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West Pharmaceutical Services, Inc. (WST)

UBS Global Health Care Conference

CORPORATE PARTICIPANTS

Eric Mark Green

President, Chief Executive Officer & Director

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Hi. Welcome to the UBS Health Care Conference. Our next presenter is Eric Green, CEO of West Pharmaceutical Services and please note there will be a breakout session following this presentation.

Eric Mark Green

President, Chief Executive Officer & Director

Great. Kevin, thank you, and good afternoon and I appreciate the invitation from UBS to participate in the healthcare conference. Joining me today in the front row is Bill Federici, our CFO of the company and Quintin Lai, our Head of IR. It's a pleasure being here this afternoon and tell you a little bit about the West story. Before I get started, I just want to reference the Safe Harbor statement. You can go to the details. It is available at our website if you want to get into further information.

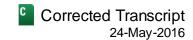
Let me tell you a little bit about West. West has been around for over 93 years and West is really focused in the primary containment of injectable drugs and West has a very strong leadership position in that particular space. And if you look at our mission, we're looking at integrating containment delivery of injectable medicines and I'll tell you about our story and our journey to get there.

The market itself that we participate is quite large. When you look at our customers which are all the pharma, biotechs, all the generics and biologics, there's over \$280 billion of annual drug sales, over 30 billion units on an annual basis, and the market itself is approximately \$7 billion to \$8 billion for the containment to delivery product sales. So, we do operate in an attractive space.

Look at West participation in this particular market, in the healthcare industry, we specifically look at the top 35 injectable biologics on the marketplace today. Those customers rely on West and our Daiky o components, Daiky o is a partner in Japan on all top 35 biologics. When you take a look at the top 75 pharma and biotech injectable companies, on their products, West participates. And what's staggering is that we produce over 40 billion components annually. Now that's a large number, and I have to assure you that each and every one of those 40 billion components has the attention to detail of our organization on each and every one because we realize it has an impact on us as individuals, our family, our friends, our neighbors, and our communities. So, we take the quality culture extremely important as we produce over 40 billion components annually.

We're a diverse organization. About 50% of our revenues are in the United States. The rest of them are the revenues that are in Europe, Asia Pacific, and Latin America. When you look at our product portfolio, about 20% of our business is contract manufacturing. And while the other 80% is spread between, 50% of that is our high-value components and our delivery devices, while the other 50% is standard packaging.

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Another important note to make here, to mention is that there's isn't one customer that is greater than 8% of our sales. So, we're diverse as far as the portfolio, diverse from a geographic point of view, and also diverse from a customer point of view.

The business has performed consistently. Over the last five years, the top line revenue has grown on a constant currency basis of 6.7% followed by adjusted diluted EPS of almost 12%, and last year, about this time, actually in June, July time period in 2015, West Pharmaceutical Services was added to the S&P MidCap 400 Index and you can see how West has performed against our peers in that particular index.

That's the past. Let's talk about the future. On the Q3, Q4 of last year, we went through a deep dive of the enterprise strategic plan at West. While the strategy that has gotten to where we are today is robust and sound, we believe we have a platform to build off of to allow us to achieve our objective, is to be the leader in the – from containment to delivery devices. We built four pillars in our strategy. One's around being – become more market-led versus product-focused.

Secondly, it's around operational excellence. To give you an example, what does that mean? Historically, which has gotten us to where we are today, we have built our operations around site or region-specific. And what we have done recently with the reorganization is we've globalized our operations so we can leverage our footprint more effectively to service our global customers. So as you look at investments forward with less, we'll be looking strategically where to place our investments to [ph] pool (05:03) our production capabilities from the 28 sites around the world to be more effective aligned to our customers.

We also globalize and centralize our innovation and technology organization which allows us to connect the scientific expertise between polymer science, we're talking about life scientists, organic chemists, engineers into one organization to look at how can we bridge the gap between containment to delivery devices.

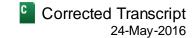
And the fourth is driving shareholder value. It's identifying best use of our cash, how do we invest in our organic growth, how do we invest in potential bolt-on acquisitions to bolster our technology within the firm. Let me start with addressing the unique needs of our customers. We reorganized our commercial engine at West to become global. But we have organized our colleagues specifically around generics, pharma, biologics, and contract manufacturing.

The reason why we've done that is that the unique needs of the four different segments are basically unique. If you look at generics, it's about speed-to-market. It's about efficient manufacturing. It's the larger runs. The pharma is driven more of our total cost of ownership than life cycle management of existing injectable medicines. In the biologics, it's looking for packaging solutions for sensitive molecules. It's no longer key – only packaged biologics in glass. You have to look at alternative ways to build to package the sensitive molecules to ensure the shelf life of the drug.

And when you look at contract manufacturing, West is very good at designing and engineering large quantity of materials for our customers such as continuous glucose monitoring systems, the EpiPen, the insulin pens, and so forth. So, you look across this whole spectrum, one common theme of the DNA of West is our own quality. We set a high bar. We continue to expand that bar and it supports our customers' needs to be able to deliver their drugs to the patients effectively.

Our portfolio expanding. Historically, West was primarily on the bottom left-hand of the slide around standard packaging, around the elastomers. But we've added additional capabilities and services that really enable the products, what we call high value product components, which allows us to wash, sterilize, coat, use camera

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inspections, all the way up to what we call the highest purity level, NovaPure, which is more about quality by design. We're really working with the customers, identifying how to take their injectable drug and put it into a primary container in a safe and efficient and effective manner.

[indiscernible] (07:54) what's happening with the mix and youlook at the growth of the business, the pieces, the high value components and proprietary device such as CZ and SmartDose are growing well in double-digits. And actually what you're seeing with the growth is further margin expansion. The high value components are about two times the margin than the standard packaging which are roughly around 27% versus 55% to 60% and the contract manufacturer is growing around 5%, mid single-digits for the past five years. So, if you look at the growth of West, it's to between 6% and 8%, has a natural margin expansion due to the higher growth acceleration of the higher margin items.

Our innovation and technology team is continuously looking at ways to innovate. We're launching new NovaPure 1ml, 3ml. We're looking at Flip-Off Seals, our SRU capabilities and we continuously build on the Crystal Zenith platform launches. Today, we have a number of customers that are using our Crystal Zenith in stability trials and we have actually announced that there's two commercial products recently launched with CZ vials in the marketplace and we believe this is a platform that our customers are looking to use to innovate with their new drugs.

We're also launching SmartDose in a commercial form later this year. And as we look at SmartDose itself, we're looking at ways to how do we continuously work with our customers to modify and to customize, and that's where we get into our next generation of delivery devices. It is around customization. It's leveraging the CZ technology to be able to have the primary container and in the SmartDose delivery device pre-loaded and pre-sterilized, which is a key differentiator to enable the patients to be more effectively use the device while they're at the comforts of their home.

It's simplifying the process and allows us to work with our customers anywhere between 1ml to 10ml of dosage ranges. So, this gives us the flexibility, the interest level of working with customers. While it takes a few years to get this into commercial status, it's early signs of success as we move forward.

Turning our attention in the first quarter, this is the first quarter that we've reorganized the organization around that market-led structure. We have put the people in place, the metrics in place, and we're currently working with our customers.

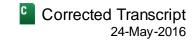
If you look at the results of the first quarter, the organic growth was about 10.5%, and our adjusted diluted EPS grew 24%. We believe as we take a look at the outlook for the full year, we're looking at 6% to 8% organic top line growth for the business.

The highlights of the first quarter, 20% of our business, as I mentioned, is contract manufacturing. It started off with low-single digits, but we're confident that we will deliver mid-single digits based on our current demand with our customers in diagnostics, med device, and also in the pharma segment.

When you look at the biologics and pharma – biologics and generics, which is roughly 50% of the business, both of those customer segments are growing well in the double-digits sales growth. A lot of that is the market trends and dynamics, but it's also around the execution in the portfolio that we offer into that particular segment.

In the pharma space, the performance in the first quarter was mid single-digit organic growth, and we feel comfortable that that's the type of performance we should see out of that particular customer segment going forward. Just to reiterate, our high value product offering was over 20% organic sales growth in the first quarter.

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It continues to be well in the double digits, and we're pleased with the performance of that portfolio and primarily servicing the generics and the biologic customer segments.

Our full-year guidance as we look out for West is – top line, as I mentioned before, total for the company is 6% to 8% organic growth, and we're looking at estimated adjusted diluted EPS of \$2.12 to \$2.25 per share. We do anticipate to continue to spend capital as one of our top primary uses of our cash, approximately \$150 million to \$175 million, and the largest spend right now is our Waterford, Ireland facility that we are looking to have operational and being validated by customers by the end of 2017 and first commercial dollars out of that plant in early 2018. That investment allows us to continuously expand our services to the insulin market and also gives us the platform to continue to build on our high value products portfolio manufacturing capabilities out of Ireland.

The direction of West is very clear. We reorganized into a market-led strategy. We are focused on the biologics, generics, the pharma, and the contract manufacturing customers. As we look at where we are positioned today, we have a strong moat or barrier around the business with a high barrier of entry. We look at the quality culture at West. It's part of the DNA throughout all 7,100 employees throughout the world.

We look at how we are designed into the regulated products with our customers. So, once we're working from Phase II in development all the way to commercial, once the product is launched, we are built into the regulated documentation. And what differentiates us with our competitors is the scientific and technical expertise. We are working with our customers at early phases to identify which formula, which services, what capabilities do we deliver to our customers to enable them to effectively deliver or launch their drug into the marketplace on a global basis.

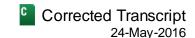
With the organization that we have aligned – with the global organization, we are continuously looking at ways to expand our capacity. After Q1 of this year, our backlog which is firm purchase orders from customers was roughly around \$437 million. That's about 24% increase over prior year time and about 5% increase over end of year of 2015.

That demand continues – requires West to continuously invest in capacity expansion to meet the growing demand of our customer demand and again particularly in the biologics and in the generic space. Our innovation and technology team being brought to gether, continuously looks at ways to identify new products and services to deliver value to our customers. It's not just looking at ways to improve the containment with our elastomer business, but it's also looking at ways how do we link the containment to the delivery device to really offer a complete solution for our customers.

So innovation, we're quite pleased with the progress we're making. We have a number of new products that are being launched as I indicated earlier in the previous slide that are being launched in 2016. And to summarize our financial strength as an organization, the strong balance sheet, increase in operating cash flow enables us to continuously reinvest in the business whether it's in capital, in our infrastructure, it's in our people, in our capabilities, and new technologies that we can bring in to West to incubate, to work with the innovation and technology to really bring long-term value to our customers. When we will look at the strategy building for the future, it's very clear. Our focus is creating value for our customers, the patients, the employees and the shareholders.

So I'd like to end at that slide, and I want to thank you for your time and attention. I know we have a breakout session downstairs, and we can take your questions. I know Bill and Quintin will join me down in the Q&A session. Thank you very much.

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