

14-Sep-2023

West Pharmaceutical Services, Inc. (WST)

Bank of America Global Healthcare Conference

CORPORATE PARTICIPANTS

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Derik de Bruin

Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Derik de Bruin

Analyst, BofA Securities, Inc.

I'm Derik de Bruin, the senior life sciences and diagnostics tools analyst for Bank of America. Welcome to our 2023 Global Healthcare Conference. Our next company presenting today is West Pharmaceutical Services. With us today from West are CFO Bernard Birkett and IR Quintin Lai.

Gentlemen, welcome. Thanks for making the trip over from Pennsylvania. Appreciate it.

Bernard J. Birkett

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

Thank you. Thank you for the invite. It's good to be here.

Derik de Bruin

Analyst, BofA Securities, Inc.

Our pleasure. So, lot going on. So, I'm not going to ask a question on GLPs at all. So – because nobody's interested in that. So, we'll just skip that. Do you want to sort of do opening comments in terms of where we are in terms of just exiting the second quarter, strong demand across the business, [ph] CMO (00:00:57) going? Just sort of, I guess, [indiscernible] (00:00:59) set the stage and we'll take the conversation from there.

Bernard J. Birkett

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

Yeah. This year, we have been transitioning out of our COVID response, and things are progressing really well. We're seeing strong demand in our core business. We saw that again in Q2. If you draw off COVID, we're seeing that double-digit growth. And it's across nearly all areas of our business. Everything is performing in the ways we would have expected this year, achieving all our targets. I think a lot of the investments that we're doing, they're

coming online and performing in ways that we would expect. The Kinston investment that we made, we saw that's come online this quarter, seeing – making good progress there. So, happy to see that.

The demand is strong. We see it from across a number of areas in our business. And I know there's a lot of focus on one or two areas and that's important. But for us, I think to see it across all areas of our business is really encouraging. And again, in particular in biologics where, I think from a customer point of view, getting our lead times back to normal levels. Well, in certain areas, we were probably over 50 weeks, and we brought that back down now to about 14 to 16 weeks. Our target is 8 to 12 and we're making progress towards that. And by the end of the year, we should be pretty close on that.

As we look forward, there is still a lot of work to be done. We have a number of investment projects that are going to be delivered over the next number of years. And again, a lot of those investments are informed by what we're seeing from a customer perspective and the demand and the forecast that they're communicating to us. So, a lot of good work.

The transition from COVID and out of that, it hasn't been seamless. It hasn't been easy. But, from my sense, I think we've done a really good job on that. And continuing with revenue growth, the margin performance, managing through inflationary periods and how we've adjusted to that and reorganized our business has been very positive.

QUESTION AND ANSWER SECTION

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

So I want to touch on some of the headwinds that you had seen or some of the roll-off from COVID and some of the other things and inventories, things like that, because those still keep coming up as questions. But your COVID number this year, I think it's \$60 million, right, is sort of there?

Bernard J. Birkett

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

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Yeah.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

We're using roughly a \$40 million-ish number for next year just as a finger in the air, I mean. I mean, there shouldn't be – I mean, it's not going to go to zero but it probably doesn't grow either. Just like how are you sort of thinking about it for next year?

Bernard J. Birkett

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

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Yeah. COVID, in our view, it's going to be – it will probably be a decreasing number.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Yeah.

Bernard J. Birkett

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

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What it is, I can't really call out today. But when you look at it in the whole context of our business now, it becomes pretty small. Now, if there is a need, a future need from customers for us to be able to ramp back up, we have the capacity to be able to do that and to support any shifts. But, as of today, we haven't any visibility on that.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Got it. Good. So, that's it. And obviously, I mean, you talked about lead times coming down and, obviously, there's a lot of concerns about inventories and stocking and such that nature is like that as it hasn't really seemed to impact the company. I mean, there's obviously been some going on with it, but it hasn't really mattered because the other business has been growing so fast which is...

Bernard J. Birkett

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

A

Yeah, we're...

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Or do we need to worry about any of that when lead times come down?

Bernard J. Birkett

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

A

Where we saw it was really around COVID. In a number of other areas of our business, it was actually the opposite because we had to prioritize supply as we were going through 2021 and into 2022. So that's why our backlog number, part of it was growing and the lead times were getting out there. So, we have been able to address that and that's been important for us to be able to get down, to be able to level load our plants and have a more normalized production schedules, and to deliver to customers when they actually want the product and in the timeframe that they want us. And we have made significant progress there, so we didn't see a lot of customers essentially destocking. It happened in pockets.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Yeah.

Bernard J. Birkett

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

A

We saw it in certain areas. But, again, it was offset by us having to bring those lead times down.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Got it. I mean, the industry is, obviously, going through a big, I'm going to say, transition right now. But, I mean, we've covered this stock for a long time and we've always been waiting for these big inflection points in terms of biologics and just sort of things coming through. And it really seems like in the last couple of years, we've sort of seen this coming through. This has – but that's also a delicate transition as you've got to ramp up capacity and you've got a timing, you've got to forecast what your customers are doing. So, when you look at the demand out

there and your capacity and what's going on with it, I mean, is that properly aligned or is there still some risk of mistiming the...

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

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Yeah. Trying to get the timing perfect is like – that can be challenging. From our perspective, we are now in a much better position with matching demand with supply. We took some decisions a number of years ago to layer in extra capacity and expand our Kinston facility. And we have further plans to invest in our – continue the investments in our HVP sites across the network. But, as of today, we will be able to respond to any immediate demand that will come.

And as I said, this year, our focus is on reducing the backlog and if, when demand comes, we will be able to respond. And we're working closely with our customers, understanding what's happening with the market, trying to get a sense of what those inflection points are, and to layering capacity ahead of time while not going way out over our skis here. And so, it's striking that balance.

So, one of the approaches, we're operating at a certain level. We've targeted levels of utilization. And then – but in certain areas, we know that if there was a spike in demand that we could be constrained. So, we're proactively layering in some flex capacity in those areas, particularly when lead times for equipment could be 24 months-plus. That will put us in a bit of a bind. So, to address that, we're taking the learnings from COVID and, in specific areas, making sure we have that capacity, but we're not going to be overburdened with it either. The carry cost won't impact any of the guidance that we would give or our long-term construct.

And also, it's looking at how we're going to leverage our network and how can we optimize that in a more efficient way than we have in the past by having customers to be able to pull product from different sites and not being constrained just by getting product from one site. So, there's a number of different things that we're looking at. And plus, the levels of automation that we will be introducing will actually increase our throughput over the next number of years, and that gives us the level of flexibility that we need to respond to any kind of major spike that would happen in the market.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

So, it sounds like then you're thinking about \$350 million in CapEx this year. So, it should – CapEx should start to ramp down in 2024-2025 as you...

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

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We're going through our CapEx planning, really locking down 2024 so I can't give you guidance on it today. But what I would say is that the CapEx that we're deploying right now, 70% of that is targeted towards growth where, pre-COVID, 50% of the CapEx would have been targeted towards growth. So, a different dynamic. And what we are looking at is to say that if the demand is there, we will deploy the capital to be able to meet it and maybe even a little bit ahead of time. So, there are some of the things we're working through at the moment as the landscape is shifting. So, again, as soon as we have more information on that, we'll share it.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

So, the whole point of this being is like I've had some investors who are worried that you're adding capacity and it's not going to get filled, right? That sort of is the gist of all those questions I get. But you're pretty – you feel like you're completely matched. You know what's coming, right?

Bernard J. Birkett

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

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We pressure test this on a regular basis. And even after we made decisions, we will go back and review them as the market demand is shifting to make sure that the assumptions we based our original thesis on are correct. So, it's an iterative process. It's not just a one and done and we blindly go and add capacity. And again, we had to learn from the last number of years. And if you get too far behind the curve, you actually start to constrain your business.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Yeah.

Bernard J. Birkett

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

A

So, it's striking the right balance. And what I would point to is the level of growth that we've seen over the last number of years, the capital that we deployed is needed for that growth. I think what I was saying to Quintin earlier, when I joined West, it was circa \$1.5 billion, \$1.6 billion, something like that.

Derik de Bruin

Analyst, BofA Securities, Inc.

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Yeah.

Bernard J. Birkett

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

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Today, it's \$3 billion and that's just over five years. And so, that's considerable growth. And then, it's investing. You're seeing it in growth in high-value products which has different levels of technology.

Derik de Bruin

Analyst, BofA Securities, Inc.

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Yeah.

Bernard J. Birkett

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

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And so, you have to support them. So, I think we're pretty prudent in how we do it and, a lot, it is informed by customer conversations, what we're seeing in the market, and where we see demand coming from. So, we're not blindly adding capacity. And just look at the returns, look at the expansion in operating margin, the return on invested capital over the last number of years, it shows that those investments are paying off.

Derik de Bruin

Analyst, BofA Securities, Inc.

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Got it. So, this is all a setup then to ask the...

Bernard J. Birkett

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

To ask Quintin a question.

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Derik de Bruin

Analyst, BofA Securities, Inc.

A specific question, yes. Well, no, I mean, it's a setup [ph] of the batches (00:12:19) like obviously, the stock has had a phenomenal move and people responded to it. And because there's a lot of interest in some of the new modalities out there, there's been a lot of interest in the GLP-1s with this. And so, you're growing 10% on your – the business is growing 10% this year or growing double-digits this year, ex-COVID on the core business. But I think the question is just like is that level of growth sustainable? As you sort of see all these different biologics coming through, the GLPs, all these things coming through, is that level of growth sustainable because your algorithm is a 7% to 9% top line growth with that? And so, that sort of is the big debate on the stock right now is like is that level of growth sustainable or this is going to be some sort of transition next year where there's – perhaps, it's not quite there, the timing's not quite there, right So, that's I think that's where 90% of my questions have been coming in from investors right now.

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Bernard J. Birkett

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

Yeah. As I said, we have been layering in capacity and it's for a reason. So, my sense is we are much better aligned with demand and supply now and to be able to respond to the market. And if there is a spike in demand, we're ready and we have made the investments. Timing, that can shift. That's not – there's some things in our control, some are not. What I would say is that we're as prepared as we can be.

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Derik de Bruin

Analyst, BofA Securities, Inc.

Got it.

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Bernard J. Birkett

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

That would be the way I say it.

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Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah. Okay. Good enough.

Q

Bernard J. Birkett

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

But I would also say, we're not reliant just on one shift in the market. We're supporting many customers with many products, many disease states. So, our investments just aren't based on one item either so...

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Quintin John Lai

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

Yeah. Yeah, let me just add to that. So, the long-term financial construct, Derik, that people ask, well, why don't you move it, again, our long-term financial construct is based off of a combination of macro, individual customers,

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portfolio of customers, our ability to affect certain things. And it's not predicated on a breakout, it's not predicated on one customer or one drug class. We look at it from a portfolio because...

Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

Q

Quintin John Lai

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

...we deal with thousands of customers and each one of them have potentially multiple drugs that are using West packaging and containment delivery. So, now, in the event that there is something that breaks out, then that's additive to the long-term construct.

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Derik de Bruin

Analyst, BofA Securities, Inc.

Got it. And that 7% to 9% then sort of drives at least 100 basis points of op margin expansion. And clearly, you're adding capacity for your high-value products which is primarily going there. So, can we talk about the puts and takes on the margin in terms of you, obviously, have to absorb capacity, you've got the mix shift going on, you've got inflationary pressures, just sort of talk about how we sort of think about that 100 basis points?

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Bernard J. Birkett

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

Yeah. The typical driver for the 100 basis points is mix shift and driving high-value products. And that still stands, that is the main driver. There is some price in there as well and we have been able to get more price over the last number of years. This year, we're probably going to do between 5% to 6%. That's probably north of where we would typically be...

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Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

Q

Bernard J. Birkett

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

...given that we had to cover some of these inflationary pressures. And that was part of being able to do that and manage that cost base. But we're also driving a lot of cost efficiencies and operational excellence within our business. So, taking cost out, becoming a lot more efficient, introducing higher levels of automation, better throughput. So, there's a number of drivers there. So, you've got the mix, the price, and then the operational efficiencies that they are essentially the main drivers of that margin. And that's been the story over the last number of years, but mix is always going to be the primary one.

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Derik de Bruin

Analyst, BofA Securities, Inc.

I mean, are your competitors – where are you taking price, right? Is it mostly at the high-end of the system or are you doing it across even the lowers?

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Bernard J. Birkett

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

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It's across the business but it varies between different elements. Some areas on core legacy business, there isn't as much opportunity to take price there. It is just the nature of that business and the competitive forces.

Derik de Bruin

Analyst, BofA Securities, Inc.

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And speaking of the competitive dynamics, I mean, obviously, there's a lot more competition in the lower-end than the higher-end of the chain on this. And I mean, are your competitors behaving rationally in this? I mean, you have two major ones, right? So, are the competitors behaving rationally? Are they trying to discount? Are they trying to do that or are they taking prices in similar levels?

Bernard J. Birkett

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

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Yeah. We haven't seen any change. There's always been an active community of suppliers...

Derik de Bruin

Analyst, BofA Securities, Inc.

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Yeah.

Bernard J. Birkett

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

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...that are supporting our customers. We have a lot of respect for our supplier – the other suppliers in the area. We focus a lot on what we do, and I'd say that there hasn't been a real change in the overall market because they've always been there and they've always been active in having active dialogue with the customers.

I think from the customers' point of view, everyone has gone through the pandemic with a higher acknowledgment of the importance of the supply chain. So that has – so that goes without saying. So, everyone's looking at what can suppliers do to give them more confidence, right? What we've been doing is we've been expanding our network. We've been standardizing a lot of our processes. We're getting to the point where you can source from a variety of different HVP sites through more standardized processes. And so, that's the assurance that we're giving to our customers.

The other driver that is going on right now is that the regulators continue to raise the bar, whether it be on particulates or extractables, whether it be Annex 1, all of these things that are going out there that are pushing the level up higher. And when that happens, the customers then come back to the suppliers and go, how can you solve that? And that's where our high-value product portfolio, the vast amount of technical customer support we have, scientific insights support that we have, that's where we think that we can provide a lot of value-add to our customers and that's what we've been focusing on.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Got it. So, I have to now go into the obvious GLP-1 questions or I'll get yelled at. Can you remind us how West is playing in that market and sort of how we should think about whatever you said [indiscernible] (00:20:19) remind us on unit pricing, remind us [indiscernible] (00:20:21) because I think people were all trying to solve for X given

we're all seeing this demand. We know there's some limited numbers. How should we think about this opportunity for the company?

Quintin John Lai*Vice President-Strategy & Investor Relations, West Pharmaceutical Services, Inc.*

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Yeah. So, as opposed to talking about a specific disease state, what we remind everybody is that West is the market leader in elastomeric closures, stoppers, plungers, and those go to vials, prefilled syringes and cartridges. So, if an injectable drug goes into one of those categories, West can participate. If it goes into the category of like a cartridge or a prefilled syringe that would go into an auto-injector, then we'd also have another opportunity to participate because we have a Contract-Manufactured business that's high-volume, high-precision injection molding, plastic injection molding so we can make the assembly, we can make the components and assemble. So, if an injectable drug were to fall into those categories, then we would be participating on the elastomer and, potentially, on the contract manufacturing side.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

Got it. Yes. Thank you for avoiding the questions there. But I guess – so, you've seen some of the estimates that us and other analysts and the buy-side has put out on there with this. How do we sort of – I mean, look, I mean, these are obviously not new drugs because you've been participating in these for a while, right? I mean, they've been on the market for a while. So, how should we think about the incremental opportunity from these? Or sort of you obviously are building capacity because you saw demand coming. How do we think about that incremental opportunity with those since the demand has always have been sort of off the charts?

Quintin John Lai*Vice President-Strategy & Investor Relations, West Pharmaceutical Services, Inc.*

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Maybe I can take a stab. First, when we look at capacity, right, and we're talking with a variety of customers, we have a five-year strat plan. And that five-year strat plan is evergreen. So, if you remember in 2020, when COVID was just kicking off and the vaccine manufacturers were starting to do their just studies to whether or not – they were already giving us feedback at that time saying, hey, look, if it hits, we'll need this. So, what we did was we proactively moved to move some of those plans forward, which meant that we then had to redo a new five-year strat plan because a lot of that got moved forward. And as COVID continued, we continued to move forward. As COVID waned, we continued to move forward. But the reason why now is that the base business was also moving, and the base business includes a lot of the new injectable drugs that are coming out. Because we do it in phases, it gives us the ability to flex because forecasts are uncertain.

Derik de Bruin*Analyst, BofA Securities, Inc.*

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Yeah.

Quintin John Lai*Vice President-Strategy & Investor Relations, West Pharmaceutical Services, Inc.*

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And so – and there's sometimes big variation and sometimes the updates can be very varied. So, that's why we have these different phases to be able to bring that in. But when you see incremental HVP sales like you did with COVID, you see what happens to gross margins.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

Yeah. Got it. Outside of CapEx, the company does not have a history of doing acquisitions. I mean, we've always done internal investment like this. And you've – obviously, you've looked at wearables, [indiscernible] (00:24:36). I mean, when you look at this, the business going forward, is there any sort of like technology, any reason to sort of move away from what you're currently core doing and to look for other opportunities?

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

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I wouldn't say we'd move away from anything we're doing. Well, the opportunity to invest or further invest to build out some of these platforms is definitely there. And that will be around wearables drug delivery and expanding that product offering and platform. And that we have seen more interest from customers around that area over the last number of years, and that interest is continuing to grow. And so, that is an area where we are further exploring to deploy capital. We have nothing to really announce or specifically talk about today, but we're now in a much stronger position, I believe, as an organization, ready to be able to go and do that. Over the last number of years, it was really building out the organic story, making sure that we could deliver orders consistently, which I believe we're now doing.

Derik de Bruin*Analyst, BofA Securities, Inc.*

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Yeah.

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

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Then, responding to COVID, that really put a lot of pressure on our organization. We've come through that. We've learned a lot. And we've built out a lot of capability within our organization. We've been adding over the last number of years from a personnel perspective. So, for us now to be able to go, we're in that position to be able to go and now pursue M&A more probably proactively than we have been doing in the past. And so, there are a couple of areas that we do want to target.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

So, on the CMO, I mean, on the CMO segment, historically, you've talked about that as sort of like a mid-single-digit growth rate business because those contracts are not as long and as sticky as what you have. Is that still the right – I mean, yes, you're currently doing some syringe assembly like that, but is that mid-single-digit for that business still the right way? And I guess, what others – you did some consumer product stuff at one time and now you don't do as much. You've moved stuff in and out. I'm old enough to have picked up the stock when the Exubera thing came off, that years ago, and so knowing how volatile that business can be going with it. So, what's the right way to sort of think about that segment?

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

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Yeah. We would look at that segment as sort of a mid-single-digit grower over – it's a much more competitive space.

Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

Q

Bernard J. Birkett

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

The number of players that are in there, how the contracts are shared out is very different to our Proprietary business. But what we're targeting is that mid-single-digit growth probably at the bottom-end of our construct. And again, it's also managing the mix.

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Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

Q

Bernard J. Birkett

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

The returns on that business aren't the same as in our Proprietary business so we have to manage that carefully. But still, it generates a lot of cash for us. The returns are positive. But we're very targeted in the business that we go after in that area. And so, it is as you said, we used to be in consumer products and so we moved out of that.

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Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

Q

Bernard J. Birkett

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

It's very healthcare-focused at the moment. And even within that, it is very targeted. So, mid-single-digits and, again, it's just managing it so it doesn't have the impact that it had probably a couple of years ago when it was growing faster than Proprietary.

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Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

[indiscernible] (00:28:29)

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Bernard J. Birkett

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

...when we couldn't expand margins.

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Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

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Bernard J. Birkett

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

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So, it's understanding that it is a really good business for us. We get returns that we're happy with given the level of investment that we have to make, but we manage it within the portfolio.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

So, I have to also ask the inevitable China question and your business exposure there, competitive dynamic in that market, how do you see that evolving, are current dynamics there being a little bit uncertain? So, how much is China – how important is China to your overall strategy and growth opportunity?

Bernard J. Birkett

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

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The customers that we work with in China are important to us. And we see a pathway to growing business in China over the coming years. We have invested in infrastructure there and within Asia in general to support growth in that market. Today, it's a pretty small part of our business. I think China, Asia and Latin America is probably less than 10% of our revenues. What we do in China really is kind of local for local, so we're not overly exposed there. But from an Asia perspective, we do see the opportunity to grow faster in some of those markets probably than in – compared to some of our more traditional markets but it's still relatively small.

Derik de Bruin

Analyst, BofA Securities, Inc.

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Got it.

Bernard J. Birkett

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

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We're not overexposed. We don't have any major issue there.

Derik de Bruin

Analyst, BofA Securities, Inc.

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And you're not – the current economic slowdown shouldn't, is that impacting the business at all?

Bernard J. Birkett

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

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Not really. We've seen a little bit of pullback in some areas. But, from an organizational point of view, it's not really material to us.

Derik de Bruin

Analyst, BofA Securities, Inc.

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Yeah, given the small exposure.

Quintin John Lai

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

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As a reminder, we – most of our sales are from the commercial production.

Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

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Quintin John Lai

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

And we do very little in clinical, even less in preclinical if any, and none in discovery. And so, in those areas that might have funding challenges upstream, we don't participate.

A

Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah. How much – so, questions that I keep getting from investors, just I mean I know the answers to these, but I'm going to put them out there because I keep getting them. But how much of your business is take-or-pay and how much of your business is tied to the price of the drug that's out there, I mean, given the concerns over drug pricing debates and people pushing back on it?

Q

Bernard J. Birkett

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

Yeah, we're not – our price isn't linked to the price of the drug.

A

Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

Q

Bernard J. Birkett

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

They're like separately negotiated. So, that wouldn't be an issue for us. I'm sure we could get pressure, but it's not tied. There's no mechanism there to just bring our pricing down.

A

Derik de Bruin

Analyst, BofA Securities, Inc.

Right.

Q

Quintin John Lai

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

And in terms of take-or-pay...

A

Derik de Bruin

Analyst, BofA Securities, Inc.

Yeah.

Q

Quintin John Lai

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

...yeah, other than some cases in COVID, for the most part in our Proprietary business, really not a model that we use.

A

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

Yeah. Right. I'll give you that. So, okay. But I keep getting asked questions on it quite a bit, so let's just clarify it. Any questions from the audience?

Q

Going back to the CapEx discussion earlier, can you provide any color on the CapEx investments you're making now? Are they – I imagine they're geared more towards HVPs, but anything you can clarify there in terms of prefilled syringes or where you're making those investments? And in terms of timelines when that comes online, is that from initial investment to when you're start producing product, is it a year or two the right way to think about when that starts to contribute?

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

A

Yeah. So most of the growth CapEx is targeted towards HVPs and it's across – at different levels, it's across each of our HVP sites. As to we're continuously making investments, but the largest one obviously that we just completed was Kinston and that came online here in the third quarter. And we will build up the levels of utilization over the next couple of months within that plant. But, typically, if some of the capital projects, you could be looking at two years from inception to getting the equipment in, validate it, to when it goes into production. So, it's a relatively long period of time and that's why we have to be planning ahead of the curve and making the investments now to be ready for, say, so now we're 2023, so for 2025. And 2025 and beyond, we're already laying down investments in many of our plants. And again, there are various stages. The bigger ones we would typically call out.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

Yeah. The margin differential between high-value and standard products is can you sort of like go through that end because that's another one that sort of comes up in questions all the time? And also, at the NovaPure high-end of the range, is there much competition for that product? Or I mean, much more competition, I think those tends to be below that level. But can you just sort of talk about it at the very high-end of the range and the margin opportunity?

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

A

I'll do the margin, and then Quintin can do the competition piece. But yeah, for our standard product, you could be at the lowest-end 25% margin, and then you're building to margins on the highest end, the 70%, 80% margin on those products. But what happens is, on some of the standard product, you don't have as much R&D going in SG&A.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

Yeah.

Bernard J. Birkett

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

A

So, that's once you get below the line, there's different splits. But yeah, it varies considerably and that's why the mix shift is so important to drive revenue growth and then to drive that operating margin expansion. And we've seen the power of this as we went through COVID when we got a lot of mix shift in a pretty short space of time. You could see the top line growth was pretty good but the margin expansion was very, very strong...

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Yeah.

Bernard J. Birkett

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

A

...and way beyond 100 basis points. So, it shows what an event like that could if it was that extreme.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Yeah.

Bernard J. Birkett

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

A

Now, there's a lot in the middle as well so we have typically kind of probably 40%, 50% margin on the high-value products over the average. And so – but with the changes that are happening in the regulatory environment with Annex 1, we're seeing the drive to move products up that high-value product curve and that's what customers are looking for because they want to reduce the levels of particulates and they want that guarantee. And that these product offerings that we have in place deliver on that.

Quintin John Lai

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

A

With respect to NovaPure, I mean, looking at NovaPure, it is the pinnacle of what we do. It's got all the various high-value processing. We do quality by design in every step of the manufacturing. My assumption is that other suppliers also do a lot of the different processing. They do various checks, but it comes down to comparing us versus somebody else. It comes down to the rubber and it comes down to the coding and it comes down to all of the technical support and all of that. And so, it's one thing to say, yes, I have something similar, but the question is, is it apples-to-apples?

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Right.

Quintin John Lai

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

A

Is it the elastomer that is being used on many of the injectable drugs that are being approved now? Is it the fluoropolymer coating that's being used? Is it the technical support that is being used to roll it out to various countries, right? Not just – because these days, a drug doesn't get just rolled out into the US. Right after that, it gets rolled out into this and that and that. Do they have a regulatory, all of the back office things? That's what you

get when you're getting a West product. And it's not just a piece of rubber; it's quite a bit of that extra support that supports all of that.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

But I mean, that's a great answer because I think there is a misconception that...

Quintin John Lai

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

A

Yeah.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

...all you do is sell chunks of stock and it's that.

Quintin John Lai

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

A

Yeah. No, no, no. The way we look at it, I mean, and I was making the analogy with one of my colleagues as we were walking the halls, and I said, it's just the ice that you see at the top, the rubber. The iceberg, right, that's what everybody – yeah, that's what the analytical labs are. That's what all this department is. This was somebody who was new to the company and we were walking, that is all that it goes to support that piece of rubber.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

So, since you use the word iceberg, I'll ask what makes you worried? Is there an iceberg out there that you look in the business and what keeps you up at night? And – because it's a great story. It has been for years. And I think people are just sort of pinching themselves like, well, what can go wrong?

Bernard J. Birkett

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

A

You can join me for a day and I can show you.

Derik de Bruin

Analyst, BofA Securities, Inc.

Q

Yeah.

Bernard J. Birkett

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

A

We have a great company. We're in a great space. But to keep at the level we're at, it requires to be at the highest levels of execution and performance. And you're running, we have to make sure that we're giving our customers what they want when they need it. And that becomes more challenging every day because the bar is raising on what they want, and we have to keep improving as a company to be able to do that. So, there are challenges out there. Making these products is not easy. It's not a slam dunk. People think, oh, it's a piece of rubber, it must take a couple of minutes. If you actually go through and understand the process and particularly for something like NovaPure, it's very, very technical and you're dealing with micro parts. So, there are challenges there day to day, but my belief is we have the right people in place to deal with them, we have the right

technology and infrastructure. And that's why we keep investing and building on it. We're not ever standing still, even from an automation point of view, as to how we build a product. We're starting to push the boundaries on that and introducing these newer technologies. Making sure they work, yeah, does it keep me up at night? Now, I have trust in the people that I work with, but it still keeps me up. And again, it's just meeting customer needs and demands and being able to respond. It's responding to the unknown, I think, is the challenge in today's world. And again, as I go back, the last couple of years taught us a lot. Nobody could have predicted that.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Q

Yeah.

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

A

But we did it, but it was very difficult. And now, we're learning how to respond in a different way so we can respond quicker and more efficiently in an ever-changing world, and I think there are the challenges. Do they keep us up at night? Yeah, we think a lot about them. But we are in a great business with a great position, but we just have to keep executing.

Derik de Bruin*Analyst, BofA Securities, Inc.*

And with that, we're out of time. Thank you, gentlemen, for being here.

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

Yeah, thanks.

Derik de Bruin*Analyst, BofA Securities, Inc.*

Thanks, everybody, for listening.

Quintin John Lai*Vice President-Strategy & Investor Relations, West Pharmaceutical Services, Inc.*

Thank you, Derik. Really appreciate it.

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