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# West Pharmaceutical Services, Inc. (WST)

UBS Global Health Care Conference

## CORPORATE PARTICIPANTS

Karen A. Flynn

Chief Commercial Officer & Senior Vice President. West Pharmaceutical Services. Inc.

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Abhi Rao

Analyst, UBS

# MANAGEMENT DISCUSSION SECTION

#### Abhi Rao

Analyst, UBS

Good afternoon, everyone, and thank you for coming to the 2017 UBS Global Healthcare Conference. My name is Abhi Rao, and I am happy to be your host for this session. The next presenter will be Karen Flynn, SVP and Chief Commercial Officer of West Pharmaceutical Services. The breakout session in the Alvin Carnegie Room, just located one floor below, that will be immediately after this session. Thank you very much. Karen.

#### Karen A. Flynn

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

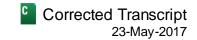
So, good afternoon, everyone. As Abhi said, my name is Karen Flynn. I'm the Chief Commercial Officer at West Pharmaceutical Services. I'd like to thank UBS for inviting us to share a little bit about West, and the significance of our business and how we play such an important role in the supply of pharmaceuticals worldwide.

So, our Safe Harbor statement, of course, you can find this on our website and in our filings as well. So, a little bit about West, for those of you who may not be familiar with the company. We really partner with all of the pharmaceutical manufacturers around the world, those that manufacture pharmaceutical products, biologics, as well as generics and medical device companies. We work side-by-side with them to help them to bring their products to the market. And we do so by providing containment and delivery solutions, primarily for injectable drugs.

Where we see the value that West provides and the solutions that we offer to these companies is in the integrated containment of delivery solution. So, the primary container that play such an important role in safe and effective delivery of those pharmaceutical products and then also in the delivery devices that aid in administration of those pharmaceuticals to the patient.

We're proud of our 94-year history. West Pharmaceutical Services started as the West Company more than 90 years ago in Philadelphia, and we've grown over the years by a number of means through acquisitions. So, we acquired some companies in other parts of the world, enabling us to grow geographically. We also have longstanding partnerships. One, a very important partnership of West is with Daikyo Seiko, a Japanese family-

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owned company, which we also have a minority ownership position. And then, we've also grown organically. So, we invest in research and development and in bringing new products and services to the market.

As I said, West plays a very important role in the supply of drugs to the marketplace worldwide. We're very proud of the very longstanding relationships that we have with pharmaceutical and biologic manufacturers. As you can see here, we partner with the top-75 companies in this space. We also are proud of the fact that our components are used in the containment of the top-50 biologics that are presently in the market, so they'd be using either West components or Daikyo components in the primary container systems. And also, we manufacture from 28 global manufacturing locations around the world, producing more than 41 billion components, annually.

We are broken into two different reporting segments. If you look at our financials, you'll see that we report with proprietary product sales as well as contract manufacturing sales. Within the Proprietary Products group, here's just a list of some of the component categories that we manufacture. So, I'm sure you're all familiar with the administration of injectable pharmaceuticals. You've been on the receiving end of vaccines, for example, so you know that a lot of these products are contained in glass vials with stoppers and overseals, and West is a very large provider of those elastomeric components and also the overseal components.

We manufacture a variety of different configurations, not just for vial containment, but also for prefilled syringes. So, the plungers that are used in prefilled syringe systems as well as the needle shields or the caps that fit on the ends of prefilled syringes. We also sell a number or products for medical device and diagnostic uses, and we've more recently got into full containment solutions. So, using a proprietary resin that's known as Crystal Zenith, we're able to mold and sell with our partner, Daikyo, vials manufactured from the cyclic olefin polymers, COP, and also prefilled fully developed manufactured prefilled syringe systems. All of these different product categories roll into our Proprietary Products reporting segment.

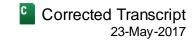
The other part of our business, which represents about \$300 million in sales for 2016, is from our contract manufacturing business. And in this business, we partner with pharmaceutical companies and also medical device companies to manufacture products on their behalf. So, it's their intellectual property. They have their own proprietary diagnostic or delivery system and they're looking to West to bring our expertise in terms of maybe some late-scale development expertise, making it manufacturable, and then also providing the contract manufacturing of the final product.

So, here's just some pictures of products that you may be familiar with. We make quite a number of products for the diabetes space, for example, pens that are used to deliver insulin. We also manufacture auto injectors and a number of diagnostic and other medical device components.

Our revenue base is quite diverse. Just to provide a few statistics here, you can see that a little more than 50% of our revenues come from sales within the Americas region, a little bit less than that in Europe, and about 7% of our sales right now are derived from sales in Asia Pacific. It's a small part of our business, but one that is growing fairly rapidly and we will see expansion occurring in Asia Pacific.

If you look at the net sales by product category, we do group our products into families and one of our categories of products is that known by a phrase that we call high-value products. So, if you think about the stoppers that I just mentioned to you, that would be a standard product that West manufactures. We can then take those standard products and add features or services to them. So, in the case of the stopper, West would perhaps wash that stopper on behalf of our customers. We may sterilize those components, package them in a special secondary packaging configuration. All of these added features and benefits then become, what we call, high-

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value products. This is a fast-growing segment of our business. As you see, it represented about 39% of our total sales in 2016.

If you also look at our sales by the market units that we serve, we do have a diverse group of customers. Of course, all of the customers are interested in packaging, products that are primarily administered via injection. But there are some uniquenesses of the market categories that we served. So, we do sell for applications for generic, drug products, for biologic drug products, for small molecule pharmaceuticals and then also for those customers who are looking to procure contract manufacturing services.

We have in total a little more than 2,000 customers throughout these four different spaces, marketing unit spaces, and no one customer makes up more than 7% of our revenues. So, it's a very diverse customer base around the world. We're proud to have more than 7,000 associates throughout 28 manufacturing locations all working together to provide those more than 41 billion components that I mentioned earlier on an annual basis.

We're proud of the growth that we've been able to achieve in our business over the last several years. Here you can see that our constant currency CAGR for revenues is about 6.8%. And also we've been able to expand the margins in excess of this growth, primarily because of this shift to high-value products, where we can get an expansion of our gross margins. And then also through other operational efficiencies, expand our operating profit. And so, our earnings per share has grown in excess of our revenue CAGR over the same period.

All of this, of course, then has been rewarded by good share growth, and we believe that we're returning very good value to our shareholders. Of course, our outlook remains positive and we are expecting the growth to continue. We are focused on three levers to continue to drive shareholder value.

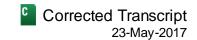
First of all, as I mentioned, we are keenly focused on the markets that we serve. So, it's about partnering with the customers, understanding what their needs are whether they are bringing a biologic to the market or they're converting a small molecule to a generic. They have unique needs. And so, it's about us partnering with those customers and understanding the uniqueness of the markets that they serve with the high-value products that they require.

We're continually adding to our portfolio of products and services. So, we do invest in R&D, and we're bringing new products to the market every year and we'll continue to do so. We're also looking at driving even more value and margin expansion through operational efficiencies. As I said, we do have a wide variety of manufacturing capability all throughout the world through those 28 manufacturing sites and we're driving programs such as lean programs and other programs to make the most use of those installed assets and drive even more efficiency as we move forward and that will result in margin expansion.

As we look at the customers that we serve, we do group them into these various market units, because they're involved with either containing or delivering injectables, pharmaceuticals that are used in the diagnosis of diseases, there is a high quality bar set across all of the customers that we serve and this is an important way that West differentiates itself from our competitors. We are all about quality. We have a very high quality standard and a very rigorous quality culture within our company. But if you dive deeper into these market units, you'll see that there are some uniqueness from one market unit to the next.

Just to point out an example of that; in the generic space, for example, we see that there's a lot of shifting that can occur depending on the particular opportunity that's afforded to our customers. As a drug comes off patent, we know that there is a race to fill that void and to get product in the market very quickly. Sometimes there are regulatory pressures on these customers in this particular segment, and that could result in drug shortages. We've

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seen that occur over the last several on a number of occasions. And when there is a drug shortage, the FDA or other regulatory agencies may ask other manufacturers to come in and fill that void, because it's a medically necessary drug.

And so what happens is that, these generic companies are looking to West, and saying what can you do to provide me with these containment solutions very quickly. And we're not talking about 10,000 units at a time. We're talking potentially millions of units at a time. So, speed to market is critically important for this particular customer group.

On the other end, [ph] kind of both (13:00) the continuum would be the biologics companies. These companies are challenged with containing very sensitive drug molecules. These molecules have a greater propensity for interacting with the containment materials. And so, it's more of a scientific consultation with them about what kinds of products would be most suitable for us for containing those kinds of very aggressive biological products.

There's also a trend with biologics to self-administration, so for the kinds of diseases that are treated with biologics are lending themselves more for self-administration. And so, this lines up with West offerings for proprietary delivery systems.

In our contract manufacturing space, companies that we work with are very interested in quality for sure, but about cost effectiveness. And making sure that each and every dose works as it should every time, you really can't have any mistakes when it comes to contract manufacturing these very important delivery devices.

So, we do have many different solutions. This is just a snapshot to show you the continuum of West products. There's some trade names that you'll see here. Most of our units that we manufacture, about 83% of the units that are manufactured within our Proprietary Products group are still what we call standard products, so these are the elastomer products that we manufacture, the steel products that we manufacture. And, only about 17% or 18% of the unit volume is in the category of high-value products, which is everything except for the standard. So, everything else you see in the continuum of high-value here, we would call high-value products.

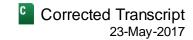
These high-value products, 17% of the volume, make up more than 50% of the revenue in the Proprietary Products group. And so, this is an area of focus for West. It's about working with our customers to give them the right product and moving them up this continuum, it's a way of us providing more value to them, of creating a deeper partnership with our customers, and also, of course, delivering more value to West.

In April, we reported our first quarter earnings. You probably have seen this already. Just to highlight our top-level, our revenue growth was about 8.7% for the company, and we were able to expand our operating margins and deliver earnings per share diluted on a diluted base of \$0.81 for the quarter.

If you look at our top-line growth, just to sort of orient you to the data as presented here, this is a look back of the previous four quarters throughout 2016, by the market units that we serve. And as I said, our overall top-line growth was 8.7% for the first quarter, which is, of course, in line with the performance that we saw throughout 2016. There's a little bit of ups and downs as you look at each of the individual market units. But, overall, the base line growth for our business, we believe, is strong and will remain strong in that corridor as we're looking long-term about – in the range of 6% to 8% top-line growth. For this year, we're projecting that our growth will be in the 7% to 9% range.

We do see some swings, if you will, quarter-to-quarter and it really has to do a lot with the inventory management of the particular segments that we serve. In the Generics segment, for example, we had very high growth in the

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early part of 2016 as customers were converting to some high-value products and they were bringing in more inventory to get through their validations, and now we're seeing them bleed off that inventory. We also saw that in the Biologics segment, where we'll see some swings up and down as customers are bringing in the high-value products as they're getting ready for launches. And then they'll, in some cases, bleed some of that inventory off. So, we do see some ups and downs. But, overall, the strength of the business is there and we will see the Biologics growing in double-digits and the contract manufacturing and the Pharma business units growing in high-single for 2017.

Our pipeline of new products is robust. We're continuing, as I said, to add to this product portfolio – product and service solution portfolio. We have a number of products that had been introduced in the last year and that will continue to be introduced throughout 2017.

So far, this year, we've introduced a new needle shield that's used for – I'm sorry, a new safety device that's used in the hospital setting to provide clinician safety. It also can be used for home administrations to prevent needle-sticks. And, we've introduced a plastic seal that's used as an overseal for vial containment. And, we believe that we're going to continue to add more and more products throughout this continuum of high-value products in the years to come. And this will be an important aspect of our growth strategy as we move forward.

So, we are building for the future. As I said, it's about the quality of the products that we have, the quality culture, the breadth of the product offering that West has, the deep understanding and the commitments that we have to all the [ph] marketers (18:54) that we serve, the longstanding relationships that we have with many important manufacturers of drug products, whether they'd be generic, pharmaceutical, biologic or contract manufacturing customers. It's utilizing the installed assets that we have at our 28 manufacturing facilities around the world and building operational efficiencies into those facilities in the years to come. And, we believe, the combination of all of this focus will deliver shareholder value in the coming years.

So, thank you very much. We'll be taking questions at our breakout room downstairs following this presentation. Thanks so much.

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