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West Pharmaceutical Services, Inc. (WST)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

Quintin John Lai

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John Kreger

Analyst, William Blair & Co. LLC

Derik de Bruin

Analyst, BofA Securities, Inc.

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David Windley

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Q3 2021 West Pharmaceutical Services Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference call is being recorded. [Operator Instructions]

I would now like to hand the conference over to Quintin Lai, Vice President of Investor Relations. Please go ahead.

Quintin John Lai

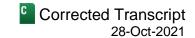
Vice President-Strategy & Investor Relations, West Pharmaceutical Services, Inc.

Thank you, Amanda. Good morning, and welcome to West third quarter 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 full-year 2021 financial guidance. 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 4 is our Safe Harbor statement. Statements made by the 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. The company's future results are influenced by many factors beyond the control of the company. Actual results could

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differ materially from past results, as well as those expressed or implied in any forward-looking statement made here. Please refer to today's press release, as well as any other disclosures made by the company regarding the risk to which it is subject, including our 10-K, 10-Q, and 8-K reports.

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

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

Eric Mark Green

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

Thank you, Quintin. And good morning, everyone, and thanks for joining us today. We will start on slide 5. Our team delivered an incredibly strong third quarter. Our proven market-led strategy delivered double-digit growth across all three market units and geographies. And excluding positive impact from sales related to the pandemic, we delivered double-digit growth in our base business. With continued strong adoption of our high-value products, coupled with solid execution and leveraging our global operating model, it has led to robust margin expansion and EPS growth for the quarter.

Our Q3 performance was made possible by the commitment of the West team members across the globe. We are in the business of helping our customers bring new medicines and treatments that improve the lives of patients. I'm very proud and humbled of how we live our purpose by producing billions of components and devices each quarter, and we do so with the knowledge that each and every component we make is impacting the patient's life.

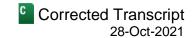
We continue to fulfill our purpose by earning our customers' trust by leading with quality, service, and science. Looking ahead, we are well-positioned with the right growth strategy. Our committed order book remains robust. We continue to capture the benefits of the globalization of our operating network and continued capital investments to support the increase in demand, driven by the pandemic and attractive end markets. With this substantial momentum, we are raising our sales and EPS guidance for the full-year 2021. And for the 29th consecutive year, we are increasing the company's dividend. Bernard will go into greater detail shortly.

Turning to slide 6. Our key drivers of growth in Q3 are being fueled by COVID-19 customers that are using our stoppers and seals, including the highest level of NovaPure and FluroTec. Biologic customers, they are shifting preference from FluroTec to our premium platform, NovaPure, to achieve the highest quality and tightest specifications for their newly approved biologic drugs. And Pharma and Generic customers, they are increasing orders as their demand grows for non-COVID-19 vaccines and injectable drugs.

Shifting to our device portfolio and our longstanding partnership with Daikyo Seiko, we continue to see adoption and uptick of customer interest for new pipeline drugs with Crystal Zenith syringes, cartridges, and vials. To meet this demand and stay ahead of the current growth trends for future approvals, we have continued to add manufacturing capacity for CZ. Our teams have successfully validated additional lines for insert needle syringes and will begin producing commercial product by the end of the year. All these products, as well as other HVP components, are contributing to our growing book of committed orders, which position us well for the remainder of the year and into 2022 and beyond.

Moving to slide 7. To-date, we have been leveraging a global infrastructure and tapping it into the agility of our own team to meet the increased customer orders. As we highlighted in Q2, several phases of investment are

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proceeding and now being realized. Since the onset of the pandemic, we have expanded capacity at 13 existing sites with 30 major facility modifications, dedicated over \$300 million of capital, and added over 400 incremental pieces of equipment; all while keeping pace with a growing base demand and moving our operations to 24/7.

As our book of committed orders continues to surge, we will continue to make further strategic investments to meet demand. Today, we're announcing a fourth phase of capacity expansion that will commence in 2022. This will primarily focus on expanding NovaPure production at our HVP sites in the United States and Europe.

Shifting to the rapidly changing environment and the impact of COVID-19 on the global supply chain, no industry has been immune to this impact. We're working with our partners to help overcome challenges that span from transportation and logistics to raw materials and securing labor, all leading to cost inflation and delays. We are successfully navigating this environment, thanks in part to our unsurpassed manufacturing footprint that will continue to serve our business well as we operate through these unprecedented times.

Turning to slide 8. I'm proud of the significant progress we have made on our ESG priorities. These have been an integral part of our One West culture and our commitment to all our stakeholders and the communities where we work and live. Over the past six years, we continue to raise the bar in all aspects of our ESG initiatives, and we remain on track to publish by year-end a supplement to our 2020 Corporate Responsibility Report, incorporating the SASB and TSFD (sic) [TCFD] (00:08:11) ESG standards.

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.

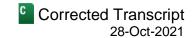
Thank you, Eric, and good morning. Let's review the numbers in more detail. We'll first look at Q3 2021 revenues and profits where we saw continued strong sales and EPS growth led by strong revenue performance in our Biologics, Generics and Pharma market units. I will take you through the margin growth we saw in the quarter, as well as some balance sheet takeaways. And finally, we will provide an update to our 2021 guidance.

First up, Q3. Our financial results are summarized on slide 9, and the reconciliation of non-US GAAP measures are described in slide 17 to slide 21. We recorded net sales of \$706.5 million, representing organic sales growth of 27.9%. COVID-related net revenues are estimated to have been approximately \$115 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 affected by lower volumes due to the pandemic.

Looking at slide 10, Proprietary Products sales grew organically by 35.7% in the quarter. High-value products, which made up approximately 73% of Proprietary Products sales in the quarter, grew double digits and had solid momentum across all of our market units in Q3.

Looking at the performance of the market units, the Biologics market unit delivered strong double-digit growth. We continue to work with many biotech and biopharma customers who are using West and Daikyo high-value product offerings. The Generics market unit also experienced double-digit growth, led by sales of FluroTec and Westar components. Our Pharma market units also saw a strong double-digit growth with sales led by high-value products including Westar, FluroTec, and NovaPure components. And Contract Manufacturing had low single-digit organic sales growth for the third quarter, led once again by sales of health care-related medical devices.

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We continue to see improvement in gross profit. We recorded \$288.2 million in gross profit, \$93.6 million or 48.1% above Q3 of last year. And our gross profit margin of 40.8% was a 530-basis-point expansion from the same period last year. We saw improvement in adjusted operating profit with \$182.8 million recorded this quarter compared to \$103.9 million in the same period last year or a 75.9% increase. Our adjusted operating profit margin, 25.9%, was a 690-basis-point increase from the same period last year. Finally, adjusted diluted EPS grew 79% for Q3. Excluding stock-based compensation tax benefit of \$0.11 in Q3, EPS grew by approximately 72%.

Let's review the growth drivers in both revenue and profit. On slide 11, we show the contributions to sales growth in the quarter. Volume and mix contributed \$142.9 million or 26.1 percentage points of growth, including approximately \$83 million of incremental volume driven by COVID-19 related net demand. Sales price increases contributed \$10.1 million or 1.8 percentage points of growth. Looking at margin performance, slide 19 shows our consolidated gross profit margin of 40.8% for Q3 2021, up 35.5% in Q3 2020.

Proprietary Products, third quarter gross profit margin of 46.3% was 550 basis points above the margin achieved in the third quarter of 2020. The key drivers for continued improvements from Proprietary Products gross profit margin were favorable mix of products sold driven by growth in high-value products, production efficiencies and sales price increases, partially offset by increased overhead costs inclusive of compensation.

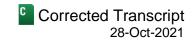
Contract Manufacturing third quarter gross profit margin of 16.1% was 180 basis points below the margin achieved in the quarter of 2020. The decrease in margin is largely attributed to a mix of products sold, as well as timing of the pass-through of raw material price increases to customers.

Now, let's look at our balance sheet takeaway and review how we've done in terms of generating more cash for the business. On slide 13, we have listed some key cash flow metrics. Operating cash flow was \$423.2 million for the third quarter of 2021, an increase of \$99.4 million compared to the same period last year and 30.7% increase. Operating cash flow in the period was adversely impacted by a working capital increase, as well as timing the tax payments. Our third quarter 2021 year-to-date capital spending was \$176.9 million, \$60.2 million higher than the same period last year. Working capital of approximately \$1 billion at September 30, 2021 increased by \$169.4 million from December 31, 2020, primarily due to higher accounts receivable from our increased sales. Our cash balance at September 30 of \$688 million was \$72.5 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 4 (sic) [14] (00:14:38) provides a high-level summary. Full-year 2021 net sales are expected to be in a range at \$2.8 billion and \$2.81 billion compared to a prior guidance range of \$2.76 billion to \$2.785 billion. This guidance includes estimated net COVID incremental revenues of approximately \$450 million. There is an estimated benefit of \$55 million based on current foreign exchange rate, compared to a prior estimated benefit of \$80 million. This \$25 million reduction in FX tailwind has been absorbed into our guidance.

We expect organic sales growth to be approximately 28% compared to a prior range of 24% to 25%. We expect our full-year 2021 reported diluted EPS guidance to be in a range of \$8.40 to \$8.50 compared to a prior range of \$8.05 to \$8.20. This revised guidance includes a \$0.35 EPS positive impact of tax benefits from stock-based compensation from the first nine months of 2021. Also, our CapEx guidance remains at \$265 million to \$275 million for the year. There are some key elements I want to bring your attention to as we review our guidance. Estimated FX benefit on EPS has an impact of approximately \$0.19 based on current foreign currency exchange rates compared to a prior estimated benefit of \$0.27. And our guidance excludes future tax benefits from stock-based compensation.

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To summarize the key takeaways for the third 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.

Great. Thank you, Bernard. To summarize on slide 15, the excellent financial performance reported today continues to reaffirm that our strategy is working. Our market-led approach is delivering unique value to our customers. Our global operations team is efficiently manufacturing and delivering product 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. Most importantly, we have an incredible team working to make this all happen. We are proud to serve as a valuable trusted partner for customers to support patient health, and look forward to continue to play a critical role in delivering health care well into the future.

Amanda, 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 Larry Solow from CJS Securities. Your line is now open.

Larry S. Solow

Analyst, CJS Securities, Inc.

Thank you very much. Congratulations on another good quarter. And it sounds like the outlook, Eric, continues to improve. Maybe you can just really discuss a little bit on the additional capacity expansions today you announced. On NovaPure, is that – it sounds like just another acceleration from planned capacity expansion that was probably a couple years – originally going to be couple years out. So, maybe – is this NovaPure your expansion, driven more on the base business, on the vaccine side? Is that more of a mix? Maybe you can give us a little color on that.

Eric Mark Green

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

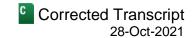
Larry, thanks for the question, and good morning. No. You're absolutely correct. So, what we're seeing with the additional capital expansion is, it was planned for further years out. Right up forward, this is more of a demand on both areas of biologics, new drug, molecules being launched. And around the NovaPure, particularly around the plungers, and also the life cycle management of COVID vaccines as you think about various configurations, whether it's in a vial configuration or a prefilled syringe. So, it is a mix effect. And we brought it forward based on our discussions with the customers and commitments that obviously we are making for them, but also what they're making towards us.

Larry S. Solow

Analyst, CJS Securities, Inc.



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And in terms of the life cycle management on the COVID vaccines, do you see this proliferating more into – as it goes more into doctors' offices and maybe less on the [ph] mass (00:19:29) vaccine basis where it's at community centers and whatnot? I would imagine that benefits you. Do you have any visibility on that that you can share with us in terms of dosings, switching maybe from [ph] 5 to 10 (00:19:42) per vial to – down to the single doses?

Eric Mark Green

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

A

Well, Larry, those conversations are ongoing right now. It's – when we look at the current mix that we have for our customers, it's still mostly in regards to the COVID vaccines. It's still mostly within vials and multiple doses for our vials. But we continued to prepare ourselves as things do change over time. But the near term, near future, we're really focused on meeting the current configuration. Think about our capital expansions. We're taking specifically between 1 – let's call it 12 to 18 months to get in, validated, and started scaling up production. So, that's the type of timeline we're looking at as far as preparing ourselves for any additional demand and other configurations.

Larry S. Solow

Analyst, CJS Securities, Inc.

Got you. Then just lastly, a quickly one. I saw you guys have put a release on this, and this might just be a small, little additional service offering [ph] you got on this (00:20:42) Delta Cube modeling platform that you put out. I think that was presented at a industry meeting a couple of weeks ago. Is there – any color on that? This sort of online – I guess it helps customers design their packaging needs and whatnot. Any color on that?

Eric Mark Green

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



Yeah. Larry, one of the drivers, if you think about our pillars of strategy under Execute, one of the key drivers of being market-led is digitization. Obviously internally but externally for our customers, and also digitization of product. Now, same focus on customers. What we – we have a wealth of data and science information that we've developed in our laboratories and worked with the customers over the years. And what we've been able to do is fuse together our digital capabilities that we've been building over the last couple years with a predictive modeling capability, which is a more data-driven offering.

So, as you can imagine, a customer trying to identify with their complex molecule that they're looking at, developing, and obviously ultimately commercializing. What is the ideal packaging configuration? And so that is where we're bringing that down to the forefront, leading with science, being that scientific destination choice for our customers and providing that – those insights.

So, more to come. We're excited that we launched this. But I am – for me, personally, it's a great example of our leadership position and leading with science to our customers.

Larry S. Solow

Analyst, CJS Securities, Inc.

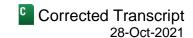
Absolutely. I look forward learning more about that. Okay. Great. Thanks, Eric. I appreciate the thoughts.

Eric Mark Green

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

Thanks, Larry.

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

John Kreger

Analyst, William Blair & Co. LLC

A question about COVID visibility. Based upon your discussions with clients and your order book, when would you expect the – your COVID volumes to start to tail off?

Eric Mark Green

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

Well, right now, the way we see our confirmed order book on a complete – if you look at it as a complete order book, committed book, you'll find that the – well, we'll see that the COVID piece continues to increase. It's not the majority of it, but it is continuously increase. And so we have good visibility going into 2022. John, a lot of the investments that we've made committed to last year and the one we just spoke of today, a good portion of that is related to COVID vaccines, to support the – not just the demands in the more mature markets, but basically on a global basis. So, I won't give a number out on the COVID piece, but it's still very robust for us.

John Kreger

Analyst, William Blair & Co. LLC

Okay. Thanks. So, the COVID 2022 outlook would appear to be up from 2021?

Eric Mark Green

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

Well, there's a lot of factors, John, in that. But right now, the way we're discussing here with customers, expanding capacity and building the capabilities are our plans. We anticipate similar, if not, little more stronger demand in 2022.

John Kreger

Analyst, William Blair & Co. LLC

Sounds good.

Bernard J. Birkett

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

We're also seeing – it's not just the COVID demand that the CapEx expansions are for, it's for our core business demand. And as Eric alluded to earlier, like, we are seeing strong growth in those areas as well so that the CapEx is not just reliant on COVID It's there to support our business over the short, medium, and long-term. So, it's – we have enough capacity over time to – or enough demand to fill that capacity when it starts to come online.

John Kreger

Analyst, William Blair & Co. LLC

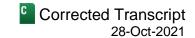
Oh, that's good. Thanks, Bernard. Actually, a follow-up question for you on margins. Given the surge that you guys have seen over the last year, what is your comfort level that they can be sustained as you think about longer term planning? Or should we think about those margins to kind of come back to the older trend line once COVID volumes start to normalize?

Bernard J. Birkett

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

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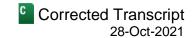
I wouldn't see the margins coming back to where they were. I think the gains that we have gained over the last 12 to 24 months, our plan is to hold on to those and actually expand margins further as we move out over the next number of years. And you can see it in the dynamic of our business and where the growth is actually coming from. So, it's – a lot of it is placed within the Biologics market unit, and that is driving a lot of the growth on revenue, but plus on margins.

And, again, it's not specifically reliant on COVID. It's within our core business. And what we're actually seeing, and you can see on some of the callouts, the growth that we're seeing around Generics and Pharma, we are seeing the high-value products getting traction in those areas also. So, coupled with the efficiencies that we're forecasting to come from operations, we believe that we will continue to expand margins. Will it be at the same pace as what we're experiencing here in 2021? That's something that we'll give further information on when we guide here in the first part of 2022.

John Kreger Analyst, William Blair & Co. LLC	Q
All right. Sounds good. Thank you.	
Operator: Our next question comes from the line of Derik de Bruin from Bank of America	a. Your line is now open.
Derik de Bruin Analyst, BofA Securities, Inc.	Q
Hey. Good morning.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
Good morning, Derik.	
Derik de Bruin Analyst, BofA Securities, Inc.	Q
Hi. So, a couple of questions. I think first one, can you talk a little about the Contract Manulittle bit lower than what we had forecast. And also, comps start getting easier next quarte think about, starting next quarter, you're back at sort of that high single-digit, low double-d your long-term guide implies?	r. So, should we start to
Bernard J. Birkett Senior Vice President & Chief Financial Officer, West Pharmaceutical Services, Inc.	A
Yeah. If we're – if you're talking about getting to the end of 2021, I wouldn't see	
Derik de Bruin Analyst, BofA Securities, Inc.	Q
Yeah. Yeah.	
Bernard J. Birkett Senior Vice President & Chief Financial Officer, West Pharmaceutical Services, Inc.	A

I wouldn't see an acceleration in the growth rate in that timeframe. My expectation is, it'll be pretty similar to what we saw here in Q3. And we have been signaling that, talking about that for a long time that the growth in Contract

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Manufacturing would modify for a period of time. And then, as we move into 2022 and 2023, we would expect to see that growth begin to accelerate again, but more in line with kind of mid single-digit growth rates rather than the, like, double-digit growth rates that we had experienced in 2017 and 2018.

And so we've looked at the mix of our business and we looked at where we should be deploying our capital to make sure that we are getting growth rates, but also that it's on our Proprietary side. We're still very, very focused on the contract, but I wouldn't see it growing at double-digits.

Derik de Bruin

Analyst, BofA Securities, Inc.

Great. That's really helpful color. And can we talk a little bit about how you're sort of thinking about CapEx over the next 2022-2023 time period? I mean, since you're pointing things forward, should we expect similar levels next year? So, that's one. And then I guess what's the revenue potential for the additional capacity expansions that you've got ongoing overall?

Bernard J. Birkett

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

So, as Eric said, we're seeing very, very strong demand, both within our core business and responding to COVID. So, our CapEx stepped up in 2020 and here again in 2021, and we're not going to guide to a number for 2022. But the – it will be a little bit higher than what we would've normally guided [indiscernible] (00:28:58) on that [ph] 6% to 7% (00:28:58). And that the – what we're seeing is. And if you look at it over the last probably 12 to 18 months, we're stepping up capital on an incremental basis. So, understanding that the demand is there so that we can feed into it pretty quickly. So, all of the capital expansions are tied into demand that we can see coming from customers over the 2022-2023 time horizon.

Derik de Bruin

Analyst, BofA Securities, Inc.

Great. And can you talk a little bit more about being able to pass on pricing, raw materials, just – we're getting a lot of questions from clients on those topics across the board, but we'd love to hear you sort of elaborate more on the supply chain and pricing dynamics.

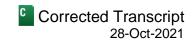
Bernard J. Birkett

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

Yeah. So, we've been passing on cost increases to customers, again throughout 2020 and 2021, particularly on [ph] freights (00:29:54). It's freight charges and logistical charges increased. We were able to pass those on to many of our customers on components, on specific components where we have seen price increases, both within Contract Manufacturing and in our Proprietary business. We have been passing those on to our customers, and obviously keeping them in the loop as to what's happening, but what are driving these price increases that we're passing on.

And also, as we look out into 2022, we have various mechanisms in place to enable us to pass on many of these increases. And it depends on what the relationship with the customer, whether it's contracted business or not. But in the various sectors, we have various tools that we employ. So, we're able to – and we don't have to absorb the majority of those inflationary costs. And then also, we're working on the other side to make sure that we're getting leaner and more efficient, and to make sure that we can deal with those from that angle as well. So, there's a multifaceted approach.

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Derik de Bruin

Analyst, BofA Securities, Inc.

Great. Thank you.

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

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

When you look and you – when you plan this CapEx and look at future demand, is it emanating from fill and finish customers or is it emanating from the therapeutic programs that are in, like, stability trials? How do you pinpoint what this demand may look like in even 2023 and outer?

Eric Mark Green

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

Yes, Paul. The driver of the demand expansion or the demand increase that we're seeing and requiring capacity expansion is really driven by the therapeutic companies, strictly with the drug customers, not the fill-finish. So, as you know, it's a whole ecosystem, and we know where we play, but our interactions are directly with the drug customers. What's also exciting to see is that it's not just concentrated in one area, i.e., Biologics. It's also – we're starting to see a pickup in small molecules also, which is good for our long-term franchise. But, yeah, absolutely the drug customers.

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

And then as you look at your capacity expansion, are you having to – is it 12 to 18 months with customer validation? And are you running into challenges that I'm guessing some of these are even greenfield sites? So, will you have to stretch out that? What is the duration of a build to actual produce revenue timeline?

Eric Mark Green

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

Yeah, Paul. What's fascinating about - what's actually quite exciting is that a few years ago, we made the strategic decision to start creating the centers of excellence and started to consolidate our manufacturing into particular sites throughout the world and became more effective through in-systems work with our customers through our quality systems also in processes to create more of an operating network.

So, the short answer to your question is, this is not a greenfield. A lot of the investments we're making right now are physical equipment, process expansions, maybe moving some modular approach in some sites. Even to Waterford, we'll be looking at maybe expanding that site with another modular addition on the site, but it's leveraging existing facilities. We had it all up. It really comes down to how fast we can have the equipment manufactured, delivered, installed, and gone through validation since a lot of the equipment is replicating what's in place already. It's - the validation process with customers is very short. So, we could have some expansion proved up and running less than just in a couple quarters. Some other expansions might take four or five quarters to get up and running.

Bernard J. Birkett

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

Now, Paul...

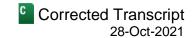
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David Windley

Analyst, Jefferies LLC

Okay. Sorry, I missed that. On innovation, Eric, the CZ was a topic of conversation really dating back to before your tenure. Got quiet for a while, and I hear you calling it out again. I guess I'm interested in maybe some color around the drivers of that. Did the company – has the company kind of enhanced the material or worked through some developmental bottlenecks with clients that's allowed that to kind of break free on a renewed basis?

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Eric Mark Green

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

Yeah, Dave. So, if you think about the device portfolio – let's just call it roughly 5% of West on the Proprietary side, so 5% of the business – CZ is the largest portion of that. And what we're seeing is – the reality is, we're continuously optimizing the product and coming out with new line extensions. However, it's taken a while to feed the market and gain confidence and traction. But once it starts becoming quite common use for the high-end biologics, we're seeing that acceleration.

So, we – in particular with the insert needle syringes that we have been producing in Arizona, we're actually at the stage of doubling capacity by the end of this year; and that's what was referenced. So, when you think about the growth, which is above the company average – significantly above the company average, we do see, through the number of approvals of drugs in the market, plus what's in the pipeline that's being reviewed as we speak, that this is an exciting area. But it has taken time. You're right, Dave. It's been – this had been discussed for a number of years, but now it's becoming more noticeable in our growth numbers, particularly on devices.

David Windley

Analyst, Jefferies LLC

And then sticking with innovation, you've – in previous commentary, you've talked about, hey, NovaPure is not the end of the road. We're not done with NovaPure. We want to continue to innovate. Any comments on that front? Is NovaPure Prime in the offing at any time in the near future?

Eric Mark Green

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

Well, I don't know if I can use that now. We still have to annotate you. But I will say, stay tuned. I got to be careful in that category. But I will tell you this. What's really exciting is that the teams that we've put together, particularly with the market-led approach, we're getting better insights on where we are headed and what products are being pulled by our customers and what problems we're trying to solve. Earlier, we just briefly mentioned a new digital tool, and that actually was – Delta Cube. That was actually derived from conversations with our customers. Wouldn't it be great if we could do this?

So, stay tuned on that question. We are – we're constantly developing, and – but be assured though, they will be products that are being pulled by our customers today.

David Windley

Analyst, Jefferies LLC

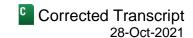
Got it. Last question for me is around capital deployment. You've talked at times about being interested in acquisitions, and I can imagine that maybe finding what you wanted at attractive prices might be a little hard in this market. Raise the dividend, but not by much. Is there any appetite, given the growing cash on the balance sheet to, say, make the dividend more substantial? Or are you holding it back for acquisitions? What's your thought around cash?

Eric Mark Green

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

Well, I would say the first priority, Dave, and particularly in the environment that we're in today, is to continue to fuel the very robust organic growth that we have in our hands and that we're dealing with. It's a great problem to solve, right? And so we're going to continue to invest in our own infrastructure. What I'm excited about is that it's a really short payback and it's expanding current portfolio. We do think there's opportunities on the M&A front, and

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we're continuously building that capability out here. But our primary focus, I'll tell you, is laser-focused on execution, but we're opening up our discussions broader than that today.

David Windley

Analyst, Jefferies LLC

Thank you.

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

Thanks, Dave.

Operator: I'm showing no further questions at this time. I'd like to turn the call back over to Quintin Lai for closing remarks.

Quintin John Lai

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

Thanks, Amanda, 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 can access a replay through Thursday, November 4 by using the dial-in numbers and conference ID provided at the end of today's earnings release.

This concludes today's call. Have a nice day.

Operator: Thank you. This does conclude today's conference call. Thank you for participating. You may now disconnect.

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