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West Pharmaceutical Services, Inc. (WST)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Q4 2021 West Pharmaceutical Services Earnings Conference Call. At this time, all participants are on 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 is being recorded. [Operator Instructions]

I would now like to turn the conference over to your speaker for today, Quintin Lai, Vice President, Investor Relations You may begin.

Quintin John Lai

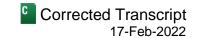
Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

Thank you, Towanda. Good morning and welcome to West fourth quarter and full-year 2021 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, CEO, Eric Green; and CFO, 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 2022. 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 management 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.

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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 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 compared in conformity with the GAAP are provided in this morning's earnings release.

And now, I turn the call over to West CEO and President, Eric Green.

Eric Mark Green

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

Thank you, Quintin. And good morning and thanks for joining us today. We are excited to discuss our 2021 results and outlook for 2022. We will start on slide 5. West delivered a remarkable year of success. As I reflect on the year, three things stand out to me. First, our purpose. We serve to improve patient lives and we understand the criticality of our role in the containment and delivery of life-saving and life-changing medicines, including the battle against COVID-19.

Our team members have rallied together with great sense, strength and resolve to meet the accelerated customer demand. I want to acknowledge these incredible efforts and say thank you.

Second, our proven market-led strategy. We have continued to meet shifting market and customer needs with unique value propositions across our business segments. This is evident in the continued strength of our financial performance in 2021.

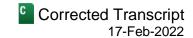
Lastly, trust. Customers trust West. As a global leader, customers come to us knowing that we will deliver superior value through our high-quality products and solutions. And we remain focused on delivering value to all our stakeholders on a sustainable basis and doing our part to support the health care industry.

As highlighted on slide 6, 2021 was an exceptional year of sales and margin expansion, driven by strong demand in our base business and accelerated demand for components associated with COVID-19 vaccines and therapeutics. We ended the year with 28% organic sales growth in the fourth quarter. And adjusted for COVID-related sales, our base business grew by mid-teens organically. Our Proprietary Products segment led the way with 37% organic sales growth. And all of this was fueled by high-value products, resulting in impressive growth and operating margin expansion for the quarter.

Looking ahead, we are well positioned with the right growth strategy around execute, innovate and grow. Our committed order book is at an all-time high. We continue to realize the benefits of the globalization of our operating model and continue capital investments to support the increase in demand driven by the attractive end markets.

Turning to slide 7. In addition to our financial momentum, West has several other notable accomplishments in 2021. We shipped over 45 billion components touching billions of patient lives. This was done with the continued safety of our team members as top priority and the importance of ensuring the continuity of supply for our customers.

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As scientific and technical leaders in the industry, we continue to broaden insights with our expertise through West Knowledge Center, webinars, published articles and technical presentations. We launched five product extensions that continue to bring additional value to our customers, and we donated over \$2.5 million, but more importantly, over 3,600 hours of volunteer hours were donated by team members to help our local communities with the greatest needs.

As we move to slide 8, we strive to be a stewards of a sustainable future by factoring environmental considerations into every aspect of our business. In 2021, we expanded our ESG transparency reporting by aligning with the Task Force for Climate-Related Financial Disclosure recommendations. This includes reducing the energy dependencies and lessening the emission production through renewable and greener energy, developing more carbon-friendly products, and actively engaging with stakeholders to seek out opportunities to have an impact on climate.

Aligned with our focus to improving patient lives across the globe through our products, we remain strongly committed to creating a healthier environment with efforts that will have a positive impact on our communities and future generations.

Turning to slide 9. In our recent announcement of our collaboration with Corning, as you look across biotech and pharma companies' drug pipelines, there is a growing need to provide system solutions to support increasingly more sensitive and complex molecules. And with that, comes a changing and increasing regulatory environment, they are setting a high bar of requirements for performance data on combination products at the system level.

These regulatory changes are driving drug manufacturers to look to West to reduce risk by specifically specifying a system of packaging rather than individual components. We're excited to have Corning as a key collaborator as we expand our HVP value proposition to lead the industry from components to a truly integrated system that couples elastomer and glass.

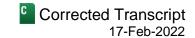
In response to our customers, this exclusive supply and technology agreement with Corning includes significant investment in R&D and capital for installed manufacturing capacity to expand Corning's Valor Glass technology. By combining West's industry-leading NovaPure components with Daikyo's FluroTec coating technology and Corning's Valor Glass and Velocity Vials, the collaboration will enable new, advanced pharmaceutical packaging solutions.

We believe that an integrated system of elastomer and glass under a single Drug Master File is the next level of high-value products. Our initial focus is addressing the need for complete system offering; and in time, we will offer a broad range of systems from vials to prefilled syringes to cartridges.

As we enter in 2022, we are building on the positive momentum we generated in 2021. We are introducing full-year 2022 financial guidance that assumes approximately 10% organic sales, led by strong HVP sales and another strong year of both gross and operating profit margin expansion, well in excess of 100 basis points. This guidance includes a substantial acceleration in our R&D efforts, as we enter this new era of integrated systems.

And with a robust book of committed orders, we see momentum in 2022 and continuing into 2023. As such, we expect to add more capital expansion plans for additional HVP capacity to stay ahead of our customers' demand. We expect these projects to be completed throughout the year and ready for 2023 production.

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Before I turn the call over to Bernard to review our financial results in detail, I want to revisit our long-term financial construct. For the past few years, we have set our long-term financial construct as annual organic sales growth of 6% to 8% led by HVP sales, and annual operating profit margin expansion of 100 basis points per year.

Over the past five years, we've had an annual organic sales figure of 13% and annual operating profit margin expansion of 240 basis points per year. Five years ago, Biologics was our smallest market unit. Today, Biologics is our largest market unit with customers from the emerging biotech to large biopharma coming to West and our partner Daikyo, which is reinforced by our strong participation rate in recently approved new molecular entities in the US and also in Europe.

As we look to the future, we see continued demand growth for HVP products, as we launch a new-level HVPs integrated systems. We are updating our long-term construct to annual sales growth of 7% to 9%, and we continue to expect to expand operating margins by 100 basis points per year over the next few years.

Now, I'll turn it over to our CFO, Bernard Birkett, who will provide more detail on our financial performance. Bernard?

Bernard J. Birkett

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

Thank you, Eric, and good morning. So, let's review the numbers in more detail. We'll first look at Q4 2021 revenues and profits, where we saw continued strong sales and EPS growth led by strong revenue performance in each of our Proprietary market units. I will take you through the margin growth we saw in the quarter, as well as some balance sheet takeaways. And finally, we will review our 2022 guidance.

First up, Q4. Our financial results are summarized on slide 10 and the reconciliation of non-US GAAP measures are described in slides 19 to 22.

We recorded net sales of \$730.8 million in the quarter, representing organic sales growth of 28.3%. COVID-related net revenues are estimated to have been approximately \$124 million in the quarter. These net revenues include our assessment of components associated with vaccines, treatment, and diagnosis of COVID-19 patients, offset by lower sales to customers effected by lower volumes due to the pandemic.

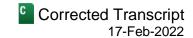
Looking at slide 11, Proprietary Products sales grew organically by 36.8% in the quarter. High-value products, which made up approximately 74% of Proprietary Products sales in the quarter, grew double digits and had solid momentum across all of our market units in Q4.

Looking at the performance of the market units, the Biologics market unit delivered strong double-digit growth led by NovaPure and Westar Components. The Generics and Pharma market units also experienced double-digit growth, led by sales of FluroTec and Westar components. And Contract Manufacturing organic net sales declined by 2.1% in the fourth quarter, primarily driven by lower sales of health care-related medical devices.

We continue to see improvement in gross profit. We recorded \$300.6 million in gross profit, \$89.5 million, or 42.4%, above Q4 of last year. And our gross profit margin of 41.1% was a 470-basis-point expansion from the same period last year.

We saw improvement in adjusted operating profit with \$189.2 million recorded this quarter, compared to \$119.1 million in the same period last year for a 58.9% increase. Our adjusted operating profit margin of 25.9% was a

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540-basis-point increase from the same period last year. Finally, adjusted diluted EPS grew 52% for Q4. Excluding stock-based compensation tax benefit of \$0.06 in Q4, EPS grew by approximately 58%.

So, let's review the growth drivers in both revenue and profits. On slide 12, we show the contributions to sales growth in the quarter. Volume and mix contributed \$153 million, or 26.4 percentage points of growth, including approximately \$78 million of incremental volume driven by COVID-19-related net demand. Sales price increases contributed \$11.3 million, a 1.9 percentage points of growth.

Looking at margin performance, slide 13 shows our consolidated gross profit margin of 41.1% for Q4 2021, up from 36.4% in Q4 2020. Proprietary Products' fourth quarter gross profit margin of 46.3% was 460 basis points above the margin achieved in the fourth quarter of 2020. The key drivers for the continued improvement in Proprietary Products' gross profit margin were favorable mix of products sold driven by growth in high-value products, production efficiencies, sales price increases, partially offset by increased overhead costs inclusive of compensation.

Contract Manufacturing fourth quarter gross profit margin of 16.5% was 70 basis points below the margin achieved in the fourth quarter of 2020. The decrease in margin is largely attributed to increased raw material costs and a 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 \$584 million for the year, an increase of \$111.5 million compared to the same period last year, a 23.6% increase. Operating cash flow in the period was adversely impacted by a working capital increase, as well as an increase in tax payments.

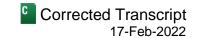
In 2021, we spent over \$253 million on capital expenditures, a 45% increase over 2020. The majority of the incremental CapEx has been leveraged to increase our high-value product manufacturing capacity within our existing facilities. We expanded capacity at 13 existing sites with 30 major facility modifications and over 400 pieces of equipment, all while keeping pace with the growing demand.

We have continued to increase capacity at our HVP sites in the US, Germany, Ireland and in Singapore. And we have been able to leverage our existing asset base to support Proprietary Products manufacturing. For example, our Williamsport, Pennsylvania site, formerly a Contract Manufacturing site, will be transformed with over half its manufacturing capacity to support Proprietary Products with elastomer mixing and batch offline, and this leverages the close proximity to our HVP site at Jersey Shore.

As we flex our global infrastructure with the phased capacity expansions, we are well positioned for the continued growth in 2022. Working capital of approximately \$1.1 billion increased by \$277.6 million from 2020, primarily due to higher accounts receivable from our increased sales, higher inventory levels and an increase in our cash position. Our cash balance at December 31 of \$762.6 million was \$147.1 million higher than our December 2020 balance. The increase in cash is primarily due to our strong operating results in the period offset by our share repurchase program and higher CapEx.

Turning to guidance. Slide 15 provides a high-level summary. Full-year 2022 net sales guidance will be in a range of \$3.050 billion to \$3.075 billion. There is an estimated headwind of \$70 million based on current foreign exchange rates. We expect organic sales growth to be approximately 10%. This comp comprises a mid-teen growth in our Proprietary business. The forecast includes mid-teen growth in our base business and mid-teen growth in our net COVID-related revenues. For Contract Manufacturing, we are forecasting low to mid-single digit negative growth in 2022. We do expect Contract Manufacturing to return to growth in 2023. We expect our full-

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year 2022 reported diluted EPS guidance to be in a range of \$9.20 to \$9.35. Also, our CapEx guidance is \$380 million for the year.

There are some key elements I want to bring your attention to as you review our guidance. Estimated FX headwind on EPS has an impact of approximately \$0.21 based on current foreign currency exchange rates. And our guidance excludes future tax benefits from stock-based compensation. To summarize the key takeaways for the fourth quarter, strong top line growth in Proprietary, gross profit margin improvement, growth in operating profit margin, growth in adjusted diluted EPS, and growth in operating cash flow. Delivering in line with our pillars of execute, innovate and grow.

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

Eric Mark Green

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

Thank you, Bernard. To summarize on slide 16. The excellent financial performance we reported today continues to reaffirm that our strategy is working. We have a strong base business proven by our market-led approach, was delivering unique value to our customers. 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 accelerate capital spending across our operations to meet current and anticipated future growth.

We realize that our products are critical for health care across the globe, which is why we're so dedicated to support patient health today and well into the future. Towanda, 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 Derik de Bruin with Bank of America. Your line is open.

Derik de Bruin

Analyst, BofA Securities, Inc.

Hey, good morning. Thank you for taking my question. Just a couple of points initially, so can you remind us what us what the full-year COVID contribution number was for 2021? And as you sort of look at the 2022 guide, and just in general the business, I mean, are you capacity constrained on your non-COVID products? I mean, basically, this is a polite way of asking that is as COVID sort of rolls off, are you going be able to backfill that with non-COVID business? And this leads into the question of what does 2023 look like?

Bernard J. Birkett

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

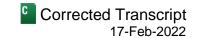
So, good morning, Derik. On the COVID number, it's [ph] 459 (22:20) for 2021. So, we would expect to see that grow in the mid-teen range within 2022. And on the capacity, I'll hand over to Eric.

Eric Mark Green

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

Yeah. Yeah. Thanks, Derik. So, on the capacity, you're right. And when we think about where we're at in the capacity, it is really around HVP products, FluroTec, NovaPure plungers and stoppers. And if you think about the

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two areas of high growth that we are experiencing and we anticipate continued growth around the vaccines, but also in our Biologics portfolio, which would – and is consuming the additional capacity that we're putting in place as we speak today. So, we have plans that we've created investments in 2020 and that is being put in place and being ready for production as we speak. And we have additional capacity coming on throughout this year and then into early next year. So, it's a combination of both, Derik.

Derik de Bruin

Analyst, BofA Securities, Inc.

big gap in 2023 as things roll off?

But you do feel confident that you'll be able to backfill? I mean, essentially every question I'm getting from investors is like, are you and other companies that are supplying to the COVID vaccine market going to have this

Eric Mark Green

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

No. We will be able to utilize the existing equipment and future equipment we're installing right now because of the approach we took on bringing customers towards the highest part of our growth in the portfolio. So, we can absorb that as we go into 2023 and 2024 if trajectories change around vaccinations.

Bernard J. Birkett

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

Yeah. And this is something that we have been communicating throughout 2020 and 2021. As we layer in this extra capacity, it's not purely for COVID. It's for both core and COVID. And even if there was a slight lag, it would be for a very short time based on the order book and the forecasts that we have. So, we're relatively confident that we can use that capacity pretty quickly as soon as it comes on board.

Derik de Bruin

Analyst, BofA Securities, Inc.

Great. I've got some more, but I'll shut up and let somebody else ask. Thanks.

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

Larry S. Solow

Analyst, CJS Securities, Inc.

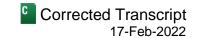
Great. Good morning, guys. Thanks for taking the question. Similar topic, I'll take maybe a different angle at it. Just to me, it looks like – I'm kind of encouraged by the CapEx expansion up to \$380 million. It's a pretty significant number and a good bump up from last year. So, to me, that demonstrates some good confidence in your outlook and also, I guess, bumping up the long-term outlook by 100 bps. I guess that's sort of from a current – where we stand today right now, historically. So, I'm kind of confident by that. But I'm just trying to figure out this CapEx expansion. It sounds like it's more non-COVID related-based base business stuff. And is it also – is there a big chunk of that related to Corning? Can you give us a little more visibility on Corning and also how that ties in with the – you sort of mentioned, expansion on R&D, which has been like 2% – running about 2% a year? Is that – do we – should we expect that to bump up significantly as a percent of revenue going forward?

Bernard J. Birkett

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

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Yes. So, a couple of things there. So, on the CapEx, some of that CapEx is still around COVID. A lot of it, you're right, is around also supporting the base business, and it's particularly targeted at high-value product area. So, we would say getting close to 70% of our CapEx is growth based at this point. On Corning, yeah, we are making some investments around that. We expect that to be around \$50 million CapEx in the year. And then, our R&D, we will have a step-up in R&D also around Corning. And again, that's all baked into the forecast.

Larry S. Solow

Analyst, CJS Securities, Inc.

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Okay. And in terms of COVID, and I realize this is – there's still a lot of question marks, but it sounds like you certainly expect growth this year. Do you get any feel for what your customers see going out over the next few years? Obviously, there's a lot of question marks, but any feel for that?

And second question there, has there been any – as the therapeutics and, more importantly, the vaccines have evolved, has there been any changes in packaging from sort of initial stages or are your customers looking more and more for your services and products? Can you give us any color on that?

Eric Mark Green

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

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Yeah, Larry, so what we're seeing right now is that you're right, we were initially providing solutions around the vials, and there were multiple doses per vial. And we're seeing this transition in lifecycle management as we speak. And starting in 2022 to be less doses per vial. So, it's a different type of solution that we provide similar economics from a unit basis. But it's more of a transition less doses per vial, which is a net positive for West. And that transition will take place – it is not perfectly in the calendar year, but it's in 2022 going into 2023.

The next stage after that, and that's where Bernard was talking about some of the capital, is still pointed towards vaccines, is more towards prefilled syringes. And so, that is an area where we're still investing, because that's more of a one- or two-year out type of the start of a transition for our customers. So, I hope that kind of gives you kind of landscape on how things will evolve over the next several years through the life cycle...

Larry S. Solow

Analyst, CJS Securities, Inc.

Yeah. No, that's – and I appreciate that. That's good color. Just last question if I may sneak in a third here. Just on price increases you mentioned, I think it was about just below 2% price in your favor this quarter. I just look at that in light of, I think, supply chain impacts, inflationary pressures. Certainly, you guys are probably built as good or better than most companies, frankly, probably that – in the world, not just in your industry. But obviously, there is some inflation out there particularly with oil and resin and stuff. So, to your price increases, should we expect these to maybe bump up a little bit over time? Have you – in the short term or have you been increasing prices a little bit to some customers to sort of offset some of these inflationary pressures?

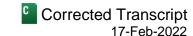
Bernard J. Birkett

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

Yeah. We have the opportunity based on some of the contracts and agreements are in place to increase some of those price increases to cover some of these inflationary pressures. And so, that's within our wheelhouse to do that. And that is something that we have been doing towards back end of 2021 and we would – are going to see that here again in 2022. And we also have...

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Larry S. Solow

Analyst, CJS Securities, Inc.

Okay. Great.

Bernard J. Birkett Senior Vice President & Chief Financial Officer, West Pharmaceutical Services, Inc.

It's also the opportunity for us to apply surcharges in certain instances where we see some specific inflationary pressures.

Larry S. Solow

Analyst, CJS Securities, Inc.

Right. Okay, great. Appreciate it. Thank you, guys.

Bernard J. Birkett

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

Sure.

Operator: Thank you. Our next question comes from the line of John Kreger with William Blair. Your line is open.

John Kreger

Analyst, William Blair & Co. LLC

Hey. Thanks very much. Eric, appreciate the update on the long-term growth construct. Can you just talk about how you think about longer-term CapEx around that same construct? Should we be thinking about CapEx as sort of a percent of revenue, growing the sales, perhaps declining after the big bolus in the last few years? Just how are you thinking about that number?

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

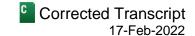
Yeah, John, we are looking at a – once we get through this bolus that we're currently managing through, we do want to get back to the 6% to 7% of sales of revenues. We do believe that is appropriate for our type of business. Particularly when you think about 30% of our CapEx is around maintenance, let's call it 10%, 15% around our digital, and then the balance of it is on growth. So, we do believe that construct last year, this year is really around the growth sector and making sure that we have installed capacity.

I will tell you I'm also very pleased in how the team has rightsized our facility network. As you know, years ago, we had 29, we're at 25, and we're able to leverage those facilities more efficiently. So, the capital we're putting in is more around equipment and processes versus land and buildings. So, I think the team's done a very good job in that regard, and we're able to leverage and we're well positioned for the future.

Bernard J. Birkett Senior Vice President & Chief Financial Officer, West Pharmaceutical Services, Inc.

Yeah. Just on that, John. In previous years, if you looked at the split of capital, maintenance was probably 40% to 50% of the CapEx budget. And so, obviously, the remainder was on growth and IT. And now you're seeing the growth portion close to 70%. And the thing with that, as well as Eric just said, as soon as that CapEx hits our facilities, it's straight into operations. We're getting a return on a much quicker and some of the CapEx

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investments we would have made a number of years ago just given the nature of them. And so, it's responding to demand, essentially responding as fast as we can with this increased capital allocation over 2020, 2021, and into 2022, but it should normalize beyond that.

John Kreger

Analyst, William Blair & Co. LLC

Got it. Thank you. And then, a follow-up. Eric, I think you said at the beginning of the call, the order book was at a record level, which sounds good. Can you just elaborate a little bit on that? And I'm thinking kind of two things, as you think about Biologics versus Generics versus Pharma, what does that order book sort of tell you in terms of growth trajectory there? And also, with tight supply chains, has your order book duration sort of extended or is it pretty typical today versus a year or two ago?

Eric Mark Green

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

So, there's two dynamics are happening. One is – I'll take the latter one first, because I think you're right. What we're seeing is while the number has increased, we don't specifically spell out the number, but it's increased. What we're seeing is it's we have better visibility beyond the four or five quarters. So, it's more of almost a two-year horizon now. And one of the levers that we're working with customers on is working with – our supply chain is working together to get that visibility, so we can level load our operations more efficiently and be more effective and supports our customers. I think the other area, when you think about what – if you kind of break it out of the increase, it really comes down to three buckets, really.

One is increase on the demand around vaccines. Another increase, which I'm very pleased about, is quite different than it was, let's say, three or four years ago particularly in Biologics, is really the success of various drug launches for our clients or customers. I won't get into specifics, and that's not just one, but many. And then, the third driver really is what I call the core growth and that is encompassing Biologics results, encompassing what we call Pharma or small molecules and also Generics. So, bottom line is all areas are growing nicely. It's little more [ph] heavily (34:20) weighted to our Biologics because of a lot of drug successes we're seeing. And – but again, if you look at our CapEx profile of what we're putting into our facilities today, it's the higher end of HPPs which squarely goes after the Biologics space.

John Kreger

Analyst, William Blair & Co. LLC

That's helpful. Appreciate it.

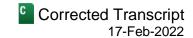
Operator: Thank you. Our next question comes from the line of Jacob Johnson with Stephens. Your line is open.

Jacob Johnson

Analyst, Stephens, Inc.

Hey. Thanks. This may be a little bit repetitive based on that last answer, but I'll ask anyways. I mean, you guys have considerable participation rate. I'm just curious if you've seen any change in market – your market share pre and post-COVID. You're talking about mid-teens growth ex-COVID this year. You just bumped up your long-term growth outlook. Is this the market in Biologics or are you taking share and is there kind of growth in those higher-value products? Maybe it's all of the above, but just curious kind of on the robust growth you guys are pointing to in this next year and beyond.

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Eric Mark Green

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

Hey, Jacob. So, it's actually all of the above. So, what we're seeing with our participation rate is in Biologics, we continue to be well north of 90%. And actually, I'm very pleased on our performance in 2021, particularly when you look at – in particular, our BLA was approved that didn't really use our types of products. It was more in different configuration. So, we look at that as an opportunity. And in this small molecule area and we think about ANDAs, we're equal or slightly better than we were pre-COVID.

And I would argue that, pre-COVID, if you look and step couple years before that, we're even stronger than that. So, you've seen a gradual improvement as we go forward. I'm really excited about this partnership and where we're taking HVPs to the next level because that again reinforces our leadership position and really bring in new technologies to the market that really derisks our customers' process in entering the market.

Jacob Johnson

Analyst, Stephens, Inc.

Got it. That's helpful. And maybe following up on derisking the process. I think, in December, the FDA put out some guidance on visible particulates. I'm just curious if that's something that could be a catalyst for you all or maybe it's nothing. I'm just curious on that.

Eric Mark Green

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

Well, it helps us. Anytime there's higher-level quality requirements and/or regulatory changes or direction that they would like to go, that puts us in a very good position – also, our partner, Daikyo, in a very good position because we do have solutions that can meet those standards. And it could be adoption of existing molecules in the market but also the new pipeline.

But to your point, the biggest catalyst of this relationship we've built with Corning is all around regulatory changes towards combination devices and/or systems versus individual components. So, it is very good for West, as these regulatory changes become more stringent as we go forward.

Jacob Johnson

Analyst, Stephens, Inc.

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

Eric Mark Green

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

Thank you.

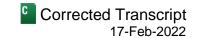
Operator: Thank you. Our next question comes from the line of Paul Knight with KeyBanc Capital Markets. Your line is open.

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

Hi, Eric. On the commentary earlier regarding the trend toward prefilled syringes, is this not where the biotechnology industry wants to go? Meaning, it's not just COVID vaccines which I'm sure they want to do that as

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well. But is that not kind of a primary driver for biotechnology customers right now? And why, I guess the other

question.

Eric Mark Green

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

Yeah. Absolutely, Paul. So, there's a push towards prefilled syringes in multiple dimensions, right? If you think about the Biologics space and also you think about the vaccines themselves for easier distribution, administering patients, and et cetera. So, there is a push towards technology that supports advancements of prefilled syringes. And I think again, that's reason why we have a really good offering now between Crystal Zenith as an alternative to glass, but also with working - partnering with Corning. It does eliminate - at the end the day, like you said, eliminates risk from going away from the vial.

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then, when we talk about capacity additions from the initiation of spending, how long before projects are running and delivering revenue? Is it a year? Is it two years? How long is it?

Eric Mark Green

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

Yeah, it's a combination of two things. Let me try to frame that, because I think it's a good point you're raising. One point is once the piece of equipment lands in our facility and we're able to validate, we're talking a matter of weeks before we have the equipment up and running. And frankly, based on our digital connectivity to all our equipment across the globe, we can see that utilization go – shoot up right up to the 80-plus percent range.

But the point that we need to be conscious of is that when we talked about investments in 2020, I think it was two phases we spoke of, I would say, a little over three-fourths or over 75% of those are already in place and producing finished product. And the rest of that delta is going to be completed early on in 2022. The other investments we initiated in 2021, call it Phase 3 and Phase 4, I would say, today where we stand is about 15% complete, or 20% installed and producing finished product. And the balance of that is planned to be completed throughout 2022 and early 2023.

So based on our commitments that we made in our customers' future demand, that's kind of the cadence we're seeing with these investments, how long does it take for the equipment to be built, to be delivered, and then installed. And that could take anywhere between a few months to two or three guarters, depending on the equipment.

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

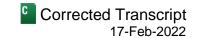
Okay. Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Dave Windley with Jefferies. Your line is open.

David Windley

Analyst, Jefferies LLC

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Hi. Thanks. Good morning. Thanks for taking my question. I wanted to ask a question, I think, John and Jacob have both asked slightly differently your long-term growth construct on revenue in particular. Could you talk about contributors or expectations for growth between Proprietary Products and Contract Manufacturing? I'm just asking because Contract Manufacturing has kind of fluctuated quite a bit and I'm wondering if your thoughts about the relative contributors to that 1% increase might be a little different than just 1%.

Eric Mark Green

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

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Yeah. I'll start and, Bernard, if you want to add to it. You're right, the driver behind that really is around our Proprietary business more so than Contract Manufacturing. I think we look at Contract Manufacturing, you're right, we're seeing, as we indicated, some volatility and is based on contracts and timing the ramp-up of new agreements.

So, when we look at Proprietary, we do believe that stronger, it's more robust than we had historically, and it's really around the Biologics is the main driver. We do still believe in the small molecule space roughly, let's call it, low to mid-single, mid-single from the Pharma side, and the Generics is mid-to-high single from a construct perspective.

And then, Biologics is in the double digits. And now Biologics is a bigger piece of our business, approximately over 40%, let's say. And it's driven by high-value products, higher end of that portfolio. That's the reason why we have very strong confidence to at least raise it by that 100 basis points that we spoke of. Bernard, do you want to add more to that?

Bernard J. Birkett



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

Yeah. It ties in with the discussion we had on CapEx, so you can see we're investing a lot of our capital around high-value products, and that is now the primary growth driver within the business, and then specifically within Biologics. But you could also see in – what we've seen here in 2021, that we're seeing HVP uptake in the other market units, as well in Generics and Pharma. So, that's now starting to permeate the rest of the business, which is a positive thing for us as well.

So, when we then look at Contract Manufacturing, the growth there is probably mid-single digits, maybe at the lower end of our construct. And that's what we've seen particularly over the last year and probably the back half of 2020. And so, from a mix perspective, we get a much – so much better return on those investments we're making. So, that's [indiscernible] (43:52).

David Windley

Analyst, Jefferies LLC

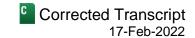
Excellent. So, if I then stick on the Proprietary Products, and again, you've probably touched on pieces of this, but probably any one of those is – any one of Biologics being a higher portion of that pie and growing faster, higher adoption of the high end of your high-value products or kind of richer mix, maybe some underlying volume growth from a stronger pipeline in the last several years. Any one of those seems like it's probably might be worth 1% on its own. Is it a combination of all of those things or does one of those things stand out?

Bernard J. Birkett

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

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It's a combination. We are seeing very, very strong demand across all of the market units, and you can see that's reflected in the guidance that we've given for 2022 around our Proprietary business, that we're guiding in their mid-teens. So, it is a combination of different drivers that just doesn't hang on one thing.

David Windley

Analyst, Jefferies LLC

Yeah. And then, switching subjects a little bit. On Corning and Valor, certainly, the system that you're talking about makes some sense. My understanding is that maybe that's been the case in the industry that you would source a variety of solutions or parts of solutions, and put those together and go to market. Perhaps you could talk about the context there. And then, also what drew you to choose Corning and Valor in particular? And how long do you think it takes to develop one of these solutions that you're talking about to bring to market? Thanks.

Eric Mark Green

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

Yeah, Dave, so, there's – first of all, we have a history of a really strong partnership with Daikyo. And so, as we enter into this relationship with Corning, we're very confident we can create a similar model. You're right. The reason why we engage in this conversation is when we speak with our customers, the challenges they face is really trying to find the right, call it, the containment solution for their products. And with their finance – it's highly fragmented and these are patchwork environment of multiple suppliers. So, we really think about it. And you look at the elastomers and glass, there are several drug master files submissions that need to be supplied with that particular drug molecule. And there really isn't anybody out there that has been able to develop a truly integrated system from ground up.

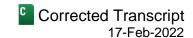
So, when we looked at – if you think about ourselves and Daikyo, we do believe we put ourselves as the leading innovators around elastomers and primary packaging. And when you think about unparalleled glass science, the deep material science capability at Corning which is well known in multiple industries but in our industry in pharma, and they also have deep manufacturing and engineering capabilities which is truly unique. That's why, as we sat down and talked about a partnership, the focus is really to redefine the future of containment solutions and then really create a truly integrated system that de-risks what I said earlier about our customer's drug development and manufacturing processes with a single product, one DMF, and end-to-end support for our customers by West.

So, that's the premise why we have embarked on this relationship. And this is utilizing glass technology between boral silica, which has been in the industry for decades, and the newly developed aluminum silicate that Corning has developed really to provide a range of quality benefits. So, what I'm trying to articulate is the leveraging that partnership with them truly enables us to get to the best in quality first-in-class system in the industry between the two firms and leveraging obviously, when I said two firms, Daikyo and West together from the elastomer side.

So, hopefully that gives you a kind of appreciation of what we're embarking on now. As you know, if you think about the NovaPure journey that we were on and other new launches we had here at West, our lens on the biologic pipeline is very good. And so, that's the area that we'll focus on. And as we characterize and truly get to that system approach we have between the two firms, we need to add additional capital, manufacturing capabilities, full dossier of documentation and driven by data – scientific data for our customers, we do believe it's going to take a little bit of time to have that – to finally get to that point.

So, just like NovaPure took a few years to get penetration and now you've seen the benefits, we see a similar type of characteristics with a system approach We'll start with – we'll have vials, we'll have prefilled syringes, and we'll have cartridges at the end of the day.

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David Windley

Analyst, Jefferies LLC

Great. That's helpful perspective. Thank you.

Bernard J. Birkett

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

Thanks, Dave.

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Operator: Thank you. I'm showing no further questions in the queue. I would now like to turn the call back over to Quintin for closing remarks.

Quintin John Lai

Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

Thanks, Towanda. And thank you for joining 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 through Thursday, February 24, by using the dial-in numbers and conference ID provided at the end of today's earnings release. That concludes this call. Have a nice day.

Operator: Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.

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