

25-Jul-2019

# West Pharmaceutical Services, Inc. (WST)

Q2 2019 Earnings Call

### CORPORATE PARTICIPANTS

### Quintin John Lai

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

#### Eric M. Green

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

#### Bernard J. Birkett

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

### OTHER PARTICIPANTS

John C. Kreger

Analyst, William Blair & Co. LLC

Paul Richard Knight

Analyst, Janney Montgomery Scott LLC

David Howard Windley

Analyst, Jefferies LLC

Juan E. Avendano
Analyst, Bank of America Merrill Lynch

Larry S. Solow

Analyst, CJS Securities, Inc.

### MANAGEMENT DISCUSSION SECTION

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

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

### Quintin John Lai

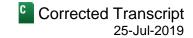
Vice President Corporate Development, Strategy & Investor Relations, West Pharmaceutical Services, Inc.

Thank you, Chris. Good morning and welcome to West's second quarter 2019 conference call. We issued our financial results this morning, and the release has been posted in the Investors section on the company's website located at www.westpharma.com.

This morning, CEO, Eric Green; and CFO, Bernard Birkett, will review our results, provide an update on our business and provide an update on the financial outlook for the full-year 2019. There is 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 2 is a Safe Harbor statement. Statements made by management on this call and in the presentation contain forward-looking statements within the meaning of U.S. federal securities law. These statements are based on management's beliefs and assumptions, current expectations, estimates and forecasts. There are many

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factors that can influence the company's future results that are beyond the ability of the company to control or predict. Because of these known or unknown risk or uncertainties, actual results could differ materially from past results and those expressed or implied in any forward-looking statement. For a non-exclusive list of factors which could cause actual results to differ from our expectations, please refer to today's press release as well as any further disclosures the company makes regarding the risk to which it is subject in the company's 10-K, 10-Q and 8-K reports.

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

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

#### Eric M. Green

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

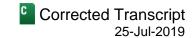
Thank you, Quintin, and good morning, everyone. Thank you for joining us today. As you saw in our press release, we delivered another quarter of strong growth on both the top and bottom lines from strong sales gains across the organization and as a result of the efficiency initiatives put in place by our global operations team. Our performance in Q2 has shown, once again, our customers' positive reaction to our market-led growth strategy. With two good quarters behind us and given our confidence in the underlying strength and future growth of the business, we are increasing our sales and EPS guidance for the full year. Bernard will take you through the details of our updated guidance later in the call.

Let's start with the specifics of our sales performance on slide 4. Proprietary Products sales grew by 7.5% in the quarter. Key to the growth strategy in this segment is customer adoption of our high value products. These products offer higher levels of quality and productivity to our customers, seeking to meet the increasing regulations of the biopharmaceutical industry to improve their own manufacturing performance and to meet the demands of new molecules and therapies. High value products make up more than 60% of our Proprietary Product sales. And in Q2, organic sales of these products grew double-digits.

Now, let's take a look at the organic sales growth of our market units. Sales within our Biologics market unit grew strong double-digits. In Q2, we experienced an impressive uptake of our NovaPure and Westar components. We continue to see growing interest from biologic customers for these types of product solutions, and this demand is coming from volume growth of existing drugs and from newly commercialized drug products. We also saw good uptake of Crystal Zenith containment solutions and our SmartDose technology platform. CZ growth is coming from both commercially available drugs, as well as from pre-commercial molecules. We continue to experience high levels of customer activity across our SmartDose device platform for drugs in all stages of development. Looking ahead, we anticipate full year double-digit growth for the Biologics market unit.

The Generics market unit had a solid quarter with high-single digit growth. High-value products also performed well in this market unit, growing by double-digits. This was led by an increased uptake of Westar RS and RU products. We are pleased with the continued interest and adoption of our Elastomer components, including the AccelTRA product line. In addition, we're also seeing demand for our delivery and safety device platforms for use with Generics medicines. We expect high-single digit growth in this market unit for the full year.

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Our Pharma market unit experienced a small decline in the quarter due to the previously announced Vial2Bag product recall. If we exclude this impact, we saw mid-single digit growth for Pharma, led by FluroTec and Envision product sales. We expect the Pharma market unit to deliver full year performance of low single-digit growth.

A quick word about Vial2Bag, as we noted in our last call, we remain committed to bringing this product back to the market. We are working to redesign certain aspects of the device with the goal of returning to the market with an enhanced product for hospitals and the patients they are treating.

Let's now turn to Contract Manufacturing. This segment of our business once again posted strong sales of 10% over the prior year's quarter. The majority of the growth continues to be in the diabetes market, led by sales of medical and drug delivery devices and services. For the balance of the year, we expect that quarterly sales will be in line with the performance of the segment in Q1 and Q2 of this year, but that growth will moderate as this business runs up against more difficult year-over-year comparisons. We anticipate full year growth of high-single digits in Contract Manufacturing.

I'd like to now review some business highlights from the quarter on slide 5. We discussed at our last quarterly earnings update the importance of expanding our company's reach to help us grow in the important Asia-Pacific region. We have established a direct presence in the very attractive South Korean market through the acquisition of our distributor. Another example comes from our China team, who recently hosted more than 200 customers from 70 companies for a West-sponsored educational event reinforcing the technical expertise we can bring to our customers in this market. Our scientific and technical team continues to be at the forefront of the industry, presenting at numerous conferences publishing their work, and partnering with our customers to shape best practice in our field. We're also pleased to announce that our NovaGuard safety system recently won two India packaging awards for excellence. This product is designed to help prevent accidental needle stick injuries, which is a serious concern for healthcare practitioners and their patients. Customers recognize the value of this product and as a result we are seeing increased uptake.

As our commercial team works with customers to provide solutions for their most demanding injectable containment and delivery needs, our operations team is working to help our business work more efficiently. They are driving for improved safety, higher quality, better service and increased profitability. We have implemented a number of lean initiatives across the organization through our One West management systems that are really starting to pay off. I recently visited our plants in Europe and saw firsthand the improvements that the team has made to streamline internal processes, improve quality standards and address customer feedback more effectively.

Customers are noticing too and have provided us with very positive feedback at the conclusion of several recent audits. We're also working to consolidate and optimize our global manufacturing network. By the end of the year, we will have 25 plants, a total reduction of four sites over the past two years. This broad restructuring program announced in Q1 of 2018 is on track to be completed by year end and will provide significant savings for our business in the future. As a result of these efforts and the growth of our high value product portfolio, we achieved more than 180 basis points of consolidated gross profit margin expansion in the quarter, thanks to margin improvements in both our Proprietary and Contract Manufacturing segments.

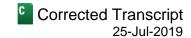
At this time, I'd like to turn the call over to our CFO, Bernard Birkett, to go into more detail around our financial performance. Bernard?

### Bernard J. Birkett

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



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Thank you, Eric, and good morning, everybody. So, let's review the numbers in more detail. The Q2 2019 revenues and profits where we saw continued solid growth, led by strong Proprietary Product performance especially in our Biologics market unit. I will take you through the margin growth we saw in the quarter and how we see it continuing to improve in 2019. In addition to some quarter end balance sheet takeaways and finally we review the guidance for 2019.

First off, Q2, our financial results are summarized on slide 6 and the reconciliation of non-U.S. GAAP measures are described in slides 11 to 15. We recorded net sales of \$469.7 million, representing organic sales growth of 8.1% and 20 basis points of inorganic growth related to a recent acquisition. We also saw growth in two of our Proprietary Product market units and in Contract Manufacturing with double-digit organic sales growth in our Biologics market unit. We are pleased to see continued improvement in gross profit. We recorded \$157.9 million in gross profit, \$15.7 million or 11% above Q2 of last year. And our gross profit margin of 33.6% was a 180 basis point expansion from the same period last year. We also saw improvement in adjusted operating profit with \$81.9 million recorded this quarter compared to \$62.5 million in the same period last year for a 31% increase. And our adjusted operating profit margin of 17.4% was a 340 basis point expansion from the same period last year. Finally, adjusted diluted EPS grew 27%.

So, what's driving the growth in both revenue and profit? On slide 7, we show the contributions to sales growth in the quarter. Volume and mix contributed \$33.9 million or 7.6 percentage points of growth. Sales price increases contributed \$3.4 million or 0.7 percentage points of the growth. And changes in foreign currency exchange rates reduced sales by \$15.1 million or a reduction of 3.4 percentage points. Looking at margin performance, slide 8 shows our consolidated gross profit margin of 33.6% for Q2 2019, up from 31.8% in Q2 2018. Proprietary Products second quarter gross profit margin of 39.5% was 230 basis points above the margin achieved in the second quarter of 2018. The key drivers for the continued improvement in Proprietary Products gross profit margin were favorable mix of products sold, focusing on high value products, sales price increases and increasing plant efficiency and utilization, partially offset by increased labor costs and the impact of the voluntary recall of Vial2Bag products. Our high value products represented 62% of Q2 Proprietary Products sales and generated double-digit organic sales growth.

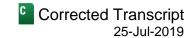
Contract Manufacturing second quarter gross profit margin of 14.3% increased by 120 basis points compared to the prior year quarter. The year-over-year increase in margin is primarily due to improved production efficiencies. Adjusted operating profit margin grew by 340 basis points over Q2 2018 as we continue to expand gross profit margins and closely manage our operating expenses as we execute on our 2019 goals.

Now, let's look at our balance sheet and review how we've done in terms of generating more cash for the business. On slide 9, we have listed some key cash flow metrics. Operating cash flow was \$152.7 million for the year-to-date 2019, an increase of \$25.7 million compared to the same period in 2018, a 20% increase. Our year-to-date capital spending was \$57.1 million, \$8.9 million higher than a year ago. Working capital of \$631.1 million at June 30, 2019 was \$20.4 million higher than at December 31, 2018, primarily due to the increase in our accounts receivable and inventory balances.

Our cash balance at June 30 of \$326.7 million was \$10.7 million less than our December 2018 balance, primarily due to an increase in the cost for purchases of our common stock in 2019, and the acquisition of our distributor in South Korea.

Turning to guidance, slide 10 provides a high level summary. First, despite increasing FX headwinds, we are raising our expectation of 2019 full year net sales to be in a range of between \$1.81 billion and \$1.825 billion compared to the prior guidance range of between \$1.79 billion and \$1.82 billion. We expect organic sales growth

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to be at the higher end of the previously communicated range of 6% to 8% over 2018 reported net sales, which assumes a headwind of \$42 million for the full year 2019 sales based on current foreign currency exchange rate compared to the prior guidance of the full year negative impact of between \$34 million to \$37 million. Second, we are raising both bottom and top end of our adjusted EPS guidance range by \$0.20. Our new range for the full year 2019 adjusted diluted EPS will be \$3.00 and \$3.10 compared to the prior guidance of between \$2.80 and \$2.90.

There are some key elements I want to bring your attention to as we – as you review our guidance. At this point, guidance does not include any revenues for Vial2Bag in 2019, and forecasted cost of remediation are included in our EPS guidance. Estimated FX headwind has an impact of approximately \$0.10 on adjusted diluted EPS based on foreign currency exchange rates compared to the prior guidance of \$0.08.

To summarize the key takeaways for the quarter, strong top line growth in both Proprietary and Contract Manufacturing, gross profit margin improvement, growth in operating profit margin, growth in adjusted diluted EPS over Q2 2018, and growth year-to-date in operating and free cash flow all raise sales and EPS projections for 2019 and performance to-date are in line with our long-term construct of 6% to 8% organic sales growth, operating profit margin improvement of greater than 100 basis points and EPS expansion.

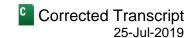
I'd now like to turn the call back over to Eric.

#### Eric M. Green

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

Thank you, Bernard. To summarize, our Q2 performance together with the results we saw in Q1 have contributed to a very strong start to the year. As we look to the remainder of 2019, we know that our market-led growth strategy will continue to drive value for our stakeholders. We have the top experts in our field working at West and that technical and scientific expertise is an asset to our customers. Across all market units, customers are driving demand for our high value products and we are delivering those products and solutions with a more efficient and cost effective manufacturing initiatives. This is translating into better margins and increased return on invested capital. We feel confident in the continued strength of our business and look forward to a successful remainder of 2018.

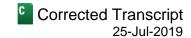
Chris, we're ready to take questions.



### QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of John Kreger with William Blair. Your line is now open. John C. Kreger Analyst, William Blair & Co. LLC Hi. Thanks very much. Could you just give us a little bit more info on the acquisition and should we be thinking about acquisitions perhaps as a little bit more active part of your capital deployment strategy going forward? Eric M. Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc. John, good morning. When we look at the acquisition in South Korea, it's really entry strategy to have a direct presence and what I would call a very attractive biopharma marketplace that we historically worked with the dealer. And one of the West's strengths is to have that direct interaction with our clients across the globe. So, we believe that it is an opportunity to step in directly and actually reinforce our focus in the Asia-Pacific market. Looking forward to other types of M&A transactions, we feel that we'll continuously look at bolt-on technologies that will enhance our current portfolio, but also look at ways to - look at adjacent spaces to really continue to support our existing customer base. John C. Kreger Analyst, William Blair & Co. LLC Great. Thanks. And then, also just to clarify, I think, a comment you made earlier on the call that you think Pharma growth will be low-single digits for the year. I assume that is burdened with the Vial2Bag recall? Eric M. Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc. Yes. John, that's correct. It does – that low-single digit does include the Vial2Bag recall that occurred last year. John C. Kreger Analyst, William Blair & Co. LLC Great, great. And then, lastly, any sense about when you think you can re-launch that product, is that something that could be feasible for next year? Eric M. Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc. Well, we have guided this year's revenues without any Vial2Bag revenues. And again, we are working towards a resolution and we will be working with the regulatory authorities to get it back as soon as possible. So, until we have affirmation from the regulatory bodies, we can't comment on exactly when this will be returning. John C. Kreger Analyst, William Blair & Co. LLC Okay. Thank you.

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Eric M. Green

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

Thank you, John.

**Operator:** Thank you. And our next question comes from the line of Paul Knight with Janney Montgomery Scott. Your line is now open. And if your phone is on mute, Paul, please unmute it.

Paul Richard Knight

Analyst, Janney Montgomery Scott LLC

Hi, Eric. Congratulations on the quarter.

Eric M. Green

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

Great. Thank you, Paul, and good morning.

Paul Richard Knight

Analyst, Janney Montgomery Scott LLC

Can you talk to demand, is it coming from the record number of approvals last year, or is it — and then- and the second question is, in the cell and gene therapy, there's obviously a lot of things in the pipeline. Is that a significant part of your business, your containment systems on the cell and genes side, and I guess the first question though is, are you seeing this approved therapy in total from last year, is that part of what we're seeing in this growth rate?

Eric M. Green

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

Yeah, Paul. If – when you think about the growth rate where – we have today and looking at the order – committed order book that we have in the near term that really is due to the robust pipeline that's coming through. In addition to that, its uptake of molecules have been introduced in the market a couple of years ago. So, it's a combination of existing molecules, but also new launches over the last 12 months to 18 months.

On the cell and gene therapy area, it's too early to comment. A lot of that is in early phase, as you know. We obviously have a role to play in the containment of those very important therapies. But the volumes will be small, and – but it's too early to tell, and it's not – that is not impacting our numbers as of today.

Paul Richard Knight

Analyst, Janney Montgomery Scott LLC

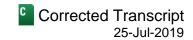
And then, secondly, Bernard, I notice obviously operating cash flow up 20% and free cash up 21%. I guess, you're still in the early days of your improvement of capital and management of capital, facility consolidation. I mean, is this a couple of year process ahead of us where we'll see better utilization turnover on cash and facility utilization? Could you talk to us about that overall program that you've embarked upon and where – how long it goes?

Bernard J. Birkett

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

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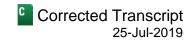
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Yes. It's a multi-year process and we will be continuously looking for improvements in operating and free cash flow generation, and it is a big focus for the organization across a number of different areas. So, it's not just on CapEx. It's across all aspects of our business as we believe it is very important for us obviously to focus on that. So, again, we have a lot of people looking at it in different areas and we're very focused on cash flow generation and disciplined in our approach. And that...

Paul Richard Knight  Analyst, Janney Montgomery Scott LLC	Q
What do you think your maintenance capital expenditure is?	
Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.	A
It's probably between \$40 million to \$50 million a year.	
Paul Richard Knight Analyst, Janney Montgomery Scott LLC	Q
Okay. Thank you.	
Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.	A
Thank you, Paul.	
<b>Operator:</b> Thank you. And our next question comes from the line of David Windley with Jefferies. You open.	Your line is
David Howard Windley  Analyst, Jefferies LLC	Q
Thanks. A quick follow-up on that last question. Bernard, has the maintenance number, is that some been able to compress or has that been fairly stable and it's been the growth capital that you've con	
Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.	A
It's been — we haven't compressed a lot of growth capital. I think if you look back at the way we were before, we were investing a lot in facilities and that expanded the CapEx. So, the focus is on utilizing improving the utilization of what we have, the infrastructure that we have in place. We believe we have capacity. The maintenance CapEx has been pretty stable over the last number of years, but just to line impacting growth. We are investing in growth on a continuous basis and that's where we invest capital and that's where the allocation goes. So, it's a very, very measured approach, but the difference we do not have to invest in large building projects at this current time.	g and ave a lot of be clear, we're a lot of our
David Howard Windley  Analyst, Jefferies LLC	Q
Yeah, great. Good clarification and my question wasn't intended to imply that you were sacrificing g but just	rowth at all,

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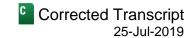


Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc. No, no, it's okay.	Д
David Howard Windley  Analyst, Jefferies LLC	C
where the decline in the budget was coming from. And kind of a similar theme, as you are seeing so operating margin – gross margin and operating margin improvement in the quarter, are – is that in any by the facility rationalization that you're doing? Is that showing up already or are those facilities not yet and so that's actually still in front of us?	/ way driven
Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.	Д
Yeah, that's still in front of us. Again, it's a – it will be over the next number of years beginning in 2020 to see the benefits of the rationalizations coming through. So, the drivers right now is we've seen a lot growth, which is a key strategy for us and we expect to see that continuing. And that's been suppleme improvements in overall utilization and productivity gains that we've been seeing coming through our princrease – with the implementation of lean initiatives and globalization of operations. And the important that we saw again in this quarter was the improvement in margins in Contract Manufacturing. That's all plus and now that's back on track. So, there are a number of drivers for overall operating margin expansion.	of HVP ented by the plants with nt aspect Iso been a
David Howard Windley  Analyst, Jefferies LLC	Q
And on your comment on Contract Manufacturing did improve year-over-year, I think the second quart year was kind of the low point.	ter of last
Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc. Yeah.	Д
David Howard Windley Analyst, Jefferies LLC	Q
Is that now on a fairly steep improving trajectory or – I think the highs for that business are still several basis points above the 2Q levels that you just achieved?	I hundred
Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc. Yes.	Д
David Howard Windley  Analyst, Jefferies LLC	Q
How could you – you might describe the trajectory to those prior levels?	

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

Bernard J. Birkett

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That's correct. So, we would expect to see the continuous improvements for the remainder of the year and improvement into 2020 as we get back to 2016, 2017 levels of gross margin within that business. So, I don't believe it's going to happen overnight, but we have made some changes within our Contract Manufacturing business. We're taking a lot of the learnings that we've had within our Proprietary business from an operational point of view and applying those within our Contract Manufacturing division, and we're starting to see the improvements come through there; but, it's not an overnight fix. It will take a little bit of time. So, you'll see it phased in, but there will be continuous and sustained improvement.

### **David Howard Windley**

Analyst, Jefferies LLC

Great. Thanks. And last question, Eric, this one – I may be able to bring you in on this one. The – your Generic clients are buying up into high-value products, that's been, I think, one of the kind of pleasant surprises of your kind of segmentation of the end market from when you joined as CEO. Some of those clients are under some, you know, what seems to be a little bit of financial duress at this point, some stocks trading at some really, really low prices. Is there a way – do you think that have impacts demand for your products at all? And is there a way for you to protect yourself or diversify yourself in the event that maybe one of these – presuming it's not all of them, but one might be more negatively financially impacted?

#### Eric M. Green

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

Yes. It's a good question. In – to your point is that we are diversifying within the Generics space, so we continuously work with the broad array of the generic players today. I would say we're in early stages as we move our Generic customers from standard packaging components to the high value products by leveraging the recently launched AccelTRA program.

When you think about the adoption rates with our clients, it takes one to two years to get the adoption, and to have them retool their operations, which frankly, at the end of the day is taking costs out of their system, even though they're moving up to high value products and ASP is slightly higher. So, we're supporting them by bringing better product to the market, driving better yield of their manufacturing in final fill-finish, and given assurance that this total cost of ownership cost continues to drive down their overall cost.

I would say, to summarize though, we are – we do diversify and if there is a issue with one client, we typically see that particular drug molecule be picked up by another. And that's why it's a good situation with our diversity.

David	Howard	Wind	ley
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Analyst, Jefferies LLC

Okay. Great. Thank you.

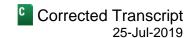
Eric M. Green

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

Thanks.

**Operator**: Thank you. And our next question comes from the line of Derik de Bruin with Bank of America. Your line is now open.

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#### Juan E. Avendano

Analyst, Bank of America Merrill Lynch

Hi. This is Juan Avendano for Derik. Congratulations on the quarter, guys.

Eric M. Green

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

Great. Thank you, Juan.

Juan E. Avendano

Analyst, Bank of America Merrill Lynch

Yeah. My first question is can you give us your thoughts on the 4+7 generic program in China. Have you evaluated this situation, and is any potential impact from this fully embedded in the revised 2019 guidance? Also, if you could tell us what your revenue exposure is to the Chinese generics market?

Eric M. Green

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

Well, Juan, when you look at our revised guidance, this is not being driven by China. So, either way, we have a – our business in Asia-Pacific is roughly – last year it was about 8% of total West, and China is a portion of that. Obviously, our larger localities are China, India and Japan, and also Southeast Asia. But the 4+7 we refer to the Chinese in the market does not impact our current business and we don't have a lot of exposure to local generics. Our growth in that market and where we're seeing the growth and we're investing is really the multinationals are pulling us into the market for them to build to manufacture into either use local consumption or export. The two areas that we see more – most of the growth in is in the Pharma and Biologic, very less so in the Generic space out of China.

#### Juan E. Avendano

Analyst, Bank of America Merrill Lynch

Okay. Good. Thanks. And then, my second question is for the full year 2019 you still expect the Pharma business to post low-single digit organic growth. I think that in order to achieve this I estimate the Pharma growth would need to be at least in the high-single digits on 4Q given that in the next quarter the prior year comp is difficult. And so, what gives you confidence in the strong rebound in the Pharma business in the fourth quarter and what is the downside risk to this?

Bernard J. Birkett

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

So, if you look at that from a comp perspective, we had a large credit in the fourth quarter of 2018 regarding the Vial2Bag recall. So, that adjustment in Q4 2018 was in the Pharma sector. So, when you comp it from a growth perspective, that's how we're going to see the high-single digit growth within this year – within Q4.

Eric M. Green

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

Within Pharma.

Bernard J. Birkett

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

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Within Pharma.

#### Juan E. Avendano

Analyst, Bank of America Merrill Lynch

Okay, great. And then my last question, if I may. One of the phrases in the press release that peaked my interest was that one of the reasons why you were raising guidance for the full year in 2019 was that you are encouraged by the growing backlog of committed orders? You used to provide this number on a quarterly basis before, but over the last year, you have only provided it annually. I was wondering if you could tell us what that backlog is, the absolute dollar value of it if it is less than \$0.5 billion, what was that in – what was it year-to-date as of the second quarter?

Eric M. Green

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

Well, instead of calling out the exact number what we're seeing is a large growth in the – our order book compared to the same time last year. So, we're seeing the order book strengthened as – and that's been happening as we've been going through the year. So, it hasn't just all happened at once. And that gives us confidence to be able to use that as support for raising the guidance, so that we're seeing strong fundamental growth in the market.

Juan E. Avendano

Analyst, Bank of America Merrill Lynch

Okay, that was it. Thank you.

Eric M. Green

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

Thank you, Juan.

**Operator**: Thank you. And our last question comes from the line of Larry Solow with CJS Securities. Your line is now open.

Larry S. Solow

Analyst, CJS Securities, Inc.

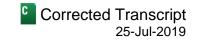
Great. Thanks, guys, and congratulations on a really good quarter and very impressed on the margin side. Just a few summary questions, and most of mine have been answered. But on the – on sort of, I guess, related to the backlog, I know you guys obviously improved your throughput significantly the last few years and that had skewed backlog as lead times came down a lot. Part of our thesis was that as supply really started to improve overall, you know, eventually you would start seeing some legacy products start transitioning to some of your higher value products. And, Eric, I think you mentioned in your prepared remarks there that you are seeing some part of the growth this quarter was sort of on existing products not only on new and improved products. So, are you seeing sort of maybe not an inflection point, but older pharmaceutical, older products starting to transition or at least move up the chain in the high value products area?

Eric M. Green

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

Yeah. Larry, when we look at our – the order book – committed orders that we have on hand today, as Bernard mentioned a little bit earlier, is that we're seeing a very healthy uptake. And the driver of that, I would say, two

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years or three years ago, it's been a lot of time talking about lead times from our operations. Today, that increase in demand is not due to lead times in our operations. I'm very convinced the - when we globalize the operations and the focus that we have and the lean initiatives that are – in our operations is really driving quality, it's driving delivery and service to our customers.

So, if you spoke to our customers, you'll hear guickly that there hasn't been any really change of the really improved performance we've seen over the last one or two years. The demand that we're seeing at this point really is a combination – mostly a combination of volume of existing drugs in the marketplace and new product launches that are - have been planned and will be planned in the near future. I'm very encouraged by this, because this is not just in one of the segments, this is across all segments and this is showing just the underlying health of the different markets we serve. Obviously, Biologics has a healthier market growth rate than the small molecules in Pharma. But when I see the growth that we're seeing, to me, it shows that we're maintaining share, if not capturing new share with new products going to the pipeline.

Larry S. Solow

Analyst, CJS Securities, Inc.

Right. And it seems like you also knowledge your mix of high value products rising but within that mix, like you know, like NovaPure is – sounds like it's starting to really pick up some steam, but I venture a guess it still represents a pretty small fraction of overall in terms of penetration of that relative to other high value products, is that fair to say?

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

Right. If we look at two areas that you - one of them you spoke of is NovaPure. We've talked about that in the past, but the adoption is now getting into commercial drug molecules in the marketplace. We're seeing the same thing with our Crystal Zenith. And so, now it's becoming more meaningful these numbers and the growth is quite significant. So, while we don't give out specific numbers of each product line, those two areas alone are contributing to a good portion of the growth and particularly in the Biologics area and also a little bit in the CZ side also helps out with the Pharma side.

Larry S. Solow

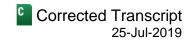
Analyst, CJS Securities, Inc.

And that was sort of leading to my next question. Could you without quantifying maybe give us a little more color on the CZ side maybe how many new primary products you have commercialized today or something change from the last couple of years or any more color there would be great?

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

Yeah. What you've seen on the CZ side is that we're – and the commercial number of products is about three are being launched in 2019, so that's incremental and particularly around the 1ml insert needle that we're manufacturing out in our Scottsdale, Arizona facility. This is obviously great work done by both our partner Daikyo and also our internal engineers, they'll get into a scale-up as our customers, and I won't mention specifically, but our customers are increasing their demand for these launches. It's also causing this, as Bernard talked earlier about, where are we investing our capital. That's a specific area where we're investing additional capital, not facilities, but actual lines, cell lines to build produce more Crystal Zenith 1ml insert needle and also frankly in the NovaPure Line 2. So, it's - we're seeing the uptick, Larry, we're seeing it now instead of really pre-commercial and development, these are starting to take off. We're encouraged by it.

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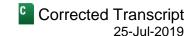


Larry S. Solow Analyst, CJS Securities, Inc.	Q
Excellent. And then just last question, just miscellaneous one for Bernard on the – there was the credit, I guess, in the operating income line. So, what's that related to?	\$2.5 million
Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.	A
FX.	
Larry S. Solow Analyst, CJS Securities, Inc.	Q
I know it's in FX. Okay, great. Thank you.	
Eric M. Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
Great. Thank you, Larry.	
Larry S. Solow Analyst, CJS Securities, Inc.	Q
That's [indiscernible] (40:25). Thank you. Thank you.	
Eric M. Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
Great. Thank you, Larry.	
<b>Operator:</b> Thank you. And this concludes today's question-and-answer session. I would now libback to Quintin Lai, Vice President of Investor Relations for any further remarks.	ce to turn the call
Quintin John Lai Vice President Corporate Development, Strategy & Investor Relations, West Pharmaceutical Services, Inc.	
Thanks, Chris, and thank you everyone for joining us on today's conference call. An online archi broadcast will be available on our website at westpharma.com in the Investors section. Additional replay through Thursday, August 8 by dialing the numbers and conference ID provided at the enearnings release.	ally, you can get a
That concludes the call and have a nice day.	

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This does conclude

today's program. You may all disconnect. Everyone, have a great day.

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