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West Pharmaceutical Services, Inc. (WST)

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

OTHER PARTICIPANTS

David Howard Windley

Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

David Howard Windley

Analyst, Jefferies LLC

Hello and good morning. My name is Dave Windley and I'm the Managing Director in Jefferies Equity Research Department. I want to thank you, our audience, for attending our Virtual Healthcare Conference this year, as well as our next company. It's my pleasure to introduce Eric Green, company's President and CEO; and Bernard Birkett, the company's CFO, from West Pharmaceuticals Services, and they'll be our next presenting company.

I want to – we are going to do a fireside chat this morning and so I will kick off the questions, but also want to let you know that the audience can submit questions as well. So, Eric and Bernard, thank you for being here. Appreciate your attendance and support of our conference.

QUESTION AND ANSWER SECTION

David Howard Windley

Analyst, Jefferies LLC

Q

I want to start off by just kind of covering recent performance and then we'll move into outlook. But 1Q was certainly a strong quarter for West. Organic constant currency growth in the low double-digits for your Proprietary Products segment, even up to the mid-teens for Contract-Manufactured Products. And that is, of course, well above your guidance of 8% for 2020. Can you talk about some of the drivers in Q1 first and then we might move to how do you expect those drivers to evolve over the course of 2020?

Eric Mark Green

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

A

Thanks, David. Again, good morning. Thank you for the invitation. Truly appreciate it during these times. Absolutely. We had a strong quarter to start the year of 2020 and we had pretty good visibility of that demand in latter part of 2019. So, this was a continuation of what we were experiencing building up, particularly in a couple areas. From a product perspective, it's really around our high-value product portfolio in the areas of FluroTec and our NovaPure product launches that we have done with our customers. We're also seeing a nice uptake in our self-injection systems and, again, that is a continuation of the buildup we've been seeing over the past several quarters.

From a market unit perspective, we continue to see very strong growth in the biologics space, and then I think all the market indicators suggest that this is the – the new drugs that were launched a couple of years ago, they were trying build traction in the marketplace and our customers are – it's no longer just a launch mode. It is actually replenishment. It can continuously feed the supply chain.

We're also seeing healthy growth in our generics space. We're excited about that because that is a continuation of our AccelTRA program in high-value products. And I can't leave out the contract manufacturer that continues to do really well, particularly in the diabetes space and also with auto injectors. So, really multiple businesses are firing quite well.

As we look to where we are today, we continuously monitor the confirmed order book. We're pleased on where we are and also able to fulfill that demand that is put upon us. So, that's all we kind of look at the strength of the Q1. And as we commented before, really, we didn't see any impact of the response to the virus in the first quarter. However, we intend to see impact going forward.

David Howard Windley

Analyst, Jefferies LLC

Q

So, maybe on that last point, you expect to see some impact going forward. You maintained guidance. I think you re-emphasized that the visibility for most companies in the current environment is impacted by COVID and that was at least a reason contributing to not getting overly aggressive with your guidance. Perhaps give us a sense for where you think that impact might show up. You talked about tracking the order book. Are you beginning to see that show up?

Eric Mark Green

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

A

Yeah. David, there's a couple of ways of looking at this. One is, if you recall back a few years ago, we had some supply chain constraints, particularly in our generics area that caused an increase in the confirmed order book and we saw healthy growth for a few quarters. And that was more of our customers reacting and trying to build inventories.

I can say today, because the systems we put in place in the market unit approach in our culture to our customers, we are seeing very little of that activity occurring at this point in time. What we are seeing is a strong dialogue with our customers in two – really two big areas. One is the therapeutics. And as you know, with our presence in the biologics space, you can imagine our participation rate on those discussions are very high. And so, as progress is made on the success of some of these molecules going through the various studies and being approved, we are anticipating to be part of that solution.

In the vaccine space, we are – again, a very similar situation. Very high participation rate in conversations and we do know some potential opportunities that will be latter part of 2020 but most likely in 2021 that we're working with our customers right now. That's what we're seeing in respect to the response to the COVID-19 and we are positioning ourselves well from a operation point of view that we'll respond quickly if or when necessary.

Bernard, do you want to add in to that?

Bernard J. Birkett

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

A

Yeah. When we talk about the guidance, there are a couple of things [indiscernible] (00:06:05) that there is a lot of uncertainty and volatility in the market at this time, and that's what we're trying to make sure that we have that built in to our guidance and also that we're looking at fall, late fall, early winter, do we have any – is there a rebound in the instances of COVID-19 and how does that impact the market. So, we're cognizant of all of those potential events happening, and we wanted to make sure we capture that in the guidance and we didn't get out over our skis.

David Howard Windley

Analyst, Jefferies LLC

Q

And so, are there particular areas where you think COVID is more likely to have a headwind impact or are you simply just taking a broader conservative approach?

Bernard J. Birkett

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

A

There are certain areas where we have seen some impact, but it's on smaller parts of our business. So, if we look at on the dental side and on the veterinary side, there [indiscernible] (00:07:09) particularly shows up in our pharma market units, and that's where we would expect to see some slowdown, if at all, over the remainder of the year. So, again, we're cognizant of that and we're managing that very closely with our customers. But again, that's a smaller part of our business.

The other areas that we're also looking at was regarding on the logistics side and making sure that we weren't going to have any interruptions when we're dealing with our freight forwarders, even the lower levels of capacity that are there, particularly with air freight which, at this point, we've worked through those challenges and we are getting product to customers. But again, there is just such levels of uncertainty out there that we felt it prudent to be [ph] thoughtful (00:08:00) around how we were giving guidance and build those things into it. And again, our objective is always to do better, but I don't think we're being overly conservative but maybe a level in there.

David Howard Windley*Analyst, Jefferies LLC*

Q

Got it. So, Eric, I want to move on a little bit more COVID-specific and you began to touch on this. But I think in terms of COVID programs we're talking about, certainly, everybody's very focused on progress on vaccines. There's also I think a lot of companies that are working on therapeutics to treat the disease and symptoms of the disease as well. I hear a number north of 100 programs. I'm not sure exactly – I'm not sure anybody knows exactly how many are out there. But could you give us a sense for how many programs you're working on? I think you alluded to a fairly high participation rate. And so, how much is West working on and what are the types of products that clients are engaging you around?

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

A

David, it's hard to speak to the exact number of customers or institutions working on programs as we speak. You're absolutely correct. There are several. There are many. And that's very good positive because we're all focused on trying to find a solution as soon as possible.

But I think what has put West in a very good position that has been built up over time is that there are some very large biopharma companies that have been developing potential candidates around the vaccines. And there are also several academic institutions that have been working over the past several months on the solution. And while they rely on more expertise on how to do the primary package and containment, as you know, the history of West we're very good with the large customers but also with the smaller organizations or institutions to help them get across the line.

And the nature of the vaccines that are being looked at tend to require what we call the high-value products, but to be specific, we talked about the [ph] supports, (00:10:30) the floor tech coating that really differentiates in the marketplace. And it's somewhat a staple or a standard when it comes to these complex biologics and/or complex molecules.

So, our participation rate, while I won't give you a number, is very high. And what we have been effectively able to do is try to standardize with our customers on specific types of products that we'll supply for them so we can scale and pivot if necessary depending on which vaccines are successful.

It's easier to discuss around therapeutics because therapeutics, West has a very high participation rate and there's no reason why we would not continue to have that. And based on the dialogue we're having with customers, we are still at the table with most of those solutions.

One comment I'd like to add, David, is that you mentioned about visibility. This has all been building up over the last several weeks and a few months. So, the clarity on what this means is still being developed in a sense of I think we look back back in April, there's a little bit less certainty on how many vaccines, how many therapeutics are being looked at. But today, in the next few months, hopefully, we have a lot of clarity and we can bring more transparency how we think that translates into our business.

David Howard Windley*Analyst, Jefferies LLC*

Q

Got it. So, maybe as a parallel, listening to, I think, if I understood the nuance of your answer there, that your participation rate on therapeutics is even higher than maybe what it is on vaccines. Is that what – did I understand that correctly?

Eric Mark Green

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

No, I misspoke. It was translated. I would say it's in both categories, it's very high.

A

David Howard Windley

Analyst, Jefferies LLC

Okay.

Q

Eric Mark Green

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

The reason why it's very high for vaccines is that there is a need to go towards a solution such as the FluroTec coded stopper that we provide and also, in fact, there's a few cases where NovaPure is the chosen solution.

A

David Howard Windley

Analyst, Jefferies LLC

It's all right. Okay. Understood. So, in those cases, perhaps talk about the value. I mean, we're, I think, familiar with the NovaPure product and the quality by design elements of it. Obviously, in this circumstance, the need for speed for these companies to bring these vaccines or therapies to market is very high. Can you talk about the enhancements, the value proposition that West brings to clients with these high-value products from a cycle time and a speed standpoint?

Q

Eric Mark Green

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

Yes. So, when you think about the volume of products we produce and we talk about over 40 billion as a company. But when you pare it down from the contract manufacturing to just proprietary where we're talking primarily elastomers and some seals, what you've seen is that we're roughly 32 billion, 33 plus billion components a year. So, right away we have scale and we do have the global footprint built to respond quickly to our customers.

A

And what has really helped us, enabled us to get more confidence where we are today than a few years ago is the globalization of our operations. So, we've created this network effect. We're able to work with our clients to not just produce a product out of any site is that we can produce their product out of multiple sites. And you can just imagine the ability to pivot and create the volume and capacity – or to meet the demands that have been put upon us potentially in a very short period of time.

So, our focus has been we do not want to be a bottleneck. So, therefore, instead of looking at adding resources where necessary to keep up with the core demand of our business, but also with the potential [indiscernible] (00:14:59) therapeutics and the vaccine. And in addition to that, and we can talk more about capital deployment, but we are adding equipment into particular facilities to expand the capacity that we would have put in these facilities one or two years down the road. So, we're just bringing forward our plan to accelerate and build and make sure that we have the capacity available when the surge does hit.

David Howard Windley

Analyst, Jefferies LLC

Q

Got it. And so on that point, your, I think, guidance at the end of Q1 for CapEx was \$130 million to \$140 million, I think relatively the same. Did that include some acceleration or is – over some of these evaluations of acceleration in flight at the time and we'll get more updates later?

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

A

Dave, I'll take that one. We're currently reviewing the CapEx requirements for 2020 and 2021 based on the progression of the vaccine development somewhat West is going to have to put in place to make sure that we can support the volumes that are required. So, we're going through that at the moment. Obviously, when we put the \$130 million to \$140 million in place, we didn't have any visibility around COVID. So, that is something that we have to review.

But as a leader in the space, it's incumbent on us to make sure that we support any vaccine development and that we also support vaccine getting to market as quickly as possible, so that we'll have more information on that over the next couple of months, but it is something that we're looking at.

David Howard Windley*Analyst, Jefferies LLC*

Q

Understood. Are the priorities in getting – thinking about the cross-matching of product inquiries by customers in and around COVID and the CapEx spend to support those particular products and knowing that there's kind of a product continuing and your high-value products tend to build on each other, is the CapEx – fungible is not the right word, but is it fairly complementary to what you would have already done, or is the emphasis perhaps in areas that are being accelerated by COVID specifically but not necessarily relevant to other product categories?

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

A

Well, [ph] it takes that same (00:17:50) technology that what we already have, it's just expanding that capacity base. So, it's really looking at what we would have had planned that Eric kind of alluded to earlier between say, 2021 and 2024, and accelerating some of that CapEx spend to making sure that we can put the capacity in place earlier. And so, it's not that we have to go and acquire or develop newer types of technology.

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

A

And, David, a lot of the technologies that we're referencing or referring to is in our high-value products. And particularly when you think about, again, FluroTec-coated elastomers and also with NovaPure, those are the key areas, I would say, at this point. And so, one thing I'm very pleased with the global operations team is how they have really set up the global network so it is really a I don't want to use the word plug-and-play because you do need to validate, but we're adding equipment versus bricks and mortar.

David Howard Windley*Analyst, Jefferies LLC*

Q

Yeah. Okay.

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

A

And this is all about that global operations and bringing 29 sites down to 25, ensuring that we had available space and capacity to add the equipment to help us keep on, I call it ahead of the curve, but keep on track of the demand that is being put on us currently and also in the future.

David Howard Windley*Analyst, Jefferies LLC*

Q

Got it. So, I did have a question on my list about the reduction in footprint and it sounds like from your answer right there, that hasn't really limited your ability to scale up, I think, rather you're able to scale up and leverage your bigger centers of excellence more effectively. Is that the right way to think about that?

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

A

Yeah. I think, David, that's the right way to look at it. It sounds when we say we went from 29 sites after we built Waterford and down to 25, there might be a perception that we're reducing our capacity or capability around capacity, and the reality is we've actually increased capacity. And again, it goes back to the rationale why we did this a couple of years ago is because each site works somewhat independently. And now, since through the network we can flex it and we're putting more lean initiatives in place, leaning out the Web, leaning out the processes, colocating, creating centers of excellence, and now we're actually adding more automation.

So, when you think about the work that's ongoing and it's going to take more time to continue this journey, it has really opened up, frankly speaking, floor space to allow us to add more cells and modular approach to add on to existing facilities. I'm very pleased about this because your centers of excellence of Kinston, Waterford, Eschweiler, Singapore, Jersey Shore, these are sites that we can continue to expand without putting another – go look from our land and put a shovel in the ground. So, David, we're in a good position.

David Howard Windley*Analyst, Jefferies LLC*

Q

Excellent. Excellent. So, thinking about – I guess, one – kind of [ph] two (00:21:08) follow-up questions here. But one of the areas that we focus a lot on in our broader healthcare services team has been around the deferral of elective procedures, activities that have kind of depressed people's ability to go in and get normal diagnostics and surgeries and things of that sort apart from COVID. And I guess I presumed that those activities would consume injectable drugs, be they pain killers, anesthesia, things like that. Getting back to your ability to track channel inventory, how do you assure yourselves that there is not, say, excess inventory in the channel simply because it's not being pulled through by the normal levels of procedures?

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

A

David, that's a scenario that we are constantly monitoring and it tends to evolve more around our pharma business because there's two aspects of the pharma business that we see. One is we do have a hospital channel, our ministries and systems. And so, we are monitoring the – when we call it the core, we're talking about existing customers and existing arrangements because there's – our business is highly repeated annually, right? So, we have [ph] good visibility. (00:22:39)

In addition to that, we do see in some small-molecule areas that you referenced – I know we already talked about animal health or the vet area and also dental, but there are certain areas that there's some softness. But what we're also seeing, because of the virus is that other areas outside of therapeutics, the antiviral therapeutics outside of vaccine work, that we're seeing some pickup.

So, it's noticeable, we're tracking it. I'm much more comfortable today than I was a few years ago with the market units that we had put in place. Our connectivity with our customers' supply chain, in particular, the larger customers and we have better visibility and transparency of their supply chain. So, we're aware, we're monitoring it, and we're keeping on top of it. So, there's some puts and takes to what you just stated.

Other aspects, if you think about our contract manufacturing business, there could be a question why is that growing very strongly, and that's because of two things. One is we continuously build out the diabetes space, which is important and it continues to have high adoption and high pull effect by the consumers. And secondly is around injectable drugs in particular in the biologics space. So, it's very positive for us. So, there are some puts and takes, David. And in our part, we're seeing more positive than a – I guess, tailwind versus headwind.

David Howard Windley*Analyst, Jefferies LLC*

Q

Yeah. Okay. Got it. Another thing that was mentioned on the first quarter call was as many companies address on their first quarter calls was operating procedures that you were adjusting to deal with social distancing and things like that, and I think that includes for you stretching out shifts and/or adding shifts and things like that. Can you talk briefly – we've got about a minute-and-a-half left here – what applications you put in place to be able to comply with social distancing from an operation standpoint?

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

A

Yeah. David, with 25 manufacturing sites around the world, you can imagine the virus at different geographies at different times. So, we had a global pandemic team put in place. We were able to put the right protocols in place at our locations around the world. All sites have been operating. We do know that in March when it started to escalate, different types of indications were coming up from different geographies from governments. We had some – absenteeism went up slightly.

But I can speak to it right now that is below – every site is below our fiscal average pre-COVID-19. So, the team has done a phenomenal job. We actually required work remotely for all our office space or plant base that did not need to be on the shop floor. We've put a lot of procedures in place and so far we have done an excellent job to really stay focus on two things: one, the safety of our employees and their families; and number two, insurances and supply to our customers and we've been able to meet both of those to this point.

David Howard Windley*Analyst, Jefferies LLC*

That's fantastic. So, I think we've come in just under the wire. I want to thank you, Eric and Bernard, for joining us for our healthcare conference. Thank you audience for their attention and we'll move on to the next presentation. Thanks very much, guys.

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

Thank you, David.

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