacity, we are – our service levels are at the all-time high for our customers and we're able to respond quickly, they are now taking down those safety stock levels.

So it is a combination of both, but it's also allowing our customers to normalize their safety stock for our products in the market. Our belief, and speaking with our customers, the end patient demand on the molecules still remains in line as what we expected. The market shift is not occurring, is consistent as we've been speaking for the last several years, and our win rates in new molecule approvals continue to be as good, if not in some cases better than what we had in the past. So, I feel really good where we are moving forward.

In regards to our investments, two particular areas. In Contract Manufacturing, we'll be online in second half of this year. That's in Grand Rapids, Michigan and also in Dublin, Ireland. And then in regards to Proprietary, yes, we have additional benefits coming from Kinston and other expansions in our HVP plants towards the end of this year.

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

Thank you.

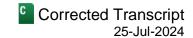
Eric Mark Green

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

Thanks, Paul.

Operator: Thank you. Our next question comes from the line of Larry Solow with CJS Securities. Your line is now open.

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Lawrence Scott Solow

Analyst, CJS Securities, Inc.

Great. Thank you, and good morning and welcome, John, to the company. I guess, Eric, just a couple of questions. It sounds like the demand environment or mid to long-term environment hasn't changed at all. I'm just curious, on the destocking and inventory levels, how is your visibility with that? Are levels like back to where they were pre-COVID or are we – or maybe even lower? What gives you kind of confidence that customers aren't – maybe this goes even a little bit longer than thought, we keep kind of moving that to the right a little bit. You sound pretty confident that you have a good hold on it, but, I mean, what kind of gives you that confidence?

Eric Mark Green

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

Yeah, Larry, there's twofold there. One is, in the beginning of the year, after having discussions with our customers that we had an indication that the return will be a little bit sooner than we anticipated. What I mean by that is a little more pronounced back to normalized demand curves in the second half of this year. As we progressed through Q2, we started seeing the intra-quarter demand slightly less than we anticipated, and we see that persisting a little bit into Q3.

So we do see sequential improvements over the next couple quarters, and as I mentioned, returning back to growth in Q4. And that is really our customers are gradually going back to where they were pre-COVID. So we don't see any variations below or any variations slightly above. It's just pretty much consistent when a customer tells us what they're targeting, i.e., 12 months or 9 months or 16 months.

I will tell you, though, every customer that we're speaking to has a different algorithm that they manage to. So it's not universal from one customer to the next. And as we go through the different segments, whether it's generics, biologics or small molecule pharma, they're also in different stages of this – of the destocking.

Lawrence Scott Solow

Analyst, CJS Securities, Inc.

Okay. And in terms of the CapEx, obviously, a little bit of an increase, I guess, to me, it certainly signals your confidence, although you mention a little bit of timing there. But as we look out over the next few years, do you expect to still kind of spend this \$350 million to \$400 million in investment? Is that something that you still have [ph] a several year (00:20:23) runway to continue?

Eric Mark Green

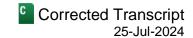
Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Let me start and then I'll turn over to Bernard because that's important. It's a good question, Larry. Our investments more recently have been – I mean, obviously, during the COVID pandemic, it was focused on HVP, particularly around stoppers and fill – and finishing of those HVP products will support the vaccine growth. We're able to pivot those assets as we speak right now to continue to produce other HVP products for our customers.

These additional investments we've been layering in really is to really support, I would say, three specific areas, the continuation of the Biologics growth and our participation in that area is extremely high. So we want us to be ahead of the curve. So these investments we've been making is really more on the finishing process. When you go into Kinston, Jersey Shore, Eschweiler, Waterford, that's what you'll see.

Secondly is, we are a significant player in the GLP. And from two angles, one on the proprietary elastomer side, which we've always had a very strong foothold, and we continue to do so on all commercial drugs. And frankly,

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there's several that are in the pipeline, that have been in development by several customers, and we're participating in that arena also. But also in Contract Manufacturing, we are producing and will produce even more auto-injectors and pens, that in some cases doing some of the filling at the end of the process for our customers. So it's – that's the second area is around the GLP-1s.

And the third area, which really kind of ties to the Biologics also is that a more – there's more demand in the future talking to our customers about some of these regulatory changes that we're working through with them on moving all standard material more up the HVP curve. So those are the three areas that we really focused our capital. Now, the long term, I'll let Bernard to touch on that because that's a good question, how long will this persist?

Bernard J. Birkett

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

Yeah. Larry, just two things on that. One, on the increase in CapEx for this year, really the major driver behind that is business that we've been awarded from customers for our Dublin facility, where they actually want us to put the capacity in place sooner than originally anticipated. So we've pulled some of that CapEx that we had earmarked for 2025 into 2024 to meet those requirements.

When we look at the longer term, we're really targeting about 6% to 8% of revenue, so getting back to pre-COVID levels of CapEx for our business. And – but that – again, if – and that's based on the demand that we're seeing today and how we're going to meet it. If that demand increases or goes beyond that, and particularly around finishing capacity, is the areas where we see that could potentially happen, then we would deploy more capital, but it will be very growth-focused if that was the case, and always around – or predominantly around HVP.

Lawrence Scott Solow

Analyst, CJS Securities, Inc.

Got it. And the 6% to 8%, Bernard, CapEx of revenue, does that kind of support your sort of 7% to 9% targeted growth outlook, not this year, maybe – I don't know, if it begins next year, but certainly, a multiyear sort of [ph] 7% to 9%. (24:03) Has that changed at all, that 7% to 9%, [indiscernible] (00:24:05)?

Bernard J. Birkett

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

No, the 6% to 8% would support that level of growth. And as we say, if we go beyond that – and that depends on what areas and where the growth comes from, we always have the ability to go and adjust that. But, again, the CapEx remains very growth focused. And I think we're getting to like 60% to 70% of our CapEx budget is really growth focused at this point, and predominantly around HVP and then some, I guess, as Eric said in Contract Manufacturing, but that's for very specific customers and very specific business.

Lawrence Scott Solow

Analyst, CJS Securities, Inc.

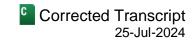
Got it. And sitting here today, it's a – there's no guarantees, it's hard. But do you feel comfortable that you can return to sort of that 7% to 9% growth in 2025?

Eric Mark Green

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

I won't be able to pinpoint exactly which quarter over the next few quarters, but we will get back to that 7% to 9% construct. Like I said earlier, our position in the marketplace, the areas of growth that we're focused on is Biologics and some – across the entire portfolio, but what's outsized that growth is Biologics, GLP-1s, and some

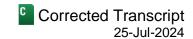
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of the work we're doing for customers about moving up the HVP curve. So, yes, we feel confident we will be back to that 7% to 9% construct.

Bernard J. Birkett	А
Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.	//
Yeah. And if you think – you've got to remember, within the construct, Larry, there's three drivers in there.	
Lawrence Scott Solow	
Analyst, CJS Securities, Inc.	W
Yes.	
Bernard J. Birkett	Λ
Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.	
One is volume.	
Lawrence Scott Solow	\bigcirc
Analyst, CJS Securities, Inc.	
Right.	
Bernard J. Birkett	Δ
Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.	
[indiscernible] (00:25:29) and then you've got mix shift. So you've got three drivers supporting that construct the long term. And if you look back over the CAGR between 2019 and as to where we're guiding today, that the set 400's reports.	
about 10% growth.	
Lawrence Scott Solow Analyst, CJS Securities, Inc.	Q
Right.	
Bernard J. Birkett	Δ
Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.	. // \
So that construct is underpinned by those three drivers. And then if you look at the areas that Eric just calle that support that thesis, particularly around the mix shift, you're looking at the change in regulatory landsca GLP or high level of participation around Biologics and then demand normalization, plus we have the infrastructure and capacity in place now to be able to respond in the required lead times by customers to be	pe,
to support that growth over the next number of years.	e able
Lawrence Scott Solow	
Analyst, CJS Securities, Inc.	W
Got it. Great. I appreciate the color. Thanks. Thank you, guys.	
Eric Mark Green	Λ
Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.	\vdash
Thanks, Larry.	

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Operator: Thank you. Our next question comes from the line of Justin Bowers with Deutsche Bank. Your line is now open. Eric Mark Green Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc. Hi, Justin. Justin Bowers Analyst, Deutsche Bank Securities, Inc. Hi. Good morning and thank you. So just a couple of questions. How is the coverage ratio shaping up? And how has that changed throughout the year? And then the other question would be just in terms of the destocking. I think earlier in the year, you mentioned that it was skewing heavier towards standard components versus like HVPs. And just curious if that's still what you're seeing. Bernard J. Birkett Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc. I'll take the second part and then I'll hand the... Eric Mark Green Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Bernard J. Birkett

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

Eric will take the coverage.

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

Yeah, I'll take the coverage ratio.

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Yeah, absolutely. So, Justin, so thanks for the questions. The coverage ratio is getting stronger. So there's two aspects we look at is firm – confirmed orders scheduled out, and we're seeing that increase nicely, not just on a percent ratio perspective, but on an absolute dollar for both Q4 of this year and also going into the early part of 2025. And that's one aspect. And therefore, as that kind of increases the intra-quarter demand profile is actually is less of a factor in the growth of the business. And so we're seeing that come back a little bit slower than we originally anticipated in the middle part of this year as we were articulating back in February, I believe. And so that's why -hence why we changed the guidance.

But when we look out to Q4 and into 2025, we're seeing very strong indication with confirmed orders. And our discussions with our customers are lining up exactly to that conclusion when we look at their destocking programs and when they feel they'll be at a level that they feel is acceptable. So it's lining up nicely. Do you want to touch on destocking?

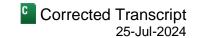
Bernard J. Birkett

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

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Yeah. So on the destocking, Justin, when we look at that, we have been seeing that in our Biologics segment and in generics. That's where we saw the biggest impact here in the second quarter. And that's really where – as we were going through COVID, that's where we saw the most pressure also around lead times where customers

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really had to manage their supply chains. And that's where we believe the safety stock built over time. So that's why we are seeing destocking in those areas right now to a larger extent versus comparing this to our other market units.

And you can see that play through then on the impact on our gross margin and operating margin is that that's impacting our mix. So we're having [ph] one of (00:29:27) volume impact because of that, but we're also having a mix impact. And I think what we saw in COVID and what we would see when we return to normalized growth rates, and seeing that gross margin and operating margin expand in line with our long-term construct and potentially beyond that. So that's – I think that's where we – when we look at it, we're looking at it from a revenue perspective, but also looking at an impact on margin and saying how do we get back to the margins that we're used to delivering on. And when we see those Biologics and generic market start to normalize, we'll see the revenue rebound, and also from a margin perspective, we'd see that also.

Justin Bowers

Analyst, Deutsche Bank Securities, Inc.

have a sense

Understood. And then maybe just one quick follow-up in terms of your improved throughput. Do you have a sense from your – or conversation with customers, are they now trying to manage inventory levels in line with your lead times or – just trying to get a sense of change in ordering patterns and where that might normalize?

Eric Mark Green

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

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Yeah, Justin, exactly that's the point. We're – unfortunately, during the pandemic, due to the demand that was put on our business, our lead times did go up to between 30 to 50 weeks. And with the consistency now in the last several quarters of, call it, 8 to 12 weeks, sometimes earlier, sometimes a little bit longer depending on the processing, our customers are realigning their reordering patterns based on those lead times, and we're seeing that clearly. So as they built inventories during the longer lead time periods and during the supply chain constraints during the pandemic and across the whole industry, we're seeing that also coming down, but also the realigning. So what you'll see, a pattern of more frequency instead of one large bolus that's more paced throughout the next three or four quarters, which, by the way, is also very effective for our operations. So it aligns real well with where we want to be long term.

Justin Bowers

Analyst, Deutsche Bank Securities, Inc.



Got it. Appreciate the questions.

Eric Mark Green

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

Thank you, Justin.

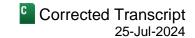
Operator: Thank you. Our next question comes from the line of Avantika Dhabaria with Bank of America. Your line is now open.

Michael Ryskin

Analyst, BofA Securities, Inc.

Hey. This is Mike Ryskin from BofA. I just want to go back and just touch on the destock one more time because it's where we're getting the most debate. I mean, I appreciate all your comments about coverage ratio and

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conversations with your customers, but you also had similar comments after 4Q and 1Q earlier this year. So it just seems like the situation does evolve and the conversations with customers do evolve. As we look to the guide for 3Q and 4Q, it seems like there's a little bit of a step up implied in 3Q and a pretty sizable step up in 4Q just to get to the fiscal year number.

So why not take an even more conservative guide at this point in the cycle? I mean, it just seems like there's still some risk that destock could evolve one more time. So, just would love to get your thoughts on that as you progress through the year. And then tied to that, I'll throw on my second question right away, has to do with the margins and the EPS outlook. Is there any incremental cost cuts that are assumed in 4Q - 3Q or 4Q to get to the EPS number? Obviously, volume deleverage has a big impact on gross margins, but just wondering what's implied there as you go through the year. Thanks.

Bernard J. Birkett

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

Yeah. So what we are seeing is that, for Q3, we don't see any major step up, I mean, [ph] they're continuing (00:33:32) the way we're – we've been going. Some sequential improvement, as Eric mentioned, and then a step up into Q4. And that step up in Q4 is really driven by the customer segments within Biologics and a reasonable improvement in generics, but the main driver is around the Biologics market. And that's what we're seeing and that's the information we're getting from our customers, and that informs the basis of our guide at this point. And as Eric said, then there are metrics around that which are giving us confidence that that will actually materialize.

And then on the EPS, we have been managing our cost base pretty tightly. As you know, we're very operationally focused and we've been managing the variable costs across our plants. As we have been going through 2024, one thing that we have to be cognizant of with cost management is that when we're expecting to get back to growth, we need to make sure that we have the right resources and capabilities in place to be able to support that growth so we don't derail it. So we're managing that pretty tightly. Other than that, we're not making any significant cost cuts, but we are — I would think, I would say we're using appropriate cost management to manage through the destocking period, although it has extended a little bit longer than we originally anticipated, but also we have to be prepared for returning to growth to make sure that we're able to support our customers with that. Hopefully that helps.

Operator: Thank you. Our next question comes from the line of Matt Larew with William Blair & Company. Your line is now open.

Matt Larew

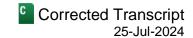
Analyst, William Blair & Co. LLC

Hi. Good morning. I just want to go back again to what exactly happened intra-quarter from a destocking perspective. If I go back to the initial outlook from the Q4 call where you had incorporated about 200 to 300 basis points of the cut from the Q3 call last fall from destocking, but mentioned that 75% of destocking [ph] with some fixed (00:35:54) customers. Obviously, the first quarter results themselves actually were positive relative to the outlook you provided, and you maintained the guide for the year.

So, now having [ph] 400 and 500 (00:36:08) basis points come out of the organic guide with about four months left – four or five months left in the year, the magnitude is pretty large. So, just was it – going back to conversations specifically with that group of big customers, was it something that – historically, you've used the term broadened and worsened, did things broaden and worsen further? Was there one or two pockets of



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customers or product categories? Just trying to understand what happened from mid-April to the end of June in terms of the big change here.

Bernard J. Birkett

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

Yeah, Matt, I'll start off and then, Eric, if you want to add. Yeah. What we did see is, as we were progressing through Q2 and the level of intra-quarter orders that we would have anticipated to materialize in that period of time, it wasn't at the rate that we would have expected it to be. So – and then there was some timing with customers moving some orders out late in the quarter has impacted us. And then, as we've looked at the balance of the year and as we've rolled through the end of June and practically through July, what we're seeing in Q3 is that orders that we would have anticipated materializing for the period and even some for Q4, they just weren't coming through. And when we assess what was happening there, it's still really related to levels of destocking.

So it's gone longer than we would have originally anticipated. And that is essentially the main driver. And when we had looked at it originally, our coverage rate for Q3 and Q4 was pretty much in line with or a little bit ahead of pre-COVID levels. But what hasn't happened then is filling in between the actual orders confirmed and the forecast that we had, that hasn't accelerated in the way that we would have anticipated that that would take place. And so, when we did the assessments, we felt that we have to be transparent and do the right thing and take the guide down and do it with the right level where - we don't want to be in the position where we're cutting and cutting and cutting. So, hence, the reason why the drop in the guide is pretty significant. It's not something we want to do, but it's reality that we're dealing with today.

I think the good thing and the positive for us is that it's actually returning to growth in Q4. So it's really pushed it out a quarter. And again, Q4 isn't as strong as we would have originally anticipated. So we've taken that down as well.

Eric Mark Green

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

And I'll just add to this. Thanks, Bernard. It became more of a gradual recovery, I believe, in what we're seeing versus a more pronounced Q3 recovery. And that's actually one of the drivers of why, based on the customer conversations, it's a still similar group of customers across multiple segments. Yes, there's some of the larger ones we highlighted earlier in the year that they're actually going through the process and they're getting closer to the end of that process.

But as we look through with these discussions, we look at where they are in their process, where we are with our - able to produce the products in the very short period of lead times, we are confident moving back to long-term construct. And that will - it's going to take a little more time than we anticipated, but as indicated in the guidance that we gave, we're getting closer to that in Q4, and we believe that will carry on going forward.

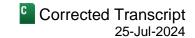
So, yes, Matt, that's a very clear statement we made earlier this year about be more acute, but it's taking a little bit longer to work out than we anticipated in the industry.

Matt Larew

Analyst, William Blair & Co. LLC

Okay. Understood. And I think having observed this in the bioprocessing industry over the last 18 months, fully appreciate that it's challenging to understand customers' pace of inventory work down. And at times, maybe

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there's competing incentives in terms of them wanting you to have capacity available for demand that they may or may not give you in the next quarter or two.

So, in light of that, you referenced now understanding that customers are managing to, you're now more normalized to reduced lead times. As part of those conversations, do you feel like you have a better understanding of how much inventory is sitting out there? And when you kind of combine those two observations, does that give you conviction specifically, not in the back half of the year, but specifically in the third quarter? And how do you incorporate perhaps this – better understanding of where customers are at into the way you're just thinking about this back half guidance?

Eric Mark Green

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

Yeah. Matt, the clarity of more recent conversations than the beginning of the year gives us that conviction of where we're going in the near term and moving up to, when I talk about the mid- to long-term, getting back to that growth algorithm we've been accustomed to and we expect based on our market position and what we see ahead of us. But, yes, the clarity of where they want to land with the safety stock and the confidence they have in our ability to deliver and meet those service levels that we expect and our customers expect, and we're able to do that today with the capacity we have online. And that's the reason why we continue to fuel the capital so that as the growth continues to occur in 2025 and beyond, is that we're well positioned versus getting behind the curve, which what happened during the pandemic.

So, we have much more visibility today and better clarity, and we're firm on making sure that we are going to be delivering what we said we're going to deliver.

Matt Larew

Analyst, William Blair & Co. LLC

Okay. Understood. Thank you.

Eric Mark Green

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



Thank you, Matt.

Operator: Thank you. Our next question comes from the line of Jacob Johnson with Stephens. Your line is now open.

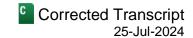
Jacob Johnson

Analyst, Stephens, Inc.

Hey. Thanks. Good morning. Maybe just to go back to the EPS guidance, you're pointing to kind of down 1% to 2% organic growth this year. And I think it would seem to apply probably like 300 to 400 bps of operating margin contraction, which is kind of greater decremental margins than the long-term algo would suggest. Can you just flesh that out a bit more, some of that capacity additions, et cetera?

And then, I think I heard Bernard mention earlier, perhaps as revenues recover, maybe we could see something better than 100 bps of margin expansion. Can you just talk about the incremental margins as we return to growth in 4Q and beyond?

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Bernard J. Birkett

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

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Yeah. So the major impacts on margin that we've seen here in Q2 is really driven by volume and then mix. And for a high volume manufacturing operation, any decrease in volume like that is going to have a significant impact. And what – where we're seeing it, Jacob, is really in HVP. So, the drop is in Biologics and generics. And so we're getting this kind of outsized impact on margin, where if you look back at – take the COVID years, when we were getting a large amount of expansion in HVP and growth in that area, we were getting outsized margin expansion, well beyond our 100 basis points.

So, essentially what we're seeing now is the reverse of that. So when things normalize and we start to see growth again and getting back into our long-term construct, that volume growth will be driven within HVP. And then also that aligns with the mix shift as well improving where our HVP was in the kind of mid-70s as a percent of proprietary revenues. And today, what we're saying it's about 71%. And that's the type of impact it has on our business.

So when we're returning to growth, we would expect to see that margin recover pretty much – pretty quickly and in line with that growth, particularly around Biologics and the generic space. And then...

Jacob Johnson Analyst, Stephens, Inc.	Q
Yeah. Thanks for that, Bernard.	
Bernard J. Birkett Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.	Α
Yeah.	
Jacob Johnson Analyst, Stephens, Inc.	Q
Sorry.	
Bernard J. Birkett Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.	A
It's all in gross margin. The OpEx was pretty tight.	
Jacob Johnson Analyst. Stephens, Inc.	Q

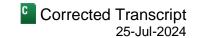
Got it. Makes sense. And then maybe just on the stopper-vial side of things, you guys referenced the capacity you brought on during COVID and repositioning that now for non-COVID applications. Can you, one, talk about the timeline for kind of transitioning that capacity to non-COVID demand? And I guess, two, the other concern, I think, a peer of yours referenced the other day is that you weren't the only one who brought on capacity during COVID and lead times are shorter. And they suggested that customers are going below pre-pandemic inventory levels. And I think investors may be worried that this could be structural for some time. Can you just talk about that dynamic as well? Thanks.

Eric Mark Green

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

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Jacob, I'll take that. So, first of all, on repurposing the assets, that's done. So we're able to leverage that not just for like NovaPure stoppers but also use the processing for plungers as an example or other types of SKUs in the HVP portfolio. So the team has done a great job to get those assets ready to go, and they're ready to go. And so as demand comes in, we're ready to respond accordingly.

In regards to what our customers are telling us, in regards to where they want to stay with the safest stock, because of where we are in the supply chain, and if you think about the economics of our product as a percentage of the drug molecule, we don't see that going any down – further down below pre-pandemic levels. So we believe it's going to – for us, I can't speak for others, but for us, with our customers, for the types of products we provide, the lead times that we can provide, and the number of SKUs we provide to our customers, we believe, based on the conversations, we'll be back to pre-pandemic levels.

Jacob Johnson Analyst, Stephens, Inc.	C
Got it. Thanks for that, Eric. I'll leave it there.	
Eric Mark Green Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.	Д
Thank you.	
Operator: Thank you. Our next question comes from the line of Dan L	eonard with UBS. Your line is now open.
Dan Leonard Analyst, UBS Securities LLC	C
Yeah. Thank you. I have another question on visibility. Can you discuss because I'm wondering if we're in a situation where you have close con	•

Eric Mark Green

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

Actually, the – so, Dan, thanks for the question. But the more variability has been with the larger customers. And the smaller customers, although, obviously, we're very focused on that [indiscernible] (00:47:49) pipeline when you think about new developments, and the volumes there are less and the frequency of orders are probably a bit higher. The predictability of which quarter it lands in is lower, but the order of magnitude on the destocking impact is less.

customers, but rather it's the long tail of smaller customers that are driving the downside surprise.

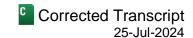
So, I'm not sure if that helps. But, obviously, a very important part of our portfolio are these small – smaller biotech pharma companies when you think about their innovation pipeline and how that feeds into the whole ecosystem of the injectable medicine space. But the impact that has on our fluctuation on the revenues is not as great. I don't know if that helps, Dan.

Dan Leonard

Analyst, UBS Securities LLC

That's great. That help. Thanks for that clarification, Eric. And a quick follow-up. You mentioned that the new capacity in Dublin opens in the third quarter. How important is Dublin to the fourth quarter revenue ramp?

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Eric Mark Green

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

Not really. I mean, the team is going to work really hard to have – to get that capacity up and running in full utilization, but the reality is it takes us a few quarters to ramp any new site of that magnitude up to full capacity. So, I would suggest that's not a major driver to why we're calling – giving the guidance where we are for Q4.

Dan Leonard

Analyst, UBS Securities LLC

Got it. Thanks a bunch.

Eric Mark Green

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

Yeah. Thank you. Thanks, Dan.

Operator: Thank you. Our next question comes from the line of David Windley with Jefferies. Your line is now open.

David Windley

Analyst, Jefferies LLC

Hi. Good morning. Thanks for taking my questions. I'm going to try to ask a few in a different way. Eric, in June when we were together, you talked about 50% or maybe a little less of your revenue comes from large customers where your visibility is higher I thought you said, because of the high volume that you do with them, the connectivity that you have with them, and then the smaller customers are much more volatile. And you kind of, to Dan's question there, commented on that.

I thought you said that your visibility or your forecasting accuracy around those large customers was really accurate over time, but you also then just said that those are actually the source of the destock. And so I wanted to make sure I understood kind of the historical accuracy and tie in with those large customers, but seemingly a disconnect on that right now. Is that the right way to think about it?

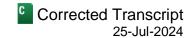
Eric Mark Green

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

No, what I would say is that – and so, David, thanks for the question, but I would say is that the larger customers have larger variability. When they do – we'll have a discussion about a forecast. And then they would – when we get to the point of actually firming up the – as a confirmed order is there is some movement that is occurring, and since it doesn't take many of them to have a meaningful impact compared to the smaller account. It is true of the smaller account, and maybe I should have been clearer. When we look at the degree of accuracy, we're looking at quarter versus quarter prior year. And therefore, in the smaller accounts, that's less predictable on which exactly month quarter it will land.

We have a high repeat business model. And we mentioned this before that a majority of our revenues, it's almost annuity like. Every year, there's a repeat. And then, what the variable would be, drug demand up or down, and then that's the throttle. But in this particular case, when we talk about the degree of accuracy, the smaller accounts, from a quarter versus prior year quarter, is a little more harder to predict. But from a impact to the revenues, the larger accounts are the ones that have a more meaningful impact on the dollar value perspective from one quarter to the next.

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David Windley

Analyst, Jefferies LLC

Got it. Okay. And then, in terms of the improving confidence, I guess I'd like to key on, on Bernard's answer about kind of the cuts to this year and order patterns. Earlier in the year, your coverage was encouraging relative to pre-COVID levels, but then the fill-in on top of that not coming as you expected. Can you give us some sense of what is the normal level of coverage versus the amount of go-get? Like, how much go-get do you have for the second half of the year in absolute or relative that that gives you the confidence that you can get to the levels that you're now setting?

Bernard J. Birkett

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

Yeah. We're not – the exact number we're not going to give out for, like, pretty obvious reasons. But it's – our coverage [ph] raise (00:52:59) and the go-get that we would have to do now on this new guidance is, I would say, we're more confident around that and delivering this and being able to get it. And that it's – that go-get is based on conversations with customers, understanding their order patterns and changing order patterns and factoring all of that in, and then understanding what their forecasts are. So, that's what's given us the confidence. So, the size of what we have to go get isn't as large from a dollar perspective.

And as I said, when we talked about it earlier in the year, we had a level of confidence around it and anticipated a certain conversion rate, obviously, that hasn't materialized in the way we would have anticipated. So we have adjusted our guidance to reflect that and give us confidence about being able to deliver on the numbers, now that we're guiding to.

David Windley

Analyst, Jefferies LLC

Got it. And Bernard, to your point, you did say – the management did say similar things about, when those six customers kind of arose and kind of shockingly were not going to be ordering as much earlier in the year, and the guidance was 2% to 3% instead of the 7% to 9% construct. So you had those conversations earlier in the year and are talking about having them again here in the middle of the year, I guess I'd also invoke, you mentioned that you go back to pre-COVID levels and look at the growth rate. We've done the same. You said 10%. It looks like it's even a little above 10%. I guess using that construct, if we were to use the midpoint of the LRP, the 8% of your long range targets, that would imply a revenue level that's still a couple hundred million dollars below where you're guiding today, or said differently, that next year would be a flat year to grow into an 8% growth rate from 2019.

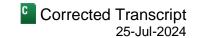
How do we get confidence that there are factors that bias to the upside, what that growth should be, or conversely, that there's not still a couple hundred million dollars of overbuying in your customers' inventory levels that they still need to work through before you get to that multiyear growth support level?

Eric Mark Green

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

Yeah, David, I'll start with this one here. One of the biggest drivers in the last five years' CAGR, taking out COVID, was the Biologic growth. If you recall, back five, six years ago, our participation rate was high, but the percentage of sales of Biologics was sub-20%. And I don't have the exact number in front of me, but it was about 20% of our overall business. if I recall.

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And as the years progressed over those five years, the number of approvals, the number of Biologics that really accelerated the market, and there's a few that we still see continue to outpace the demands that we forecasted with our customers, which is a positive.

Now, the base of that business is much larger, [ph] believe it to be (00:56:24) roughly around 40%, so 2x it as a percentage of the whole company, and the whole company has grown or doubled in size. So as we kind of think forward a little bit, the 7% to 9% is – why we say the financial construct going forward is 7% to 9% is we feel – we take that in consideration as a bigger base we're operating off of, continue with the – leading with the HVP in the Biologics area will give us that type of growth off of a close to a \$3 billion business.

David Windley Analyst, Jefferies LLC	Q	
Got it. Okay. I'll leave it at that. I was going to ask one more, but I've probably beaten it up enough. Thank you.		
Eric Mark Green Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.	A	
Thank you.		
Bernard J. Birkett Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.	A	
Thanks, David.		
Operator: Thank you. Our next question comes from the line of Tom D line is now open.	eBourcy with Nephron Research. Your	
Thomas DeBourcy Analyst, Nephron Research LLC	Q	
Hi. Good morning.		
Bernard J. Birkett Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.	Α	
Morning.		
Thomas DeBourcy Analyst, Nephron Research LLC	Q	
Good morning. Just had a quick question, I guess, on CapEx. And so, the revenue, and so I just wanted to get a sense of how you're, I guess, merexpansion versus maybe short-term weaker demand due to destocking.	tering the demand or long-term capacity	

Bernard J. Birkett

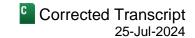
Senior Vice President and Chief Financial Officer, West Pharmaceutical Services, Inc.

Well, I'm not going to guide 2025 at this point, but what I would say is that the investments we're making and the higher level of CapEx that we're experiencing right now compared to pre-COVID levels is really targeted at growth

consensus has maybe the number going down to \$300 million of CapEx. And just I'm not asking you to endorse

that number, but just would you expect CapEx to be down year-over-year in 2025?

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in a number of different areas. And for us to layer in that capacity, you're looking at 12, 24, like 36 months in some cases, depending on the lead times of the equipment and the technology that we're installing.

And so when we're doing that, we're looking at what markets are growing, we're looking at the regulatory landscape, what changes are requiring there, and what finishing capacity we need. We're looking at GLP from both a Proprietary and a Contract Manufacturing perspective, and then we're also looking at our participation across Biologics, and again, what sort of capacity we need there.

So, we've got three pretty powerful drivers for growth coming on over the next couple of years. I mean, for us, we need to have that capacity installed to meet that demand when that actually materializes so we can respond so we don't get into the position where our lead times get pushed out like they had during the COVID timeframe.

Looking beyond, as we said earlier on the call, we would expect our CapEx over the next year or two to get back to more normalized levels of 6% to 8% of revenues. That's what we would target – will be targeting and that supports the long-term construct growth of 7% to 9% on the top, and be more focused, again, on creating that mix shift and supporting HVP growth. So, hopefully, that kind of gives you some color.

Operator: Thank you. This concludes the question-answer-session. I would now like to hand the call back over to John Sweeney for closing remarks.

John Sweeney

Vice President, Investor Relations, West Pharmaceutical Services, Inc.

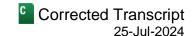
Thank you, all, for joining us today on the conference call. An online archive of the broadcast will be available on our website at westpharma.com in the Investors section. Additionally, you can access the replay for 30 days following the presentation by using the dial-in numbers and conference ID provided at the end of today's earnings release.

That concludes the call. Thank you very much and have a nice day.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.



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