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# West Pharmaceutical Services, Inc. (WST)

Q1 2024 Earnings Call

### **CORPORATE PARTICIPANTS**

#### **Quintin John Lai**

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

#### Eric Mark Green

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

#### Bernard J. Birkett

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

### OTHER PARTICIPANTS

**Matt Larew** 

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Jacob Johnson

Analyst, Stephens, Inc.

Paul Richard Knight

Analyst, KeyBanc Capital Markets, Inc.

Michael Ryskin

Analyst, BofA Securities, Inc.

**Justin Bowers** 

Analyst, Deutsche Bank Securities, Inc.

David Windley

Analyst, Jefferies LLC

Lawrence Scott Solow

Analyst, CJS Securities, Inc.

### MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, and thank you for standing by. Welcome to West Pharmaceutical Services First Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please note that today's conference may be recorded.

I will now hand the conference over to your speaker host, Quintin Lai, Vice President of Investor Relations. Please go ahead, sir.

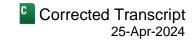
#### **Quintin John Lai**

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

Thank you, Olivia. Good morning, and welcome to West's first quarter 2024 conference call. We issued our financial results this morning, and the release has been posted in the Investors section on the company's website located at westpharma.com.

This morning we will review our financial results, provide an update on our business, and present an updated financial outlook for the full year 2024. There's a slide presentation that accompanies today's call and a copy of that presentation is available on the Investors section of our website.

Q1 2024 Earnings Call



On slide 4 is our Safe Harbor statement. Statements made by management on this call and in the accompanying presentation contain forward-looking statements within the meaning of US federal securities law. These statements are based on our beliefs and assumptions, current expectations, estimates, and forecasts. The company's future results are influenced by many factors beyond the control of the company. Actual results could differ materially from past results, as well as those expressed or implied in any forward-looking statement made here.

Please refer to today's press release, as well as any other disclosures made by the company regarding the risks to which it is subject, including our 10-K, 10-Q, and 8-K reports.

During today's call, management will make reference to non-GAAP financial measures, including organic sales growth, adjusted operating profit, adjusted operating profit margin, and adjusted diluted EPS. Reconciliations and limitations of the non-GAAP financial measures to the most comparable financial results prepared in conformity to GAAP are provided in this morning's earnings release.

I now turn the call over to our CEO, Eric Green.

#### **Eric Mark Green**

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

Thank you, Quintin, and good morning, everyone. Thanks for joining us today. We'll start on slide 5, where I like to cover a few topics. First, we will review Q1 performance. Second, we will provide an update on the markets that we serve, as well as updates on our growth initiatives. And third, we will provide an update to our full year 2024 financial outlook.

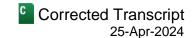
Now turning to the financial results, we delivered a solid start to the year. During the quarter, we again saw growth in our top-tier HVP component, NovaPure, and our HVP devices such as SmartDose. We also continue to see inventory management or destocking by our larger, mature customers that are working down their inventory closer to pre-pandemic levels. With that said, Q1 had a solid start due to favorable order timing of customer deliveries fulfilled in the quarter.

I want to address a question that many of you are asking. Are we seeing an inflection in destocking? The short answer is, not quite yet. Several customers are still working through their safety stock levels, and we still expect Q2 to have an impact from customer destocking. And customer order trends continue to indicate a stronger second half of 2024, with return to more typical order patterns in Q4. Therefore, after a solid quarter, we maintain our full-year net sales guidance.

Turning to slide 6, we continue to have an active year of capital expansion projects that are increasing capacity to meet growing demand for both our Proprietary Products and Contract Manufacturing segments. In our Proprietary Products segment, we have expansion projects in several of our HVP components manufacturing sites, such as Jersey Shore, Kinston, Waterford, and Eschweiler.

These projects will provide a combination of increased manufacturing capacity, especially HVP processing or washing, sterilization and Envision, as well as bring a higher level of global standardization throughout our network. We believe that this favorably positions West to address anticipated growing demand for HVP components from volume growth of legacy drugs, from recently launched or to be launched drugs, and potential conversions from legacy customers to higher levels of quality in response to the global regulatory changes.

Q1 2024 Earnings Call



Last quarter, we mentioned one such regulatory change was the European Union GMP Annex 1. We continue to emphasize that adoption. Both timing and level of HVP will vary from customer to customer and from drug to drug. What we are seeing in Q1 is an acceleration of interest from customers, as Annex 1 calls for higher quality, lower particulate, and more stabilized solutions.

Earlier this month at the INTERPHEX conference in New York, Annex 1 was a key topic of discussion with customers as we highlighted our innovative approach and leading products of Westar Select and NovaPure. Also, in the proprietary product segment, we are making progress with capacity expansion of our HVP devices, including SmartDose, SelfDose, and Admin Systems.

For the near term, we're working to layer in capacity through productivity optimization programs. And for the longer term, we are adding capacity that incorporates automation to complement our manual processes.

With our Contract Manufacturing, we continue to build out capacity at our Grand Rapids site and significant expansion at our Dublin facility, which are both in support of a customer's injection device platform. These expansions are critical to the overall volume growth that we continue to experience with growing demand for certain components associated with drugs for diabetes and obesity.

Shifting to slide 7, we are maintaining our full year 2024 organic sales growth outlook of 2% to 3%. Our teams are actively engaged in working through our customers' inventory management. We expect improved growth along with stronger growth and operating margins in the second half of the year, with Q4 projected to be the strongest quarter.

For the full year, we are maintaining general core cost discipline while reinvesting into new growth initiatives, as I just outlined.

Now, I'd like to turn the call over to Bernard. Bernard?

#### Bernard J. Birkett

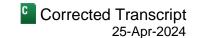
Senior Vice President, Chief Financial and Operations Officer, West Pharmaceutical Services, Inc.

Thank you, Eric, and good morning. Let's review the numbers in more detail. We'll first look at Q1 2024 revenues and profits. Whereas expected, we saw a low single-digit decrease in organic sales, a decline in operating profit and diluted EPS compared to the first quarter of 2023 given the current market dynamics. I will take you through the drivers impacting sales and margin in the quarter, as well as some balance sheet takeaways. And finally, we will provide an update to our 2024 guidance.

First up, Q1. Our financial results are summarized on slide 8, and the reconciliation of non-US GAAP measures are described in slides 15 to 18. We recorded net sales of \$695.4 million, representing an organic sales decline of 3%. Looking at slide 9, Proprietary Products' organic net sales decreased 4% in the quarter. High-value products, which made up 72% of Proprietary Products sales in the quarter, declined by low single-digits, primarily due to decreased sales from our FluroTec products and Westar components.

Looking at the performance of the market unit, the Biologics market unit delivered low single-digit growth, led primarily by sales of NovaPure. The pharma market unit saw a high single-digit decline, primarily due to a reduction in sales of Envision and standard components, while the generics market unit declined double digits, primarily due to decreased sales from our Westar and FluroTec components.

Q1 2024 Earnings Call



Our Contract Manufacturing segment experienced low single-digit net sales growth in the first quarter, primarily driven by an increase in sales of components associated with diagnostic devices.

Our adjusted operating profit margin, 17.7%, was a 530-basis point decrease from the same period last year. Finally, adjusted diluted EPS declined 21.2% for Q1. Excluding stock-based compensation tax benefits, EPS decreased by approximately 23%.

Now, let's review the drivers in both our revenue and profit performance. On slide 10, we show the contributions to organic sales decline in the quarter. Sales price increases contributed \$24.1 million, a 3.4 percentage points of growth in the quarter, as did a foreign currency tailwind of approximately \$3.4 million.

More than offsetting price was a negative volume and mix impact of \$45.5 million, primarily due to lower sales volume caused by customer inventory management decisions in the period.

Looking at margin performance, slide 11 shows our consolidated gross profit margin of 33.1% for Q1 2024, down from 37.9% in Q1 2023. Proprietary Products first quarter gross profit margin of 37% was 550 basis points lower than the margin achieved in the first quarter of 2023. The key drivers for the decline in Proprietary Products' gross profit margin were lower sales volume and an unfavorable mix of products sold, partially offset by increased sales prices.

Contract Manufacturing first quarter gross profit margin of 17% was 60 basis points below the margin achieved in the first quarter of 2023, primarily due to inflationary labor costs and an unfavorable mix of products sold, partially offset by increased sales prices.

Now, let's look at our balance sheet and review how we've done in terms of generating cash for the business. On slide 12, we have listed some key cash flow metrics. Operating cash flow was \$118.2 million for the three-months ended March 2024, a decrease of \$19.9 million compared to the same period last year, a 14.4% decrease, primarily due to a decline in operating results.

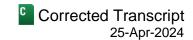
Our first quarter 2024 year-to-date capital spending was \$19.6 million, \$8.5 million higher than the same period last year. We continue to leverage our CapEx to increase both our high-value products and our Contract Manufacturing capacity. Working capital of approximately \$1.04 billion at March 31, 2024 decreased by \$220.1 million from December 31, 2023, primarily due to a reduction in our cash balance.

Our cash balance at March 31, 2024 of \$601.8 million was \$252.1 million lower than our December 2023 balance. The decrease in cash is primarily due to \$267 million of share repurchases and our capital expenditures offset by cash from operations.

Turning to guidance. Slide 7 provides a high-level summary. We are reaffirming our full year 2024 net sales guidance in the range of \$3 billion to \$3.025 billion. There is an estimated full year 2024 headwind of approximately \$8 million based on current foreign exchange rates. We expect organic sales growth to be approximately 2% to 3%, unchanged from prior guidance.

We are raising our full year 2024 adjusted diluted EPS guidance to be in a range of \$7.63 to \$7.88, compared to a prior range of \$7.50 to \$7.75. Also, our CapEx guidance of \$350 million for the year, unchanged from prior guidance.

Q1 2024 Earnings Call



There are some key elements I want to bring your attention to, as you review our guidance. Full year 2024 adjusted diluted EPS guidance range includes an estimated FX headwind of approximately \$0.04 based on current foreign currency exchange rate, which is an increase from the prior guidance of \$0.02. The updated guidance also includes EPS of \$0.15 associated with first quarter 2024 tax benefits from stock-based compensation. Our guidance excludes future tax benefits from stock-based compensation.

I would now like to turn the call back over to Eric.

#### Eric Mark Green

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

Thank you, Bernard. To summarize on slide 13, the solid financial performance and execution in Q1 continues to reaffirm our proven growth strategy, strong base business and the unique value of our high-quality product offerings for customers. We look forward to building on this momentum as we move through the year, and our team is steadfast in meeting the anticipated growth expectations, as we make a positive impact on health care across the globe.

Olivia, we're ready to take questions. Thank you.

### QUESTION AND ANSWER SECTION

**Operator**: Certainly. [Operator Instructions] And our first question coming from the line of Matt Larew with William Blair. Your line is open.

#### Matt Larew

Analyst, William Blair & Co. LLC

Hi, good morning. Wanted to ask about – you referenced the pickup in the back half of the year, but more about the second quarter. Last call, you discussed sort of a flip to positive growth in the second quarter. And Eric, in your comments, it sounds like there hasn't been an inflection on the destocking. So just wondering if we should still be thinking about positive organic growth in the second quarter or if things are now more weighted to the back half of the year?

#### Eric Mark Green

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

Yeah. Good morning, Matt, and thanks for the question. What we're seeing is that Q2 will be sequentially stronger than Q1, but we also see that as we go into Q3 and Q4 throughout the year. We did see some demand in the first half of this year that we were able to build – fulfill through our manufacturing sites in Q1. That I would consider as timing in the first half of this year. But the build-up will be sequential quarter-over-quarter over the next four quarters.

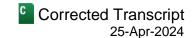
Bernard, do you want to add any more?

#### Bernard J. Birkett

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



Q1 2024 Earnings Call



Yeah. Just as Eric said, Matt, sequentially it will be up. There is an element of timing between Q1 and Q2. So, some of those orders that we shipped out in Q1, originally we would have earmarked in Q2. So we're seeing that, and we're also seeing – and the destocking continue into Q2.

Matt Larew
Analyst, William Blair & Co. LLC

Okay. Then maybe let me go from very near term to a higher level which is that, some peers have described that the supply chain disruptions and longer lead times during the pandemic created an opportunity for them perhaps to get into West customers where they didn't have access to before.

And so, just curious what your assessment is of your competitive positioning. And perhaps more generally, the industry's bias towards sole source or multisource arrangements moving forward and just kind of ask that in light of all the high-value capacity you're adding? Thanks.

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

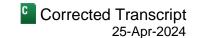
Yeah, Matt. Over the pandemic, we actually worked with our customers to make sure that we were able to continue to supply and that there wasn't any stockout with any particular customer. So we were successful through the pandemic period of time. And we've been working on reducing the backlog and increasing their safety stock levels really in – back end of 2022 and 2023.

The way we see it is that we continue to be on the molecules that are in the marketplace. We are working with them as they adjust their schedules for future shipments to be able to continue to supply those products in the market, and it is based on number of scripts that are being – injections being administered.

But also more importantly is, if we look at our current win rates or participation rate last year and going into this year, it is as strong as it's ever been. So, our interactions with our customers remain very strong. We have a very strong position in the marketplace. And the issue around potential sole source is that what customers have gained confidence is that we have multiple sites that can be able to support their product in the marketplace. So they're not dependent on a particular site and in that sense, we're able to provide them with a single product, multiple sites to be able to support their global supply chain.

Matt Larew Analyst, William Blair & Co. LLC	Q
Okay. Thank you.	
Eric Mark Green Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.	A
Thanks, Matt.	
<b>Operator:</b> Thank you. And our next question coming from the line of Jacob Johopen.	nson with Stephens. Your line is
Jacob Johnson Analyst, Stephens, Inc.	Q

Q1 2024 Earnings Call



Hey. Thanks. Good morning. Maybe just on the quarter, if I look at revenue and EBIT kind of sequentially, they were down a similar amount. And so kind of the decremental margins were maybe a little bit greater here. I know there's probably a few moving pieces as it relates to capacity additions and mix. But can you just talk about why we didn't see maybe a little bit more leverage on the margin side of things given the revenue outperformance in the quarter?

#### Bernard J. Birkett

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

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Yeah. It was – it's primarily around gross margin, and that's impacted by mix and then the overall absorption in some of our plants impacted the margin that we saw in Q1, but it was actually ahead of where we have predicted it to be, which so was a solid performance for us in the quarter.

#### Jacob Johnson

Analyst, Stephens, Inc.

Got it. Thanks for that, Bernard. And then maybe a longer-term question. A couple of years ago, you all updated your LRP to 7 to 9. Since then, GLP-1s and Annex 1 have emerged or come to the forefront. I'm just curious if you think if either or both of those trends kind of change your thinking about your long-term or medium-term outlook?

#### Eric Mark Green

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



Hey, Jacob. Good morning, this is Eric. I would say, at this point, we do not want to adjust our long-term outlook. However, we are excited about working with our customers in both areas that you described. One is in the GLP-1 sector, which we would be able to support our customers both in the elastomer side, but also in the – in our Contract Manufacturing to be able to support them on their delivery basis.

And on the Annex 1, we feel really good about where we are and the discussions that are ongoing right now with our customers and the trends that we're seeing, aligns well with how we've positioned our portfolio all the way from – if you think about the component specifications all the way to the manufacturing design, container closure, integrity that you think about documentation services. The whole suite of requirements to make our customers successful as they transition and be ready for the Annex 1.

So while we're very well positioned in both areas, it is about timing and change can take time and adoption could take time. So we are – we would say that the long-term outlook construct is a range. But as an organization, we don't have a ceiling. So I'll leave it like that.

Jacob Johnson

Analyst, Stephens, Inc.

Got it. Thanks for that, Eric, and thanks for taking the questions.

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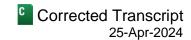
**Eric Mark Green** 

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

Thank you.

**Operator**: Thank you. And our next question coming from the line of Paul Knight with KeyBanc. Your line is open.

Q1 2024 Earnings Call



#### **Paul Richard Knight**

Analyst, KeyBanc Capital Markets, Inc.

Hi, Eric. As I look at the numbers, would it be fair to say that within Contract Manufacturing and Proprietary delivery systems you need to build capacity and there seems to be a ceiling right there for you right now?

#### Eric Mark Green

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

Yeah, Paul. That's – yes, I would characterize as such probably more pronounced in Contract Manufacturing. We do have significant investments going on right now, both in Grand Rapids and Dublin, that will be – validation will occur later this year, but most commercial revenues will be observed in 2025 going forward.

And then in the high-value product Proprietary devices, there are some constraints that we have due to capacity, but that's being layered in as we speak. So as the timing throughout the year, you'll see even stronger throughput later on this year.

#### **Paul Richard Knight**

Analyst, KeyBanc Capital Markets, Inc.

Which leaves, I guess, standard packaging, the weakest? Is that a fair assumption? And is standard – what's in standard packaging to make that the weakest, if it is?

#### **Eric Mark Green**

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

Well, if I – let me rephrase that. I think the HVP components for us, most of the destocking that we've experienced earlier this year is around that category. However, that particular part of the portfolio will ramp up quite – very nicely sequentially throughout the year. So it is – most of the – if you look at the Q1, the Proprietary elastomer side, it really is due to destocking at this point in time but very strong outlook towards the end of the year and very strong obviously beyond that.

#### Bernard J. Birkett

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

Yeah. I think, Paul, on that, it's important to note that we don't anticipate any major mix shift. There's still the growth opportunities around HVP and in the Biologics space. And even in Q1, that continued to grow. And you could see the growth driven there by the growth in NovaPure. So from a mix perspective, I think when you look at it in the whole [ph] areas (00:25:06) are growing and our growth potential as we look out past 2024 around standard components and packaging on HVP, the trajectory is the same that they are the growth drivers.

#### **Paul Richard Knight**

Analyst, KeyBanc Capital Markets, Inc.

Okay, thank you.

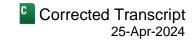
**Operator**: Thank you. And our next question coming from the line of Michael Ryskin with Bank of America. Your line is open

#### Michael Ryskin

Analyst, BofA Securities, Inc.



Q1 2024 Earnings Call



Hey, thanks for taking the question. I just have a couple of quick follow-ups. One, I mean you talked about the cadence and the progression of revenues through the year. I want to focus a little bit more on the margin side of things. I think we previously looked for a little bit more of a jump from 1Q to 2Q on the gross margin on Proprietary Products and on operating margin as well. Is it fair to say that given your comments on timing of revenues from 1Q to 2Q, that the second quarter margins will be a little bit more subdued as well and it will be closer to the first quarter? And then I've got a follow-up.

Bernard J. Birkett

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

We expect margin improvement sequentially as we move through the year, and that hasn't changed since we spoke about it in February, so we would see growth in operating margins step up quarter-over-quarter.

Michael Ryskin

Analyst, BofA Securities, Inc.

Okay. All right. And then on the contribution of price versus volume mix in the quarter. Price was a little bit weaker than we had expected. Is that just a component of mix and some of the destocking you have talked about? Or should we expect price to be a bigger contributor as you go through the year? Or is that [ph] I mean half level of outright (00:26:48)? Thanks.

Eric Mark Green

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

Yeah. No, it's a great question. I mean last year was a unique situation due to inflationary pressures. This year, I think we discussed in February that we're targeting between the 3% to 4% corridor on net price contribution, absent of any HVP mix shift. And so we started the year off in line with what we expect 3% to 4%.

Michael Ryskin

Analyst, BofA Securities, Inc.

All right. Thank you.

Eric Mark Green

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

Great. Thank you.

**Operator**: Thank you. And our next question coming from the line of Justin Bowers with Deutsche Bank. Your line is open.

**Justin Bowers** 

Analyst, Deutsche Bank Securities, Inc.

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Hi, good morning. Eric, earlier you talked about some of your customers returning to pre-pandemic safety stock levels. Do you have a sense on when that normalizes this year? And what it means in terms of typical ordering patterns?

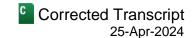
**Eric Mark Green** 

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

Yeah. So we're seeing some of that return in Q2 as we speak. But as I mentioned in the prepared remarks that we're seeing – we're still seeing some destocking occurring into Q2. And as we look at the order patterns in the

Q1 2024 Earnings Call



second half of the year, and we – and obviously, we're – as you know, we're make-to-orders, so we get – we have purview to look out multiple quarters ahead of us.

It is stronger than it has been in a number of years, if you normalize for COVID. So, we feel good about the – when we talk about sequential growth on the revenue for the next several quarters, we feel very good based on the order patterns we're currently seeing today.

**Justin Bowers** 

Analyst, Deutsche Bank Securities, Inc.

Contract Manufacturing side, last quarter you talked about some operational improvements, I think, maybe in Arizona. But is that somewhat of a gating factor until you implement those and get the throughput through? Or can you maintain the same productivity levels while you're making those changes?

**Eric Mark Green** 

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

This will be within our high-value product devices portfolio. It's a smaller piece of our overall business. There are some – as we make these improvements, there are some, I guess, constraints as we continue to manufacture, but most of those have been – are being resolved as we speak.

Bernard J. Birkett

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

Yeah. And I think the productivity improvements that we're actually working on right now don't impact our current levels of production. And again, we would see a sequential improvement in the throughput around that business. So, we're not looking at a step back there.

**Eric Mark Green** 

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

No.

**Justin Bowers** 

Analyst, Deutsche Bank Securities, Inc.

Appreciate the questions and sorry about the background noise, I got some guys on my roof.

Eric Mark Green

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

No problem. I really appreciate it. Thank you for the question. No problem.

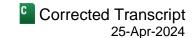
**Operator**: Thank you. One moment for our next question. And our next question coming from the line of David Windley with Jefferies. Your line is open.

**David Windley** 

Analyst, Jefferies LLC

Thanks for taking my question. I was going to say, Justin, let us know if you need us to come rescue you. But thanks for taking the question. I was going to come back to the mix. I hope I don't confuse the situation further. But just trying to understand the original question, I guess, Jacob's question about the decremental margin and the moving parts there. I understand revenue was lower overall, and so you have absorption impacts from that.

Q1 2024 Earnings Call



But NovaPure, you call out as strong, and we've identified the margin contribution from that ought to be really, really high. And then, it sounds like you have some other reasonably high-margin contributors that are being destocked. And so, I guess I wanted to make a plea for maybe a little bit more granularity, so we could understand the moving parts there. And then how that progresses as you see the sequential improvement through the balance for the year, possibly? Thank you.

Bernard J. Birkett

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

Yeah, David. So, it was really in some of the other areas of high-value products, where we saw some step back in Q1. But what we do expect to see as we progress through the year, the volumes around that business to increase again sequentially. And that's when we talked about the destocking earlier on in the year where we're seeing it was across all different parts of our business.

So, we would expect that HVP growth to accelerate as we move through the year and then the margin – and that to be reflected in our margins. And also, we'll get the pickup of incremental or increased throughput as we move through the year. I think Q1 was our lowest level of throughput, and we're a high-volume business. So, absorption does get impacted.

**David Windley** 

Analyst, Jefferies LLC

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As a follow up, in these areas of higher demand, GLP-1s being one of the previous call outs that you responded to, it's increasingly apparent that the efforts of the sponsors to get those products ultimately to market are very multifactorial with so many different elements of the supply chain investing aggressively to bring up capacity, you all being an example of at least two different areas where you're investing.

To what degree do you have dialogue with those clients or visibility to understand? You invest and you add NovaPure capacity and you add injection device capacity but fill-finish capacity is a challenge, for example, and that could be a rate-limiting step that you also need to anticipate relative to the order patterns. Like how are you able to do calculus around that? Thanks.

**Eric Mark Green** 

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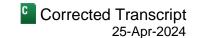
Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah, David, that's a good observation is that not just upstream, but downstream we had to be aware of. We do have very strong, very long-term relationships with customers that are in this space. So those relations are very well established, where we do interact with them about their demand profiles min-to-max-type of conversation for the various drugs. And so we're sensitive towards that.

Obviously, we don't speak to any of those volumes of a customer. But the way to look at it is – so to your question, if there's bottlenecks somewhere else in the value chain of – to get these products into the market, we had to be aware and we try to work with our customers with that understanding.

Our role is to make sure that we aren't the bottleneck. And so as you think about the elastomer side of the business, a lot of those assets are fungible. So these lines are not exclusive. So if we have to make a high-value product plunger, we're able to do that in multiple high-value product facilities and our customers can improve more than one site.

Q1 2024 Earnings Call



When it comes to Contract Manufacturing, it is a little different, that's installed capacity and there's a theoretical maximum to it. And that is one of many suppliers in that space. So that is different. That's a very tailored business model for a customer or multiple customers. So that's how we are tackling this, Dave.

So we – as we look at the investments, on the elastomer side, we feel really good about where we are with our capacity. We have been expanding capacity. So we're in a very good position on the contract manufacturing site. We will – if and when awarded additional contracts, we will build out, expand and ramp up production to peak volumes within one or two years. So that's pretty typical of the model that we have today.

**David Windley** Analyst, Jefferies LLC That's very helpful. If I could just sneak the last one in. On the destock, is it possible to size or quantify or comment to – is the impact of customer inventory management in 1Q, the peak and you expect that to wane still continue into 2Q, but wane as you continue through the year. Can you comment on that? Eric Mark Green Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc. Well, I will say, it will wane. Yes, it is going to wane throughout – as you talked about throughout the year. **David Windley** Analyst, Jefferies LLC Okay. Eric Mark Green Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc. And that's supported by our confirmed orders as we think through the balance of 2024 and also the discussion we had about sequential growth quarter-over-quarter for the next four quarters. **David Windley** Analyst, Jefferies LLC Got it. Thank you. Operator: Thank you. And our next question coming from the line of Larry Solow with CJS Securities. Your line is open. Lawrence Scott Solow Analyst, CJS Securities, Inc. Great. Thanks, guys. Just a few follow-ups. I guess just on the I think update. I know you mentioned Annex 1 and

Eric Mark Green

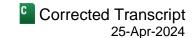
Chairman, President & Chief Executive Officer, West Pharmaceutical Services, Inc.

Yeah. Good morning, Larry, thanks for the question. Yeah, we've been having a lot of active discussions. And as I mentioned at the recent conference that we attended in New York, that was clearly the number one discussion point. And it's interesting is that we're very well positioned to be able to support our customers as we kind of think

whatnot. Just any qualitative thoughts on that you can speak to just conversations with customers on potential

conversions of legacy products going forward? Anything that you could speak to there?

Q1 2024 Earnings Call



about how do our customers get ready for – to be able to build, support and provide product with the regulations of Annex 1.

Now the one comment I will make is that one of the clear indicators that the most interest is coming from the multinationals. I think originally, they're maybe thinking around just the European firms, but this clearly is a discussion at a multinational level to really simplify their own supply chains. And so that's encouraging. And it's – and again, it's not just for new drugs. It's really a heavy emphasis on the legacy portfolio.

So that's about as much as I probably can give you without going too detailed, but these are active dialogue discussions that they will take time.

**Lawrence Scott Solow** 

Analyst, CJS Securities, Inc.

Right.

Eric Mark Green

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

It will depend on the customer. It will depend on the drug that they would like to transfer, but we're well positioned to have those discussions and then act upon them.

Lawrence Scott Solow

Analyst, CJS Securities, Inc.

Great. And I appreciate the color. And just a question on R&D. I think R&D increased last year, I think, 16%, 17%. What's sort of the outlook this year? I know Q1 looks like it was only up a little bit year-over-year, but I know the quarters could jump around a little bit. Just thoughts on R&D? And where is the lion's share of that increase going into? Is that – I know a lot of investment into Corning, but is it going into a lot of different areas?

Bernard J. Birkett

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

Yeah, Larry, as a percentage of revenue, we expect R&D to be pretty constant as we go through the year. And where is that money going? A lot of that increase is around integrated systems and how we're building that out. And again, it is our partnership with Corning and supporting that and developing that market.

Lawrence Scott Solow

Analyst, CJS Securities, Inc.

Okay. And just lastly on price, I think you had like a little over 3% increase you mentioned this quarter. Is that about – that also could probably move around a little bit, but is that probably a good run rate you think for the full year, plus or minus?

Eric Mark Green

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

Yeah, that's correct. That's a good position to be in for us.

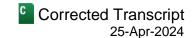
**Lawrence Scott Solow** 

Analyst, CJS Securities, Inc.

Right. Excellent. Thanks, guys. Appreciate it.

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Q1 2024 Earnings Call



#### Bernard J. Birkett

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

Thanks, Larry.



**Operator:** Thank you. And I see no further questions in the queue at this time. I'll turn the call back now over to Quintin Lai for any closing remarks.

#### Quintin John Lai

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

Thanks, Olivia. Thank you for joining us on today's conference call. An online archive of the broadcast will be available on our website at westpharma.com in the Investors section. Additionally, you may access the replay for 30 days following this presentation by using the dial-in numbers and conference ID provided at the end of today's earnings release. That concludes the call. Have a nice day.

**Operator**: Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.

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