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West Pharmaceutical Services, Inc. (WST)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Q3 2018 West Pharmaceutical Services Earnings Conference Call. At this time, all participants are in a listen-only mode. Following management's prepared remarks, we will have a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, today's conference is being recorded for replay purposes.

It is now my pleasure to turn the conference over to your host, Mr. Quintin Lai, Vice President of Investor Relations. Please go ahead.

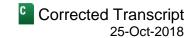
Quintin John Lai

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

Thank you, Haley. Good morning, and welcome to West's third quarter 2018 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 out www.westpharma.com. This morning, CEO, Eric Green; and CFO; Bernard Birkett, will review our results, provide an update on our business and provide an updated financial outlook for the full-year 2018. There is a slide presentation that accompanies today's call and a copy of that presentation is available on the Investors section of our website.

On slide 2 is the Safe Harbor statement. Statements made by management on this call and in the presentation contain forward-looking statements within the meaning of U.S. federal securities laws. These statements are based on management's beliefs and assumptions, current expectations, estimates and forecasts. There are many factors that could influence the company's future results that are beyond the ability of the company to control or

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predict. Because of these known or unknown risk or uncertainties, actual results could differ materially from past results and those expressed or implied in any forward-looking statement. For a non-exclusive list of factors which could cause actual results to differ from our expectations, please refer to today's press release as well as any further disclosures the company makes regarding the risks to which it is subject and the company's 10-K, 10-Q and 8-K reports.

In addition, during today's call, management will make reference to non-GAAP financial measures including sales at constant currency, 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 West's CEO and President, Eric Green.

Eric Mark Green

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

Thank you, Quintin. Good morning and thank you for joining us today. This morning, we reported our third quarter performance. We had solid sales growth in our Proprietary Products segment and another quarter of strong growth for contract manufacturing. We generated 13% growth in adjusted EPS despite a difficult year-over-year comparison. Bernard will go over the detail later in the call.

As we look to the remainder of the year, we expect that high-value product sales will continue to drive growth in the Proprietary Products segment. And as mentioned on past calls, we should see a moderation in contract manufacturing growth due to a strong fourth quarter last year with greater than normal tooling revenues.

And slide 4 shows our organic sales performance by quarter across both segments of our business. In the third quarter, we had organic sales growth of 9.6%, the highest level in the past two years. We had another outstanding performance in our contract manufacturing segment and our Proprietary Products segment grew high-single digits despite softness in Biologics.

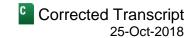
Let me provide greater detail of the individual proprietary market units starting with Biologics. The performance of Biologics was driven by two factors. First, as discussed on the last call, we have a couple of customers that are working off of inventories that were built in preparation for drug launches while others had made the decision to upgrade to a higher value product and need to work off their current product inventories. These are timing issues and we expect to return to more typical ordering patterns through 2019 and anticipate stronger high-value product sales as a result.

Second, our self-injection delivery devices contributed to lower than expected commercial sales. As a supplier to drug companies, our success is ultimately correlated with our customers' commercial success. We have a number of new development programs in the works and as they progress into commercialization, our growth will be associated with a more diverse group of drugs and that should lead to more consistent sales performance.

That said, we continue to see growth with many customers who are purchasing the high-value components for the new biologic drugs. We know that customers are looking for high quality, reliable and readily available solutions to contain and deliver their large molecules.

In this quarter, we saw double-digit growth in high-value product categories such as Westar RS and RU and NovaPure. The fact that our overall business can offset softness in our Biologics unit and still generate 9.6%

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overall organic sales growth in Q3 is a testament to our robust product and service offerings and the diversity of our customers we serve.

Our Generics Market Unit grew mid-single digits in the third quarter and is on track to finish the year strong. This growth is driven by volume and high-value product conversions. And the long-term outlook is positive. We see growing interest in our AccelTRA components program. We have sampled more than 100 customers and secured our first commercial sales.

The Pharma Market Unit grew strong double digits. As a reminder, we believe the underlying Pharma Market volume growth is in the low-single digits. So, the mid-teens growth we saw this past quarter is atypical. Driving this impressive result was a number of factors including high-value product conversion success, increased adoption of our Vial2Bag products in the hospital setting and a favorable year-over-year comp due to inventory destocking activity last year. In Pharma, we expect to finish 2018 on a solid growth trajectory.

Turning to contract manufacturing. We had another stellar quarter with 20% organic sales growth. This growth was driven by continued escalation of demand for diabetes-related diagnostic and drug delivery devices which reflects strong patient demand in the market. As a result, we expanded capacity sooner than originally anticipated and we're seeing the results of that effort in our performance this year. We expect overall contract manufacturing sales in Q4 to remain around Q3 levels as we continue to address this increased demand.

Turning to slide 5. I want to give you an update on our self-injection delivery platforms, SmartDose and SelfDose. With an FDA approval and two years of performance data in hand, we have proven that SmartDose is a viable delivery device for large volume and highly viscous drugs. We have two SmartDose customers commencing clinical trials, multiple ongoing development projects, as well as several feasibility agreements that have recently been signed. Earlier this year, we had the first commercial launch of a drug used in the SelfDose patient controlled injector. We're pleased with the post-launch reception from customers which has resulted in increased development activities.

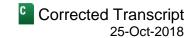
We have learned a few lessons over the years as we worked to bring our self-injection delivery devices to market. First, customer interest for self-injection platforms continues to grow and feedback on our proprietary device technology to address this market need has been well received.

Second, the development cycle is long and regulatory hurdles are high. Our teams have demonstrated the ability to work with our customers to help them successfully bring these innovative combination products through the regulatory approval process and into the hands of patients. And finally, long-term commercial success of our devices will depend on the commercial success of our customers' drugs. So building a diverse and broad customer base and product portfolio, which we are doing, is key to long-term success. We remain confident that along with the expansion of our component offerings and administration systems, our device strategy will allow us to continue to meet the future needs of our customers.

Turning to slide 6, we announced at the two recent major industry conferences the launch of our Integrated Solutions Program. We have talked about how much complexity exists when bringing a combination product to the market. Our customers operate in highly regulated markets and the amount of testing and support services required to gain approval is challenging.

At West, we have expertise that is unrivaled in the industry which can help our customers simplify the journey throughout the drug development cycle. We have bundled these services in a comprehensive offering that is complementary to our high-value product and device strategy.

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We have received positive feedback from our customers since our launch and look forward to bringing this Integrated Solutions Program to our full customer base. With a solid Q3 behind us, we're reaffirming full-year 2018 guidance and are focused on finishing up the year strong by executing on our market-led strategy.

We are addressing our customers' unique needs with both our products and also with the services and technical expertise that West can deliver. And our One West Management System is driving improved gross margin and optimized capital spending in addition to delivering innovative manufacturing strategies that have led to better service to customers. We are early in our journey but are confident that this global operations system will continue to yield benefit to West and to our stakeholders.

Now, I'll turn it over to our CFO, Bernard Birkett, who'll provide more detail on our financial performance and our long-term outlook. Bernard?

Bernard J. Birkett

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

Thank you, Eric and good morning, everybody. So let's review the numbers in a little more detail. Our financial results are summarized on slide 7 and the reconciliation of non-GAAP measures are described in slides 12 to 16.

In continuing to deliver on our objective, we are pleased to report for the third quarter reported net sales of \$431.7 million representing continued strong top line growth of 9.6% on a constant currency basis. Gross profit of \$135.6 million is \$10.5 million, or 8.4% above Q3 of 2017. Adjusted operating profit of \$63.1 million was slightly above Q3 2017's \$62.9 million. Other income in 2017 includes a \$9.1 million cost reimbursement of a safety technology we licensed to a third-party. This is approximately a 17% increase excluding the Q3 2017 license gain and adjusted diluted EPS of \$0.76 as compared to \$0.67 last year representing EPS growth of approximately 13%. Excluding the impact of stock option exercise tax benefits from both periods and a license income of \$9.1 million included in Q3 2017, adjusted diluted EPS grew approximately 27%.

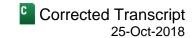
Taking a deeper dive into our sales performance, we have seen sales growth in each of our business segments. Slide 8 shows the components of our consolidated sales increase. As already highlighted, consolidated third quarter sales were \$431.7 million, an increase of 9.6% over Q3 2017 at constant exchange rate. Proprietary Products sales increased 6.6%. Price increases accounted for 1.5% of the sales increase. Our high-value product sales increased mid-single digits. Sales growth was led by our Pharma Market Unit which had double-digit sales growth in the current quarter.

Generics Market Unit sales growth was in the mid-single digits. Sales to Biologics customers showed a mid-single digit decline over the prior-year quarter, as Eric has noted. Our high-value products represented 59% of Q3 2018 sales, approximately the same level as achieved in our Q3 2017. For the full-year 2018, we expect mid-single digit sales growth in high-value products.

Contract-Manufactured Products net sales increased by 20.1%. New product launches in late 2017, particularly in our Dublin and Arizona facilities in support of diagnostic and delivery systems for treatment of diabetes, are driving much of the increase in sales.

So, let's take a look at margin performance. Slide 9 shows our consolidated gross profit margin for both Q3 2018 and 2017 with 31.4%. Proprietary Products third quarter gross margin of 37% was 120 basis points above the margin achieved in the third quarter of 2017. This continued improvement in gross margin is primarily due to mix, production volumes and efficiencies coming from our cost-down operational strategies and One West

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Management System initiatives, which more than offset the \$2.7 million of overhead cost increases in Waterford. The Waterford facility generated its first sales of commercial product in Q3, and we expect continued improvement in operational efficiencies as our utilization of this facility increases.

Contract manufacturing third quarter gross margin was 14.3%, decreased by 200 basis points compared to the prior-year quarter. However, margins increased over Q2 2018 in line with our expectations and comments on our Q2 call. The decrease in margins is principally due to start-up costs associated with launching new programs and idle capacity at facilities undergoing restructuring and product transfer activities. We have continued confidence that contract manufacturing margins will improve further in the fourth quarter and on into 2019 as we complete our restructuring activities, continue to improve our efficiency and utilization levels and deliver on the new customer programs.

Q3 2018 consolidated SG&A expense increased 3.7% versus the prior-year quarter. As a percentage of sales, third quarter 2018 SG&A expense was 15%, a decrease of 70 basis points as compared to the third quarter of 2017 and in line with our expectations.

Slide 10 shows our key cash flow metrics. Operating cash flow was \$215.4 million for the first nine months of 2018, an increase of \$33.6 compared to year-to-date 2017. Part of this improvement is the non-recurrence of a \$20 million voluntary pension contribution made in the prior year. Our year-to-date capital spending is \$74.7 million, \$26.6 million or approximately 26% lower than a year ago as we have completed our major construction projects in Ireland.

Now, let's review some balance sheet takeaways. Slide 10 also shows our cash balance at September 30 of \$297 million, almost \$61 million more than our December 2017 balance, an improvement of approximately 26%. Debt at September 30, 2018, of \$196 million is roughly the same level as at year-end and on a net debt to total invested capital ratio basis, we are completely de-levered.

Working capital of \$561 million at September 30 was \$97 million higher than at year-end. In addition to the increase in our cash balances, which represented 63% of the increase, most of the remaining increases in receivables related to the growth of our business and an increase in our daily sales outstanding metric.

We have seen improvements on our inventory metrics as our days in inventory have reduced by approximately 8%. As we consider Q3 results, and look to the end of the year, we have reaffirmed our sales and adjusted diluted EPS guidance for 2018 which is summarized on slide 11.

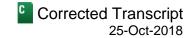
We are reaffirming our full-year sales of \$1.72 billion to \$1.73 billion and adjusted diluted EPS guidance of \$2.80 to \$2.90.

We anticipate Q4 sales in our Proprietary business to be in mid-single digits and contract manufacturing sales approximately even when compared to Q4 2017.

Recall that contract manufacturing recorded large tooling sales in Q4 2017, as we prepared for the 2018 increases in our contract manufacturing business. Fourth quarter gross margins for the Proprietary business should be consistent with our year-to-date 2018 performance, while we expect improved margins in our contract manufacturing segment.

Our projections continue to anticipate a euro exchange spot rate of \$1.15 per euro for the remainder of 2018. For the first half of 2018, we used \$1.20 per euro. The lower end of the adjusted diluted EPS guidance range reflects

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the company's expected performance and \$1 million of tax benefits from stock compensation in the fourth quarter 2018. We continue to expect our 2018 full year effective tax rate to be in the range of 24% to 25% excluding the impact of the tax benefit from option exercises.

We are also revising our capital spending guidance. The new range is expected to be in a range of between \$110 million and \$120 million, which is below the prior range of between \$120 million and \$130 million. Approximately half of our planned capital spending is dedicated to advanced manufacturing growth and innovation initiatives with the remainder on normal maintenance, replacement and information systems.

So to summarize the key takeaways for the quarter, continued strong consolidated sales growth, an 8% increase in gross profit, strong growth in adjusted diluted EPS over Q3 2017, together with strong operating cash flow growth, the completion of our restructuring activities, the ramp up of production on new customer programs and the increased usage of our Waterford facility bodes well for West's future profitability.

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

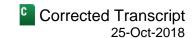
Eric Mark Green

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

Thank you, Bernard. With a strong Q3 completed, we have good momentum to finish 2018 and a solid foundation to build upon for next year. We will share our guidance for 2019 at our year-end call in February.

We are focused on initiatives across the company to support our vision to be the world leader in the integrated containment and delivery of injectable drugs. Focused execution of our market-led plan will result in above-market organic sales growth, growth in operating margin expansion, EPS and free cash flow growth and ROIC expansion. We have a great team and we're well positioned to deliver on our commitments to our customers, patients and to shareholders for both the short and long term.

Haley, we're open to take questions. Thank you.



QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Paul Knight of Janney. Your line is open.

Paul Richard Knight

Analyst, Janney Montgomery Scott

Hi, Eric. Could you talk to the capacity utilization right now in Ireland? Are you at 5%, 10%, what do you want to be next year? And then, overall new products obviously hitting your organic number what are would you highlight as some of those new products picking up this organic pace?

Eric Mark Green

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

Great. Good morning, Paul, and thanks for the questions. We start thinking about the investments we made in Ireland it's really twofold. One is in Waterford. We had our first two shipments, two different products. One is high-value product finishing. The other one is products used in the diabetes care market.

Those particular products shipped out the end of Q3 and as you can imagine, utilization of that plant is very low at this point. And so over the next coming quarters, we'll continue to transfer product into Waterford but also new projects customers have asked us to take on especially around the Westar Select.

Up in Dublin, we've expanded. As you know, in our contract manufacturing site, we have new technology put into the facility, particularly focus around diagnostics and diabetes-related delivery devices. I would say at that point in time we're built – we're ramping up. We're clearly nowhere near 100%, I would say more around the 50% range at this point in time and we have room for additional growth of that particular plant. So, two stories really for the different locations.

From a new product point of view, Paul, our growth – the high-value product is the core fundamental growth of West and what we continue to see is our teams and the market units are putting together very clear value propositions. I use AccelTRA as an example. I can tell you that the expectations of the customer uptake on samples and discussions with our customers is far exceeding our expectations at this point. I think we resonate very well in the generic space. We're also having – expanding our NovaPure product portfolio, such as syringe plungers and also looking at more capacity.

From a device point of view, we just started the early journey on SelfDose but the level of interest continues to climb. We're very confident that SelfDose will have another growth driver and high-value products in the near future. And I can't miss the opportunity to say SmartDose is also – the increase is really taking off.

The last area, administration systems, the Vial2Bag the capacity we put in Puerto Rico, first shipments are coming out this quarter. It's more of a pull versus a push. So, I'm very confident that administration systems will drive another lever of growth in our Proprietary portfolio.

Paul Richard Knight

Analyst, Janney Montgomery Scott

And your tax rate guidance is centered around pre-option or pre-stock expense, right?



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Eric Mark Green

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

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Yes.

Paul Richard Knight

Analyst, Janney Montgomery Scott

What would you – is there any guidance range you would provide post stock expense or is that like too difficult?

Eric Mark Green

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

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That's difficult for us to determine because it's completely outside of our control, that's people exercising options. On a ballpark, we're estimating about \$1 million potential impact again but that's – for Q4. But again, that's something that's hard for us to predict.

Bernard J. Birkett

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



Paul, one of the – if you look back, Paul, 2017 the impact on our EPS was about \$0.44 based on the stock-based comp. And if you look at year-to-date, what we've produced today in our results is about \$0.18. So it gives you kind of the large swing that we've had over the last two years on the stock-based compensation tax benefit.

Paul Richard Knight

Analyst, Janney Montgomery Scott

Okay. Thank you.

Eric Mark Green

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



Thank you, Paul.

Operator: Thank you. Our next question comes from David Windley of Jefferies. Your line is now open.

David Howard Windley

Analyst, Jefferies LLC



Hi. Good morning. Thanks for taking my question. Eric, in the past, the out-year longer term guidance commentary I guess specifically for the next year on the third quarter call has been a little more specific in regard to the 6% to 8% growth range and I was curious about kind of the changing characterization of that, and does that mean – should we read into that that there is any say maybe not change in your outperformance of the market but a change in your view of the underlying market or something like that that prompted the kind of different characterization there?

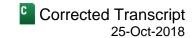
Eric Mark Green

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



Yeah, David. Thanks for the call and good morning. Now, when I look at the – what we've historically talked about the financial construct for West, I see no change in sort of thinking about the overall performance of the company from the top line and also from a margin expansion point of view. So, what we've decided, especially with Bernard

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new to the organization, is to take the opportunity to really think about let's finish the year strong for 2018 and we'll give clear guidance in the early part of 2019 and how we look at that full year, but also a little beyond that.

David Howard Windley Analyst, Jefferies LLC

Okay. Got it. Thanks. And then, Bernard, I think, you maybe touched on components of CapEx in the end of your prepared remarks, but if I missed some of those I apologize, but can you speak to the kind of the sustainability of the lower level of spending that you're seeing in 2018? I think management has commented about kind of the major building projects being done. And how should we think about CapEx demands kind of longer term?

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

Yeah. If we're looking at longer term, we're not planning to do any major construction projects or anything in the short to medium-term future. So, obviously, that has an impact on the level of CapEx that we're going to have and the guidance that we've given particularly for 2018 and I would look into 2019, and we'll firm up the numbers for 2019, as Eric said, when we give overall guidance. But that - that's one of the major drivers there that we don't really foresee those large building projects.

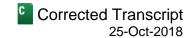
And also, we're really focused on - focusing on utilization of the existing asset base that we have and driving more out of the investments that we've already made. So again not looking to add really large amounts of CapEx. When we look at CapEx, we divide it into three areas. We're looking at maintenance which is probably just under 50% and then the balance really focused on growth and investment in our IT systems.

David Howard Windley Analyst, Jefferies LLC	Q
Great. Thank you.	
Operator: Thank you. Our next question comes from Larry Solow of CJS Securit	ies. Your line is open.
Larry S. Solow Analyst, CJS Securities, Inc.	Q
Great. Thanks. Good morning, guys.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
Morning.	

Good - very nice quarter considering obviously the Biologics was a little bit less than expected. I think you had sort of guided towards or at least we were expecting sort of high single even low double in that and it came in sort of a mid-single digit sales decline. You called out the -obviously the slower. It sounds like one particular product on the self-injectable, is that right? And then obviously the continuance of the inventory destocking, I guess that's just going on longer than expected. Is that sort of the two variables or the difference from what you originally expected in this?

Larry S. Solow Analyst, CJS Securities, Inc.

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Eric Mark Green

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

Yeah, Larry. That's correct. When you think about the self-injection, it's really around the SmartDose at this – today. And – but – when you start thinking about the – looking the out years we still remain confident not just the

product that's in commercial phase but there's several development agreements that we have in place that we're

working towards. So that gives us confidence about the future opportunity with SmartDose.

And in regards to the core elastomer high-value products, we've worked with a few customers on transitioning from existing configuration to a future state configuration. And in order to do that appropriately we're seeing them destock and then ramp up. I can assure you that one of those customers their entire injectable medicine portfolio is on West or West is on their entire portfolio. So, we're confident of the future growth. It's just the timing. I just want to put in perspective the Biologics Unit is significantly less than 10% of number of units we produce in our Proprietary business unit. So, you can imagine a shift with one large customer has a significant impact on the volume component, but we're close to these customers, we're confident for long-term viability of the success.

Larry S. Solow

Analyst, CJS Securities, Inc.

So – and you're confident that sort of – it sounds like Q4 will see similar declines and then you're – but it seems like you're confident that you'll get a rebound in 2019. Is that fair to say? What's your visibility on that?

Eric Mark Green

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

We're expecting to see some improvement in the fourth quarter. So, we wouldn't be looking at another decline and then we're expecting to see the growth rates ramp as we go through 2019.

Larry S. Solow

Analyst, CJS Securities, Inc.

Okay. And then just follow-up on that, margins actually did okay, all-in considered actually had a year-over-year 100 bps gain I believe, a little more than that on the Proprietary side despite the slower Biologics sales. As we look out, assuming the Biologics do return to sort of normalized growth and you get some better overhead capacity absorption coming out of Waterford. Fair to say that maybe as we look out at 2019 or maybe even 2020 you can get even a larger than normal or better pickup on margin on the margin side?

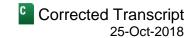
Eric Mark Green

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

Yeah. Larry, that's a good question. When I look at where we are today and we could talk about some of the pressures we had in 2018 particularly around contract manufacturing, the top line was growing extremely fast, but the margin expansion was not. That actually contracted. And that was really due to start-up costs associated, bringing on people and facilities. And frankly our customers asked us to pull forward and manufacturing more volume today than we would have few quarters down the road. That's why I got such a high growth rate.

And the demand for their products, the market is out-exceeding what we can supply at this point of time. So it's a good situation, but we had growing pains of getting the facilities up and running the last couple of quarters. And we're working through that in Q4, and we'll be back to more steady state going into 2018 (sic) [2019] (00:34:08). So that's one of the pressures that we had.

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But I also want to comment that this One West System that we've put in place over the last year, year-and-a-half through our global operations, is gaining traction. When you start thinking about in Proprietary having over a 100 basis point expansion on the margin, with a softness in Biologics, which tends to be the highest margin portfolio we have, gives you a clear indication of how much traction we can gain by continuously leveraging this mindset of truly looking global and leveraging our existing asset base.

So while there might be a few headwinds we may face in the future, we'll overcome them through these initiatives we have in place. And we continue to see the margin expansion throughout our business.

Larry S. Solow

Analyst, CJS Securities, Inc.

Okay, great. And then just lastly on your restructuring efforts. Those still – any changes there? Still sort of in line with your expectations and still expect to get at \$0.10 to \$0.15 or – to get the exact number but savings by yearend 2019?

Eric Mark Green

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

Yeah. So when we look at the programs that are put in place and the team that's leading it, they're hitting their milestones. So I'm confident that we'll continue to see the consolidations take place. We're working with our customers to ensure a smooth transition as we move couple plants to other locations. So, we're on track.

Larry S. Solow

Analyst, CJS Securities, Inc.

Great. Thanks Eric.

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

Thank you, Larry.

Operator: Thank you. Our next question comes from Dana Flanders of Goldman Sachs. Your line is now open.

Dana Flanders

Analyst, Goldman Sachs & Co. LLC

Hi. Thank you very much for the questions. I guess on the Pharma segment, can you quantify or just help frame the impact of Vial2Bag is having on that segment and when you might lap that impact or that impact would normalize? Just trying to get a better sense of how to think about the Pharma growth into 2019.

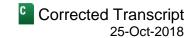
Eric Mark Green

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

Yeah. So when you think about the growth that we had specifically in the Vial2Bag, just to recall, the investments we made in Puerto Rico, which is one of our contract manufacturing sites and their expertise, core competency is around injection molding. So we're able to bring that production expansion in Puerto Rico. And they're just starting to ramp up as we speak at this point in time. The growth that you're seeing in Pharma for Q3 in particular has been most – mostly been around the high-value product conversions and a little bit of the year-over-year comparison perspective. The incremental growth in that unit, a smaller portion was actually attributed to



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administration systems. There was growth there but it's a smaller element of growth. It was actually less than 5% of total sales is what our administration systems are in the Pharma unit.

Dana Flanders

Analyst, Goldman Sachs & Co. LLC

Okay. And I know you mentioned the weakness in Biologics impacting gross margin to some extent in Proprietary Products, is it fair to say that you expect that segment to expand margins into 2019 as these cost efficiencies go into place and Biologics returns to growth?

Eric Mark Green

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

Yeah, Dana. Absolutely. The opportunity we have with Biologics, what's really exciting is our customers are adapting the higher portfolio within high-value products. So, I'll give you an example. There's more interest in NovaPure. And so the higher you go in that spectrum and continuum that we have – value continuum, the better the margins are. So there should be a natural lift that we'll see due to the Biologics stronger performance in the coming quarters.

Dana Flanders

Analyst, Goldman Sachs & Co. LLC

Okay. Great...

Bernard J. Birkett

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

Just as to put that in context, there are a number of drivers that we have for gross margin expansion and leading to operating margin expansion. So, Biologics will affect mix and that's one of them. And then obviously on the operational cost-down strategies and One West Systems that we have in place, so we're not just reliant on one area for margin expansion. There are a number of things that will drive it.

Dana Flanders

Analyst, Goldman Sachs & Co. LLC

Yeah. Okay. That makes sense. That's it from me. Thank you very much.

Eric Mark Green

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

Great. Thank you, Dana.

Operator: Thank you. [Operator Instructions] Our next question comes from Derik de Bruin of Bank of America. Your line is now open.

Derik de Bruin

Analyst, Bank of America Merrill Lynch

Hi. Good morning.

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

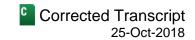


Q3 2018 Earnings Call



Good morning, Derik.	
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q
So, a couple of questions. So, I guess just to make the math a little easier, what's the specific s FX in Q4 that you're forecasting? And I guess obviously FX is a big player for you guys and so thoughts on 2019 on how you see FX moving?	•
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
So versus our original forecast	
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q
Yeah.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
using \$1.20 euro versus \$1.15 euro, we expect like that's about a \$7 million impact on the qu	ıarter.
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q
Okay. Okay.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
And that's what we called out as well on our Q2 call.	
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q
Yeah. All right. And for 2019, any initial thoughts?	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
It's a bit early. We're going through our forecast right now. And as we already mentioned, we gour Q4 call. But just again put it in context, we're looking at above-market organic growth, and margin expansion into 2019.	_
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q
Got it. So, what was the Proprietary Products backlog this quarter and last? You used to give u wondering can you please update us on that.	ıs numbers. I'm just
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A

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Yeah. I can give you the – it's slightly above end of year – I'm sorry December of 2017 number. It's roughly \$363 million. And I – the reason – let me be clear though, there's some operating changes that we've made to better service our customers. One is our cycle times – lead times have dropped considerably over the last 12 to 18 months. I mean you're talking almost – in many cases almost a 2:1 ratio.

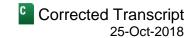
And then, secondly, we have with a couple of our large customers more of a just-in-time model that we've put in place that allows us to plan manufacturing at a very short period of time for these particular customers. So, it's more of a planned pull effect into – from our operations into their operations. So if – I can't sit here and say that is the absolute like-for-like number. In fact...

Derik de Bruin Analyst, Bank of America Merrill Lynch Got it.	Q
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc. I would say, it'd be somewhat deflated because of the initiatives that are put in place.	A
would say, it a be somewhat denated because of the initiatives that are put in place.	
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q
Got it. That's helpful.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
Yeah.	
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q
And just – just two more quick ones on just housekeeping. I mean obviously you had a little bit benefit this quarter than you thought. I guess by your estimate how much EPS moved from 4Q the option exercise?	
Bernard J. Birkett Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.	А
Probably \$0.03 to \$0.04.	
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q
Got it. And then one final one. I've covered the stock for 10 years and this is the first time I've recompany give a specific outlook for the top line and the margin on the third quarter call. I'm just just – this raises when companies sort of vary from that [ph] it just sort of does that (41:57), is to CFO being onboard and you're sort of – and your thoughts on that or anything else going on? So Dave's question.	t – as I said, I'm that more of new
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Senior Vice President, Chief Financial Officer & Treasurer, West Pharmaceutical Services, Inc.

Bernard J. Birkett

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Yes. It's really my perspective on really providing information to the market. I think we've given a holistic view of how we see our business growing in 2019 and it will be above markets. The constructs are the same. Our focus is the same. Improving gross margin, operating margin and EPS. So there isn't any reason other than that.

Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A	
Yeah, Derik. I will just add to this and absolutely – I mean it is – if you're seeing in the last 10 years, I mean, it is the change but I can tell you from our view of the business we still remain very confident and we don't see a change. However, we've decided to give the full guidance in greater detail and transparency in our February call		
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q	
Got it.		
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Incgoing forward.	A	
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q	
Great.		
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A	
Yeah.		
Derik de Bruin Analyst, Bank of America Merrill Lynch	Q	
Great. Thanks a lot. Appreciate it.		
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A	
Thanks.		
Operator: Thank you. This concludes today's question-and-answer session. In Mr. Quintin Lai, Vice President of Investor Relations for any closing remarks.	would like to turn the call back to	

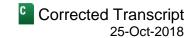
Quintin John Lai

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

Thanks, Haley, and thank you all for joining us on today's conference call. An online archive of the broadcast would be available on our website at westpharma.com in the Investors section. Additionally, you can get a telephone replay through Thursday, November 1 by dialing the numbers and conference ID provided at the end of today's earnings release.

That concludes this call. Have a nice day.

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Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program and you may now disconnect. Everyone, have a great day.

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