

15-Sep-2022

West Pharmaceutical Services, Inc. (WST)

Bank of America Merrill Lynch Global Healthcare Conference



CORPORATE PARTICIPANTS

Bernard J. Birkett

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

Quintin John Lai

Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

MANAGEMENT DISCUSSION SECTION

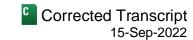
[Abrupt Start]
Unverified Participant
is West Pharmaceutical Services. And with us from West today are – I've just completely forgot your name, Bernard. Bernard Birkett, CFO; and Quintin of IR. God, I'm getting old.
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. [indiscernible] (00:00:17)
Unverified Participant
Sorry. Senior moment. Gentlemen, thanks for being here and putting up with my stuff. So, I'll let you start by doing some opening comments, if you want to make some comments on the quarter
[indiscernible] (00:00:33)
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.
thank you for the invitation

Unverified Participant

Well, please do...

[indiscernible] (00:00:35)

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Unverified Participant

...there you go, but please do.

Bernard J. Birkett

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

Yeah. Thanks for inviting us to the conferences. Good to be here with you in London. Quintin is going to join me here on stage and we'll answer whatever questions you have.

QUESTION AND ANSWER SECTION

Q

Great. So, let's talk something about just the second quarter to begin with. I mean, you had 13% organic revenue growth in the quarter, 18% growth in proprietary products. Great underlying demand offset a [indiscernible] (00:01:11) FX headwind and declining COVID sales. Can you sort of walk us through the puts and takes in the quarter just because, I think, certainly, when the quarter was printed, I think a lot of investors that certainly hit me up on chat thought the stock was going to be down and it certainly skyrocketed after that. So, can you sort of like talk about the puts and takes in the business?

Bernard J. Birkett

Δ

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

Yeah. From our perspective, even with what we see going on with COVID and we were focusing on the underlying growth within our core business, and this is something that we've been talking about right through the whole COVID experience that our core business has been really robust.

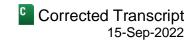
And in the second quarter, again, we saw a strong double-digit growth within Biologics we saw a strong double-digit growth within Biologics. And even with Generics and Pharma, there was double-digit growth and we've been able to respond to the increasing lead times that we have seen which have been as a result of responding to the COVID pandemic. But it's – now we're getting the opportunity to start to reduce those lead times and responding to the core demand that's in our business.

Now, during that time, we didn't stock anybody out. We just had to allocate where the supply was going. So, what we are seeing as lead time starting to come back, there's still a ways to go. But that I think has given us confidence. We knew it was there. We can see the order book. But I think for investors to see that it was probably helpful that what we were seeing actually materialized here in the second quarter.

Q

I mean – and I think you mentioned and I think there's been one concern about inventory build in the channels and such and people stocking, because you've had some issues in the past with sort of like [ph] customers building (00:03:02) inventories and doing things. But it sounds like there just hasn't been any inventory out there to sort of like serve some of these customers.

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Bernard J. Birkett

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

A

Yeah. Well, it's something that we have really been cognizant of over the last two to three years and working closely with customers to help manage their stock levels. And in some ways, it's been the opposite for us, given the demands in certain parts of our business and, again, responding to COVID, meaning that we had to manage our supply pretty tightly to customers to make sure they had enough of what they needed and that they weren't actually building stocks.

And so one of the things that we realized and maybe the opposite of that were safety stocks may be somewhat reduced over that period of time and over a period of time and it's not going to happen immediately, is those safety stocks will need to be replenished. But it's something that from day one we worked really, really closely with our customers to make sure that wasn't happening. So, we got triggers in our system to see if there were any abnormal size orders coming in. But, again, it's not to say some – people haven't been able to do that...

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Right.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	Д
but in the main, we believe, we're in pretty good shape there.	
	C

And when you – let's get some of the COVID questions out of the way, but, I mean, you've lowered your guide on COVID coming through and you've talked about another 30% to 50% year-over-year potential decline next year in the business. What are some of the caveats on that, right? I mean, sort of like, what's embedded in terms of things moving to smaller dose formats? It seems like that has been slower to happen than I think [indiscernible] (00:04:42).

Bernard J. Birkett

Α

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

It has been slower based on what our expectations would have been, so there isn't a – there are some impetus based on conversations that we've been having with customers, plus we haven't seen this huge shift into single dose format at this point. It's something again we monitor and it could change as we move forward. It's a pretty fluid situation.

So, we're trying to be as realistic as possible about what that COVID business could be like. But, again, it's shifted on us a couple of times...

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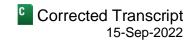
Yeah.

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Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
this year already and it could do that again. So, it's really dealing with the information we have at the time and giving our best estimate.	
	Q
But do you feel like that 50% is a rational floor for next year or there's still some risk in that?	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
It's a rational floor based on what we know today.	
	Q
Yeah.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
So, again, ask me in three months' time	
	Q
Oh, I'm sure we will.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
I'm hoping [ph] I'll say the same. I know you will (00:05:44). Yeah.	
	Q
So	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
I just wanted to offer.	
	Q
Yeah. I'm sure we will. But, I guess, how much of the non-COVID business you're seeing right now, that was products that had been delayed, pushed aside, things like that, and now they're sort of conversus new business, right?	

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Bernard J. Birkett

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

There a combination and I kind of think delayed, pushed aside, that's not a terminology I'd kind of use. I think we try to respond to people as best we could, making sure that we got the appropriate products to market based on the demand we were seeing from our customers, the immediate demand that they had. But we are seeing that our lead times did go up...

Yeah.

Bernard J. Birkett

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

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...considerably within certain product categories, and that was in relation to high-value products and you're looking at from FluroTec and NovaPure, within that. And now, we still have to ease into that, bring the lead times back down and get that supply out to customers. And that's a book of business that's already there.

And then, we're seeing this potential new business rigor around NovaPure and FluroTec. So, a lot of the plans that we had running 24/7, some of those are still running 24/7 and will be as we try and ease into these extended lead times.

We have made some adjustments with some of our other plans to bring them down to more normalized levels of production. And it gives us a little bit more flexibility as we can grow into the future. So, there's a number of moving parts in.

Got it. And so when you look at your 7% to 9% organic revenue growth guide, you raised that from 6% to 8% early this year. So, when you look at that number, can you just walk us through what went through that acceleration? How much is new capacity online and new business [indiscernible] (00:08:01) because I know, obviously, you're very tied to can we make so many products. And if you're cash constrained...

Bernard J. Birkett

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

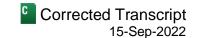


Yeah. So, and that is – as we're layering in capacity for COVID, we said at the time that, that capacity that we were layering in was embedded in our five-year plan. We were just accelerating that capacity. So, we could see the demand coming from our core business within the high-value product segment and particularly within Biologics, even before COVID came.

So, now we're layering in that capacity. So, we're able to respond over the next number of years to that increased demand. And some of that is on existing business that's already there and growth in the market. And then some of it is on new business.

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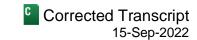
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And how do you model or how do you think about some of the potential blockbuster drugs or things that people have high expectations for? I mean, things like some of your [ph] VC (00:08:57) drugs are coming online, for example. And how do you sort of model that into your forecast or how do you sort of think about that? Do you sort of say, like, well, there could be this big product category that's out there and we've got to sort of build that? Or do you just say, we'll deal with it if it happens? How do you sort of forecast...

[indiscernible] (00:09:14)	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
I don't think you can say you're going to deal with it when it happens, because one thing that COVID has take us that the time to respond is, it can take one to two years to layer in the capacity. And so, for any new drug coming to market, we're working closely with our customers on that. We're understanding what the base can would be based on their projections and then if there are any upsides within that. We're looking for triggers our customers to say, okay, when are they layering in the capacity? And that helps inform me as to when I layer in the capacity, so getting ahead rather than being behind and getting into these extended lead times, the position that we're in now.	g that's ase from should
So, it's really you have to be in lockstep with your customers. And you need to layer in some of that capacit before the event actually takes place. You don't want to go out over your skis, you're trying	t y
	Q
Yeah.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. to strike a fine balance.	A
I think the positive thing for us is that the equipment that we are layering into respond to some of these pote opportunities is our products are somewhat agnostic, so we can use the equipment in other areas. So, it's report you buy the equipment and it sits there for one company.	
	Q
Right.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
And so, you have flexibility. There may be a carry cost for a short period of time if something doesn't materiabut we know we'll always have a use for it in time.	ialize,

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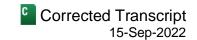
Got it. When you think about new products coming through, are more products being specced in better HVPs, right? So, when you look at the newer drugs that are coming along the line, it's like it's a higher percentage that is going for the higher value products, the higher margin products. So, once again, it goes back to your confidence in that 7% to 9%. And so, like, how much of that is just like mix shift, how much of that is volume growth, right? And are...

[indiscernible] (00:11:23)	
	Q
going to segue way to a margin question.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
Yeah. The	
	Q
Yeah. Yeah.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
mix shift is something that's key in our revenue growth strategy and also in expanding our of within that long-term accounts for framework that we put out there. And what we are seeing is the Biologics segment, the majority of customers, a large majority of customers will go for HV they're launching new drugs to market. And it's a shift that we've been seeing, and again, it's environment that I believe	s, particularly within P products when
	Q
Yeah.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	А
customers are now operating in that, that's what's demanded.	, ,
	Ω

And what about the biosimilars that are coming on? I mean, obviously, a lot of those older biologic drugs may not be using HVPs. Do the companies that are interested in making biosimilars moving in that direction and willing to sort of take some of take some of that risk out, or are they still trying to do that?

And also, how does it work for the biosimilar companies in the sense that, I mean, it takes – do they have to go through the same sort of stability trials that you're – I mean, because, historically with West, I mean, when I asked – when we first picked up coverage, it was like, what's underappreciated about the company, it was it always

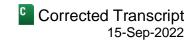
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takes longer [indiscernible] (00:12:44) and these things take a long time ago. You got to do stability testing. So, how does that whole work? Does they need to go back and retest and revalidate products? And so, does that give you sort of like greater visibility in terms of what these customers are thinking?

Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
So, you hit on some really – points that I'll follow up on here. The drug, the molecule dictates that's why, for us, biosimilars, it's a mAb. And it's going to be a biologic. So, we've always cla biologics and not generics. That's important. And you've already picked that up. And, absolut testing, all the biocompatibility testing, that has to be verified by the biosimilar company. The because at a minimum, they should use the quality that the innovator used.	ely, all the stability
	Q
Yeah.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. The impossions the under the under the product two decedes are	A
The innovator, though, may have launched the product two decades ago.	
Exactly. Yeah.	Q
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
And the regulations and the knowledge about all the frailties of that mAb are known now and they can't use the grandfather product, a component that they need to go to an even higher of So, as we look at biosimilars, at a minimum, use what the innovator uses, but higher likelihood highest value product.	quality component.
And so, when you take a look at biosimilars, you take a look at BLAs that are coming out and as we're sitting here looking especially for NovaPure demand	l all of that, that's why
	Q
Yeah.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
we continue to try to build ahead of the curve.	
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And so, then if you are in a situation where there is this opportunity for the biosimilar maker to reevaluate, is there a higher chance of switching to like a competitor at that point in time or they reevaluate this? Just because, historically, you were in the master file, you're going to be the ones that are sort of [ph] like this. You're the go to first (00:15:10).

Bernard J. Birkett

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

A

Well, I think that in any time a new drug comes to market, they have an opportunity to bring in a component. And so, I think all the decisions that a biosimilar has is what an innovator would have that's new coming to the market. They're going to look at quality. They're going to look at scientific support. They're going to look at availability. They're going to think about how many different geographies they're going to try to put this into, not just the US, but in Europe, maybe even in Asia. They're going to take a look at track record and they're going to put all that in.

And so, our job at West is really to continue to improve on all of those metrics and, we keep a close eye on our participation rate, which is really high.

Q

So, speaking of competition, I mean, you have roughly a 70% share of this market, right, based upon what – the numbers that we've heard over the years. So, one would think, given the switching cost and how long you have to evaluate this, that you could take a lot of price. So how are you sort of thinking – I mean, we've got inflation going on. You've got oil costs. You've got energy costs. You've got wage inflation. So how are you think about managing that price dynamic? I mean, you've got this big lever you could pull, but I mean, you don't want to aggravate the customers. So how are you sort of thinking about all those things?

Bernard J. Birkett

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



Yeah. On price, in the past, we would have probably taken 1% to 2%. This year, we're taking 3% to 3.5%. And price is something that we have been studying at West to say where can we capture more value and are there opportunities for increasing that price take.

In some areas of our businesses, those opportunities exist and in others, not so much. So it's not right across the board. But I think in the times that we're in right now and with the inflationary cost pressures that we are seeing and we've seen a certain amount through 2022 and when we look forward into 2023 and look at energy costs and the like, it's like who knows where that's going to go. So we have to be more flexible on price and bringing that to the customer where possible.

And our sense is that if we have a basis for doing that...

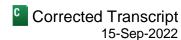
Yeah.

Bernard J. Birkett

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

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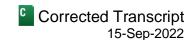
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...then it's an easier sale, to say, here, this is why I'm doing it, these are the factors. So, we can explain it rather than just taking price for the sake of taking price. There's a rationale behind it. So, that is something that we're looking at as a lever within our business. But first and foremost, we're really cognizant of maintaining the longterm partnerships with our customers. And many of these partnerships have been built out over decades. Yeah. Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. So, as you were saying, we don't want to antagonize them, but we have to be realistic in the world that we're living in today and the pressures that everybody is under. Every business is facing these same pressures. Got it. And how should we think about the margin progression for the rest of 2022 and then going into 2023? I mean, there's a lot of moving parts which we've sort of looked at, there's mix and COVID and inflation and FX is a big headwind and [indiscernible] (00:18:51). So walk us through the margin dynamics. Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. Yeah. There are many headwinds and the margin that we have for 2022 is embedded in our guidance, and that would indicate that there will be an increase in margin, nothing like what we saw in 2021 and 2020. And I don't want to guide 2023. So, what I would say in our long-term construct, in normal circumstances, we would still expect to see 7% to 8% growth and 100 basis points margin improvement. But we are cognizant of everything that's going on with inflation right now and cost pressures on our business. Well, that leads back into how are we looking at price. And so that's something that we're reviewing right now. We're also looking at our cost base within our business to see is that's appropriate for 2023 and do we have to make adjustments within that and then looking for greater efficiencies within our operating infrastructure. So, we're approaching it in a number of different ways. And even down to looking at what projects are we running. What's core to run rate now and what do we need to fund? Are there areas that we can say, hey, I don't need to do this right now. I can push it out. Yeah. Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.

So, it's something that we are working through. But, again, as you say, it's like a moving target.

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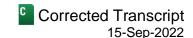


Right. And how should we think about the CDMO business on this one, your contract manufact [indiscernible] (00:20:28) your contract manufacturing business?	turing business
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. Yes.	A
	Q
Right.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	Д
On contract manufacturing, we did expect to see a down year in 2022.	
	Q
Yeah.	
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.	A
So, we call that out. But over the long-term, we would expect that business to be growing mid-s Margin-wise, probably tracking in the kind of high teens and similar to where it is today. But what there is really looking at strategic partnerships within contract manufacturing to make sure the is sustainable. And so, again, looking at how we're modeling that business, but we do expect it	at we are looking nat, that growth rate
The one thing that we're cognizant of is that, we've outpaced the growth of the rest of our busin timeframe. That's not something we will be projecting at this point in time. So, probably that mid growth rate.	
	Q
Right. And just for those investors when they do it, I mean, it slowed down because you had so business that went elsewhere.	ome consumer
Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer. West Pharmaceutical Services. Inc.	А

Yeah. Well, it slowed down because there was some consumer business and then there was one or two supply contracts, some customers reduced their demand just for a specific period of time because within that business, customers are usually dual sourced and sometimes had three suppliers for the same part. So, it's where do they place the demand at specific times. So, we knew that was coming and that's obviously baked into our numbers.



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So, West has not been particularly acquisitive in its history, and what you have done has been more in the drug – you've done some stuff in drug delivery. It's not really been a big focus, the whole drug delivery segment of it in the conversations for the last couple of years for obvious reasons. But how should we sort of think about those products? I mean, when I first picked up coverage in 2007, drug delivery and Crystal Zenith were like the two big buzzwords, and those have not been buzzed in recent times. So, how should we think about the drug delivery?

Bernard J. Birkett

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

So, on drug delivery, what we have seen is an uptick in interest, particularly around SmartDose and wearable combination devices. And that's been building over the last probably two to three years. So, we are starting to see encouraging signs that there is a pathway to growth for this business.

What I'm conscious of is not going back to 2007 and projecting this huge growth. It's going to take time.

Yeah.

Bernard J. Birkett

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

These are disruptive technologies. You have to give time for market adoption and then for companies to want to use it. But we are seeing positive signals coming from customers within that space.

And then from an M&A perspective, if you look at us, drug delivery is an area that we could further explore. We haven't been that acquisitive. When Eric joined, I think the first thing that needed to be done was the market units needed to be set up and get the organic growth story firing in all cylinders and to be more sustainable and consistent. We believe we've done that. Then we had COVID for the last two years.

And the other thing that we had noticed, even in businesses that we have been looking at, is that the multiples that we're being asked for were just so high.

Yeah.

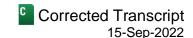
Bernard J. Birkett

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

A

It was very hard to say, okay, yeah, this works from a financial perspective for us. And so we kind of hellfire that we have built out our corporate development function. We put more resources into that to start looking at spaces that we can explore. So it is more of a priority for us. But, again, it's all about can you get it at the right value and what makes sense. So we are very deliberate on how we approach M&A.

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Q

So, thinking about – so I'm bouncing around, my apologies. But thinking about, again, on the high-value products segment, where are we in penetration of that point? And what sort of is the upper limit of that adoption?

Bernard J. Birkett

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

А

Quintin will take that.

Quintin John Lai

Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

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So, from a sales point of view, if you look at our proprietary business, well over 70% of the sales are high-value products. From a volume...

Bernard J. Birkett

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

A

Yeah.

Quintin John Lai



Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

...perspective, we're probably about 22%, maybe a little bit more than that, percent is high-value products. There are going to be a percentage of products that we make on the standard side that will always be standard. If it's not a primary package, if it's not directly in contact with the drug, seals, blood collection, stopper, those will probably always stay standard.

But if you look at it from the things that do touch and there's some legacy products that do touch, every year, we see a percentage of them. Not much, but a few that do migrate into the Westar wash or Westar sterilized format.

And so, that modest volume that does change comes at a fairly meaningful price change going from a \$0.01 or so to maybe \$0.05 to \$0.10 apiece. And that helps with our mix shift. And we think that runway of being able to do that still gives us plenty of opportunity over the next five years to continue to see that type of mix shift.

When you look at it from the new drugs that are coming out, primarily the primary...

Yeah.

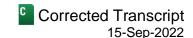
Quintin John Lai



Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

...component is going to be HVP, because primarily a lot of the new drugs are biologics. And so, they're going to use FluroTec and most likely NovaPure to come in. There will be some standard product that comes with it, like an aluminum over-seal. So, long answer to your short question, the percentage of standard product will continue to go down, but it's not going to go down to zero. There will always be a lot of West business is going to be in the standard side.

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Got it. Any questions from the audience? Okay. I'll keep going. So, just from a stock perspective, at a curiosity sake, back in July, I ran an analysis on my coverage universe, and I looked at the two best performing stocks over the last 20 years that I've covered in my coverage universe. So, the number one was Alumina, but it was \$1.50 a share back in July of 2003, so I don't think that counts. The second best performing stock in my coverage universe is West in that time, sort of all that time, I mean by a mile, right?

So, what is your – but, yet, when people look at West, it's like, oh, it's always too expensive. It's always too expensive and like that. So, I guess, when investors talk to you, what's the underlying reason why, even at these multiples, they want to own the stock? What's the compelling reason that has made the stock this massive outperformer over its history?

Quintin John Lai

Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

Let's just go back to kind of who we are, highly critical to injectable drugs in the primary containment and delivery, highly focused...

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Yeah.

Quintin John Lai

Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.

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...all right? As you talk and so correctly noticed that we don't do a lot of other things in M&A, we focus on that, and we add technologies to that. And we're fortunate in that we have – we participate in a sector, injectable drugs that has secular growth, and the driver of that secular growth is biologics, which happens to use our best products.

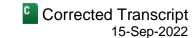
So, I mean, it's almost as if you can say if I wanted to be in drugs and then tools, I would want to be with biologics and we're there. The other thing is, is that because we're highly critical to the – it's hard to change. And so, one of the things that the people don't – they look at West and it kind of [ph] goes other ways (00:30:06).

We're pretty stable in terms of our strategy and how we work. We can get chopped from quarter-to-quarter, whether it'd be on the upside like COVID-19. On the downside, it could be when customers decide that their working capital is too high and they want to take down their safety stock. And so, then they'll put like – happened a few years ago, all right? Those are short-term changes and they can cause short-term chop. But if you look at our growth pattern and the dynamics of our growth pattern, it is pretty good organic sales growth and margin expansion. And that's what has Bernard hinted the long-term contract.

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And cash flow has also dramatically improved over that time. I mean, there was a time when there was no free cash flow because you're doing so much capacity expansion and now that those metrics have also gotten a lot better.

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Bernard	IJ. Bir	kett
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Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.

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Yeah. I think the metric – yeah, those metrics have got – and thankfully that cash was spent because we needed...

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Yeah.

Bernard J. Birkett

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



...we needed the equipment at some point. And so, it was getting the timing right. But there's like the regulatory moat around our business as well gives us some level of protection I think as well and Quintin said once you're specced in, you're specced in to a drug. And as long as there's no hiccups, you're with there for the life of the drug. And I think that's been very important for West.

It's a globalized network. The infrastructure is there to support growth in any geography now at this point. And part of it for us was developing consistency about being able to deliver. And I think that kind of gives people some confidence around the stock. And as Quentin said, there's always going to be puts and takes and challenges, I think.

Q

Speaking of challenges, has the China situation resolved itself?

Bernard J. Birkett

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



Yeah. The China situation for us was that there were so many impacts in the second quarter, but it was really immaterial. Our plants are back up and running. They were down for about two or three weeks. We actually had employees who came back into the plants and physically stayed there 24/7 to be able to run product. So, once they came in, they couldn't leave. So, for us, we've got a really good workforce there. It's an area of potentially a lot of growth for us, even in country. So, we're back up and running.

I'm sure my Director of Research would love us to come in and stay 24/7 as well. I like that. So, you recently did this deal partnership with Corning to do more systems as opposed to sort of like just components to it. How could that impact the business over time? And it's clearly, this is just now starting and that's – as we've all said, it's like this takes a long time to sort of [indiscernible] (00:33:24) it. So, how should we sort of think about that relationship and could you contextualize it in the competitive landscape of what it means?

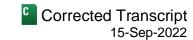
Quintin John Lai

Vice President-Corporate Development, Strategy and Investor Relations, West Pharmaceutical Services, Inc.



Sure. I think let's just take a look at the industry trends. Highly regulated market, and the regulators have been increasingly insisting that companies demonstrate that their delivery devices work together as a system. And

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today, the components are selected by the drug companies. But you've got an elastomer company, you've got a glass company, you've got fill finish. You're pulling all these things together, and then they go, see, it's a system. Well, the regulators then say, oh, prove it.

And so then the drug companies have to validate it as a system, which means that they're going to turn to the suppliers and go, help us validate that it's a system. So, we've been doing this and other suppliers have been doing this, but you're doing it with kind of trying to clap with one hand behind your back. We only affect the elastomers and the aluminum seals, so we can't control any other variables that come out there.

The opportunity that we had with Corning was that we have a partner now who will help us make, to our specifications, components that we will then make with our specifications, a high-end elastomer, and we're going to characterize the two together as a truly integrated system.

And you're right, it does take time, but we think it's worth the effort because it addresses the needs that the industry has. We think it's going to create a lot of value in terms of quality, in terms of reliability and, we think it could be the next rung in our HVP journey.

Got it. Any questions from the audience? So, I guess, sort of wrapping up as we're here, well, I sort of already asked this question about what's a misunder – what's underappreciated, misunderstood about West. But I guess, how do investor – and this is a question I get from people. So I think people are generally positive on the component suppliers [indiscernible] (00:36:09) bioprocessing that whole industry. But how do we really gain comfort that there's all this magical mystical volume out there because we don't have this sort of insight of the companies' order books? I mean, we just don't see that, right? I think there's always going to be a little bit of skepticism that there's all this capacity out there. It's not going to utilize. So how do we gain comfort into your visibility?

Bernard J. Birkett

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

Yeah. Our growth rate isn't pure volume so it's made up of some volume, but then a big part of it is mix shift.

Yeah.

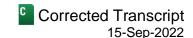
Bernard J. Birkett

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

And then you've got the third element of price. So that gives us confidence based on what we see happening within the market that we're able to commit to those longer term growth objectives. So it's not just pure volume.

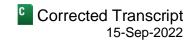
And what we've seen is over the last number of years that, that is actually the case. So when you take out COVID and even go back 2018, 2019, those growth rates are what we have been seeing and delivering on.

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The pushback that we get from investors is they think 7% to 9% is too low. They're saying, well, you're doing – right now, you're doing, like, double-digit organic growth on your core business, why can't you commit to that longterm? So, I'm getting the opposite question that you're getting. Yeah. Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. But over the long-term, that 7% to 9% for us is achievable. Okay. If we do more, great. Yeah. Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. So, they were asking us different questions. Well, that's because you get more people who want to actually buy your stock versus, right, probably you get more people that want to short your stock, it's probably the simple answer to that. Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. Could be. Could be. But once again, - then, again, as I sort of alluded to, the stock chart would sort of indicate that over the long haul, that's a very difficult thing to do. **Unverified Participant** And with that, we're out of time. Thank you once again for being here. Thanks, everybody, for listening in. Bernard J. Birkett Senior Vice President & Chief Financial and Operations Officer, West Pharmaceutical Services, Inc. Thank you.

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Unverified Participant

Thanks for the input.

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