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West Pharmaceutical Services, Inc. (WST)

William Blair Growth Stock Conference

CORPORATE PARTICIPANTS

Eric Mark Green

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

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Unverified Participant

...and I'm going to turn it over to Eric.

Eric Mark Green

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

Great. [ph] Matt (00:00:10), thank you. Good morning, everybody. It's great to start the meeting off with a presentation. And then I know throughout the day we're really pleased to be here at the William Blair Growth Conference and full day of group meetings. So, hopefully, we'll see a few of you in those meetings.

Before I get started, I just want to just highlight our Safe Harbor statement. It's up here on the screen, but also you can find it at westpharma.com. And just go to our Investor Relations site, you can get into the details.

I'm excited to tell you about the story. I suspect some of you are new to the West story, and I like to bring you to focus on what our purpose is at West. Our purpose – 100-year-old company, our purpose has been true from day one, is really impacting patient lives. And how we do that is that we are specifically in the areas of containment and delivery of injectable medicines. And our aspiration and our leadership, our vision is to be the leader in that space, and I think we're doing – we're definitely in the right direction.

How we operate and how we work together globally is really around three core values in the company, really passion for the customer. Secondly, and this permeates throughout all 10,000-plus team members across the globe, is leadership and quality, and also looking at the One West Team, and really leveraging the global enterprise to really support our customers on a global basis. And we think about execute, innovate and grow. So, it's appropriate in our strategic plan and aligns really well with this forum here today.

We do believe we're making an impact on all stakeholders, particularly our shareholders, over the last several years. So, we're really grateful for the support that we get from the investment community, but also from our customers and from our employees or team members, but also the communities where we operate and serve.

There's a lot of accolades at West. I just want to comment on a couple real quick. One is, last year we did celebrate our 100th year as a enterprise, really focused on the containment and delivery of injectable medicines.

We do have 25 manufacturing sites globally and we've been on the journey – I'll speak to this a little bit later about looking at a global network, so we can better serve our global customers versus having discrete sites with discrete products.

This period of time right now, we're adding approximately 0.5 million square feet into our existing operations. And I'll talk further later in regards to our philosophy on how we add equipment and capital into our infrastructure going forward. And what we're really proud about is with our 10,000 team members, how we're engaged with the local communities. Not only are we successful with our customers in helping them launch and impact patients each and every day, but we're producing over 40 billion components a year, so roughly around 115 million to 120 million components a day. And you can imagine the outreach we have impacting patients globally. But we have a very strong philanthropy spirit within the organization, again, going back to – giving back to the local communities.

The business has a very good, diverse portfolio and the areas that is expanding over the last several years is the areas of [indiscernible] (00:03:33) growth. So, you think about geographically speaking we're evenly spread between the Americas, Europe, and we're seeing Asia on the rise. And so, therefore, we're evenly distributed throughout the globe. We have manufacturing footprint in all major geographies and we're able to support our customers locally but also globally.

The portfolio itself – we categorize this for a number of years of high-value products, standard products and contract manufacturing. We have split out the product components which would be like elastomers and seals versus our product delivery devices, which would be – you think about wearables, you think about autoinjectors, you also think about administration systems.

But if you add the two areas of high-value products which has higher ASP, higher margins and better economics, and it's the fastest-growing area of our business, it's roughly around 60% of the portfolio as of 2023. We expect that to continue to rise.

Contract Manufacturing, and for those who are not familiar with that business, I'll get into a little bit greater detail, but that's roughly 20%.

What's exciting is that on the far right, when you think about our journey on biologics, it is roughly of the entire enterprise [indiscernible] (00:04:48) approaching 40% of our total business while you think about the pharma, which we classify as small molecule and also you think about some medical devices that go in that space and then the generics. And the generics do not include biosimilars, just to be clear on that. We have that part of biologics as the value propositions are the same.

But the key message on this slide is that it's a very well-balanced, diverse portfolio from a geographic, from a product portfolio perspective, and also from a market perspective.

Last month, we – or a little over a month ago, we talked about our Q1 results. I think they're pretty self-explanatory. We're seeing a slowdown in the first half of this year. But our guidance suggests that you think about this that second half is going to be stronger than the first half for 2024 for West.

What we have done as an organization is we're very market-led. And we think about the interconnections between our commercial customer-facing, our product management, R&D, looking at whether it's applied research all the way to product extensions and then our global operations. These have been aligned directly to our market segments that we have established. It allows us to respond more effectively, align our resources and capabilities to those unique value propositions and allows us to grow faster than, I would say, the market at this – for the number of years.

Let's go a little bit deeper in this. I mentioned earlier the biologics is inclusive of biosimilars because of the fact that the characteristics of the molecules itself is pretty consistent between a biologic and biosimilar, and therefore a value proposition and our solutions are pretty – are consistent.

What's interesting in the generics space is an area that we probably haven't focused enough in the past, but we have seen nice increase in that area and also bringing our customers into the high-value products within our generic small molecule space.

And then Contract Manufacturing, to be clear what that is, is that we're very good at injection molding and assembly for – think about autoinjectors, think about pens, think about other type of devices on behalf of our customers. So that part of the business, which is only a little less than 20%, that's where the IP is really technically owned by our customers, and we partner to design scale and do mass manufacturing.

The left-hand side is really that's unique IP owned by West and our partner, Daikyo, as we think about building, creating new products for – in primary containment delivery devices for injectable medicines.

This is a chart that you've seen before that for those that are familiar with West. For those that are not, this is what we call our portfolio, how it's kind of laid out and the growth thesis we've had for a number of years, but the runway is quite attractive. And let me tell you why.

If you look at the bottom left-hand side, let's just articulate that that's our standard. Remember, earlier in the pie chart, it talked about less than 30% of our portfolio is around standard. And from a revenue perspective, it's actually about 25%, let's say. So, in the bottom left-hand side, it's about 25% of our revenues from Proprietary. And the right-hand side, when you think about the pharmaceutical washing all the way up to our whether it's integrated systems and self-injection. That whole corridor is roughly – close to about three-fourths of the revenues at – and then Proprietary at West for 2023.

But more importantly, if you think about volume units, in our space, we look at number of injections per dose and the components, the standard components is roughly three-fourths of our volume are units. Again, three-fourths of the units, one-fourth of the revenue.

So, therefore, the high-value products roughly in 2023 is roughly one-fourth of the volume and again, three-fourths of the revenue. Will be repetitive, but I just want to articulate because as we talk about our strategy and really moving our customers up to high-value products, you have a effect of there's a higher ASP as you go up to the right, and obviously the margins correlate.

To give you an example, in the standard products where we're less than 30%, let's call it about 27%, 28% type of gross margin area when you get all the way to NovaPure and plus areas, you're in the 70% to 80% margin. So, you can quickly do the concept of how does West have this long-term algorithm of 7% to 9% top line growth and 100 basis point margin expansion. The margin expansion really is driven by this mixed shift effect, which is the element of top line growth. But more importantly, majority of the margin expansion.

When you think about particularly if you do a deeper dive, so you think about the injectable medicine space within health care, it's one of the fastest areas of growth. When you think about a subsegment within injectable medicine, you're talking about the biologics and biosimilars.

We have a 50-year old relationship with a company in Japan called Daikyo where were 49% stake exclusive relationship with them where we have technology and distribution rights both ways. Why is that important is because the combination of our technology and their technology intertwined allows us to be highly competitive and providing the best solutions to the biologics and the biosimilar space.

If you think about, again, it's a high-growth sector. We're on the top 50 biologics injectables as between ourselves and Daikyo. And we think about more importantly is the pipeline, we win with the pipeline.

Conversion of existing molecules in the market from one player to the next is of low probability, very low probability. When you think about our future growth and where we're going is really seeing the market, particularly with the – in all areas, but where we speak around biologics, it really tends to be a lot of emerging biotechs.

As you think about the new approvals, the innovations coming from the smaller biotechs, smaller firms, smaller pharma, and they get success and either they're successful on their own commercialization or they partner with the larger firm.

The packaging configuration and containment [ph] stays (00:11:29) as is in existence and has been filed. So, there's no change. Why am I bringing that out? Is that this is an area where we need to continue to win. And our participation rate with biologic and biosimilars is extremely high. And we believe with our technology, with our quality, with our scale, with our capabilities, we're able to continue with that going forward. And we are in the past five years, we are still seeing that in this year, high success rate.

The biologics portfolio just over the last I think that's seven years went from low-20% to high-30% in that period of time. And remember, the rest of the business continues to grow. So, there's non-swap from one segment to the next.

This is the fastest area of growth when – in injectable medicines space, and we're very pleased with how we're positioned to support that going forward.

Our innovation team is really focused on three different key areas. We're continuously doing development agreements with our customers whether it's expansion of existing elastomer components or devices. We're also looking at new technologies.

As we think about the adoption of new technologies in our space, is a long tenured process. It doesn't happen overnight. So, we have several initiatives in place, whether they're internal or external investments, they're allowing us to expand the portfolio. And as we talked about that product portfolio going up to the right, we want to continue to expand that in many different ways.

An area of our business that if you think about the 10,000-plus team members across the globe, our 25 manufacturing facilities in the world, we are basically roughly around 70%, 75% of our team members are in our manufacturing facilities. So, we're a heavy manufacturing organization. Hence, the 40-plus-billion components that we produce every year.

And we have a very clear operational plan and we started this journey a while ago, but change does take time. And so, we do believe there's more capability, more expansion to do in this area. When you go from 25 discrete sites servicing a few customers with specific SKUs to more of how do you network.

So, our high-value product portfolio that I talked a lot about, we have identified five discrete sites globally. We're investing all the technology that's consistent from site-to-site. And maybe a few of you have seen our sites when we've had open tours, whether it's Kinston, just recently at Waterford in Ireland. And what you'll notice there is that technology processes and capabilities are consistent, and that's where our customers are looking for.

They're looking for if they're going to put our product on their molecule, and be somewhat – the solution on the elastomer component on their containment, they want assurance that it's not just only going to come from one site, it can come from multiple sites. And through regulations, we're able to – to be able to file – they're able to file with the FDA to have that support with multiple sites.

So, really excited how we have moved this forward. But I'll tell you one thing, there's a quote here. Every component has a patient name on it, and that resonates throughout all our organization. It becomes personal when you start realizing that each and every component has an impact, whether it's yourself or your neighbor or your family, your friends, your community. And that's how we stay ahead of the curve on quality and how we make sure that each and every component has the highest level quality for the greatest patient outcome with our customers.

Here's a little bit of snapshot of history, but I'd rather look forward. And one of the aspirations that I see is that how do we make an even more meaningful impact, whether it's daily or annually, a number of patients that we're touching. And that's quite a remarkable – it's a huge responsibility for West. We are very – we partner with our customers to make sure that there is assurance of supply. But more importantly, just looking at the new complex molecules [ph] that they have (00:15:32) been developing, how do we match that with the best product or alteration of the best product will support them as new launches.

But the global operation, most sites are 24/5. We do [indiscernible] (00:15:44) during the COVID pandemic, we were heavily involved with that, obviously, and we were 24/7 most of our plants. And now, we're back to probably a more reasonable capacity utilization. So, it allows us to continue to grow with really short lead times for our customers.

To be able to support the growth in the future, we are continuing to expand capacity. And one of the areas that we're really focusing on is more, we call it, expansion of existing facilities or brownfield versus greenfield. There may be cases where we need to do a greenfield, but most we're creating more of a campus environment as we look.

On this slide here, you'll see on the left-hand side the top two are really around HVP processing, so pharma washing, sterilization, Envision, that [indiscernible] (00:16:39) technology, all that is now allowing us to grow as new molecules are launched and/or as some regulatory changes that I'll talk about later down the future will cause more demand in our HVP portfolio.

And the next slide is the European expansions. Again, on the right is more of the proprietaries side. High-value products and areas in Kovin and Le Nouvion in France, and Eschweiler, Germany. Eschweiler, Germany, just an FYI, is our largest single plant in proprietary globally and we continue to invest in new technologies. We just put new automation into that site, which we're really excited as a kind of first entry with this type of automation, allows us to be more efficient with our elastomer component, plus it moves us away from handling the product, therefore, less [indiscernible] (00:17:35) higher quality which will continue to differentiate us.

The left-hand side, just talk real quickly, this is part of our Contract Manufacturing business. That facility has – I'm very proud to actually walk through it a couple of weeks ago. We will be operational towards the end of this year.

We'll take – and contract manufacturing does take time to ramp up to full capacity. But what's unique about this facility, it will be 100% filled with committed volume as we speak, as we stand here today. But now, we have cold chain storage and also drug handling capabilities in this facility.

So, as you think about Contract Manufacturing, the capability of using a similar strategy as we've done with proprietaries, how do you move up the value chain – not up the value chain, but how do you increase services and capabilities that have a higher value proposition that we can capture. So, I'm excited about that journey in that particular site in supporting one of our customers.

While we're building on our infrastructure, we're also continuing to build on our sustainability as an organization. And this has been part of the DNA of West for decades. So, this is – I wouldn't say this is a new phenomena. We do have a report that will be published later this month that we'll go into greater detail. But I'm very proud of how the team has embedded this in our strategy, in our operational focus and our metrics versus being discrete projects or initiatives. This is part of who we are, and all the other metrics you'll see in the in the report when it's published is the reason why we're seeing some of the accreditation and awards that we receive on the right-hand side.

I want to do a little bit deeper dive, so questions been asked around, there are some regulatory changes. Why is there an impact on West now? A lot of these regulations have been in place for quite a while.

What's unique about what has been referred as European GMP Annex 1 is that it is now moving the primary packaging components into scope, while historically it was not in scope.

So, what does that mean? It means that some of the legacy formulations and/or bulk material may need to be processed differently to be able to meet these standards and this will take time and this will be a journey over a number of years.

But what's exciting about this is that we're very well-positioned with our portfolio to be able to support our customers. And our investments that we're making for new drug launches, existing drugs that just recently been launched. But also with shifts of regulatory changes, we're able to support that with capacity and capabilities to support the growth.

So, what you'll find here is that there's a number of changes that are occurring. And you see our strength at West really is think about container closure integrity, you think about our container closure system strategies. That's where we can come to the table and support our customers on this journey and be part of the solution. So, we're embarking on this process. But as I said, it will be over a long period of time and it is a journey.

There's really four pillars to this that we focus on. One is the specifications of the components. We have formulations that obviously as a 100-year-old company, have been around for a period of time, and obviously we have new formulations. But once you're in the market, it's difficult to have a transition if it's meeting all the regulations.

With this change, there are expectations. When you think about knowing what the particular levels are, the bioburden, exotoxins, that will allow us with our expertise and capabilities to bring forward solutions that brings in our new formulas, it brings potentially new formulas, or using West washing technology, Envision and also sterilization that we provide solutions for.

But as you think about the four pillars product, the process, protection and improve these are all areas that West has been great at for a number of years. It's a core competency and we'll continue to leverage that as we support our customers and solutions going forward.

So, just to remind you, that's why we believe, as I mentioned earlier, if you think about proprietary, it's roughly around 85% of the number of units that we produce globally. And I mentioned earlier, of that, 75% of the volume is standard products. While the balance of it is high-value products, 25% of the units. So, there's opportunity of, not all, but there's some opportunity to move a portion of the bulk in lower-tiered HVP components up the value curve.

I want to do a little bit deep dive in NovaPure because it's been asked, this is an area we've launched in 2016-2017. As you know, it takes a couple of years for our customers to look at stability, look at characteristics, make sure that the capabilities on their drug molecules will support them on future launches and we do believe this is best-in-class in particulate – particle specifications.

We are leveraging the FluroTec film and B2-Coating technology with our partner, Daikyo, and it is a high-percent Envision verified. So, what's really exciting about this area, this is what we see the market, particularly in the biologics and biosimilar space. Any conversations we're having today, but it's really early – is in development, our Phase 1 or Phase 2 are getting into commercialization, before commercialization, that's what we're seeing with – this with NovaPure.

And we have expanded the capabilities – we had to expand aggressively on the stoppers. But more importantly, when you think about prefilled syringes with the plungers, that's an area we've been expanding over the last couple of years. And then with the finishing processes that [indiscernible] (00:23:33) investments will allow us to continue with that growth.

It is a risk management strategy with our customers. It is derisking launches of molecules in the marketplace. And so, we're excited that this is very well-positioned in the market and we're going to continue to allow – the seeding process to continue and the high win ratio will continue to see expansion of growth with our NovaPure portfolio.

So, I'd like to conclude here with a summary slide that really articulates really two key points. One is revenue and market growth for West, the top line, and this is more – you think about mid to long term of our financial construct, we've been talking about for a few years and why we believe we're very well-positioned to continue to have strong growth, top line and bottom line growth.

I mentioned earlier that biologics is the fastest-growing area of injectable medicines. Our position there is that we are the leader in the injectable space for components used with biologics and biosimilars. That win rate continues today. And it's a privilege, it's honor working with our customers and we'll continue to do these investments to make sure that we can provide the highest level of quality, the best service to our customers to ensure that they're getting the support as they launch these critical molecules in the marketplace. And they will become more complex and we're positioned well to help them with their growth.

Our investments and capital, over the recent years and also this year. And this year, I think we talked about in April around $350 million for capital investment at West. 70% of that capital is around growth. And when you think about the growth of that capital, a lot – most of the capital growth is around the Proprietary area, not all, but most, proprietary area for what I call the finishing processes, not the molding, not the trimming because we have enough capacity that we've installed over the last couple of years. Now, it's more the finishing processes, which is not – if you think about West, if you came to one of our plants, you realize that our Proprietary business – these are not dedicated lines [ph] or suites (00:25:55) for a customer or for a molecule. These are fungible. They're dedicated for certain products, changing of formulations, but processes is what's driving it. So, we're able to interchange with all customers and we're able to [ph] interchange (00:26:10) different configurations of the product itself. So, it's a very attractive investment thesis which is supporting when you think about the volume growth of injectable medicines, especially with the regulatory changes.

We're also leveraging our high-value product – Proprietary portfolio with our glass partners. Why are we doing this? From a regulatory perspective and from a customer perspective, we want to help them derisk. And what they're looking for is how do you create a single system that is a West system. So, we have a exclusive relationship with Corning. We have other relationships in the market. What we are looking at doing is creating a single system that's fully characterized that our customers can point to one drug master file. Is that important to our customers? It is. And by fully characterizing, showing that the performance of [ph] their (00:27:04) system is greater than the sum of the components from multiple suppliers, and they would have to fully characterize [ph] they're seeing now a way (00:27:11) to derisk and partner with a company that's been in the market and partner with them for many decades, and they have that confidence in us.

So, this is an area for future growth. This is future, but it's exciting because the response we're getting customers is very, very high, and we're ready to continue to build this portfolio and start launching over the next couple of years.

From a margin expansions, we talk about top line growth, we talk about margin expansion. Margin expansion to us is extremely important. And we've come off of significant volumes off COVID. We're ramping up with the growth last year. And as we think about going into the future of growth in our Proprietary business and Contract Manufacturing, but mostly Proprietary, this HVP mix shift is the key driver of margin expansion.

We can talk about LEAN operations, which we apply every day in all our sites and there's targets and accountability to hit these LEAN principles. But what really drives majority of the 100-plus basis points of operating margin expansion is the HVP mixed shift.

It's this if you can put more customers on NovaPure and shift them to the higher end of that area, that is a natural progression. You saw during COVID with the expansion of NovaPure to support the vaccines.

The last area, I talked about LEAN, but another area that we're really excited about is automation. We have new automation going into Eschweiler , we have new automation being installed in Kinston that allows us do end-to-end process, that's no human interaction, allows higher particulate – I mean, lower particulate, higher quality at the end of the day is a better product for our customers.

So, I'm very excited about the future of West and I'm excited about the markets that we play in, the position that we have, the portfolio we have. Our customer base is extremely broad and diverse, and we have a global footprint to support it.

So, thank you very much. We'll have a Q&A session, I believe, and I appreciate your attention. Thank you very much.