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# West Pharmaceutical Services, Inc. (WST)

JP Morgan Healthcare Conference

## CORPORATE PARTICIPANTS

**Eric Mark Green**

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

**Bernard J. Birkett**

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

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## OTHER PARTICIPANTS

**Casey Woodring**

*Analyst, JPMorgan Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

**Casey Woodring**

*Analyst, JPMorgan Securities LLC*

Hi. My name is Casey Woodring from the Life Science Tools Equity Research team here at JPMorgan. Welcome to our Annual Healthcare Conference. I'm pleased to introduce our next company, West Pharmaceutical. Just a quick reminder for those listening, before I hand it off to the management team here, if you'd like to ask a question during the Q&A portion of the presentation, there's an option to do so on the website.

With that, I'll turn it over to Eric. Eric?

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**Eric Mark Green**

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

Great. Thank you, Casey, and thank you and – JPMorgan Morgan for inviting us to this conference, which we were in person, but in today's environment, this is probably the best alternative. I also want to welcome all the attendees to this presentation. Really thankful that you are part of today's call and hopefully to give more insights on who we are at West.

To slide 2, if you just hopefully have access to the slides it just reminds everyone around the Safe Harbor statement on the slide 2 in the presentation, also can be found in our website for any further details.

Let's start with slide 3. It really is around purpose and the values of our organization. Obviously, we've been very thankful that the organization is really laser focused on improving patient lives. We work with our customers, the many drug companies and biotech companies, enable to get their drugs into the market and it's truly having a positive impact on numerous patients across the globe. And you think about who we are at West for the last almost 100 years, this has been the driving force of what we are able to accomplish on a daily basis.

The other area I want to support is we're talking about the values at West. There's really three areas that we're really focused on is Passion for Customers, Leadership in Quality and the One West Team and that is the drivers

on what we do each and every day to identify and solve the most complex problems for our customers that enable these medicines to get into the markets effectively.

If you don't mind, slide 2 – slide 4. What do we do out West, and for those that didn't know us, we are one of the global leaders in injectable medicine space. We really look at the business really in three different areas, you have your vial containment and syringe components, you have administration and reconstitution and also in drug delivery and diagnostic devices. There's tremendous amount of abilities that we have within West globally to build support, very high participation rate on all the molecules that are being delivered throughout the world.

And turning to slide 5, what's interesting, as I mentioned earlier, we're approaching the 100 years mark for West. Business was founded in 1823 by a gentleman named Herman O. West, and the core principle of trying to provide the highest quality product for containment of injectable medicines still is the part of the DNA of this organization. We've had a lot of changes in the last several years, and I would say the focus in the last few years has been around people, around structure and leveraging our assets more effectively. You think about the changes that we've put in place for the last few years on a phenomenal company already, it's enabled us, it's enabled West to be able to respond the way that we have responded in the last 24 months with – when you think about the double digit growth in our base business and an increase in demand driven by the COVID vaccines, we're very proud that we have a very high participation rate in both areas and we know that you can't – we don't take that for granted.

If you turn to slide 6, there's a lot of things that we have accomplished in 2021. We will be coming out with our results in second or third week of February and also we'll talk about guidance at that point in time. But what's really important of all these accolades and all the accomplishments the team members across the globe have really delivered for the first three quarters, a very solid performance. But what I'm most proud of is really two elements that we started last year and this year [indiscernible] (00:04:26) safety of our team members in this environment that we're operating in and also ensure continuity of supply to all the drug companies across the globe. And I'm very proud of what we have accomplished in both areas, and we're not going to lose focus as we enter in 2022. We want to continue to deliver on these commitments we've made for our customers and ultimately the patients we jointly serve. There's a lot of accolades on here but I would say that if you – if we add it all up, it is really truly what West is all about driving the purpose and ensuring that we're able to impact patient lives.

Turning to slide 7, think about our position is well solidified in the growing injectable medicine market. Think about the diversity of our platform, think about the markets, the products, geographies. This diversity provides a level of durability and sustainability as we think about our future. Particularly if you think about the highest growth areas within these markets, for example, Biologics, our position continues to be very strong as we are continuously providing the new technologies and capabilities to service that particular area. From a geographic point of view we're seeing all geographies growing quite nicely. One I'm quite pleased about is the more recent performance out of Asia Pacific and the traction we're gaining with the new approach we have in that particular geography. And the last thing I want to comment is on is the continuation of our High-Value Product growth thesis. It continues to gain traction. As you can see, we are now well over 50% of our revenues from an enterprise perspective is within the High-Value Products. So we're very comfortable with this platform and it's well positioned for our future growth as we think about the next 5 or 10 years.

Now if you turn over to slide 8, how could we do this? People ask question to us frequently is what does market-led mean to you? And it's really we think about is letting driving the market – having the markets drive how we inform ourselves on products, solutions, new investments around R&D, around the global operations to ensure that we are driving solutions to our customers in a truly differentiated. This has been a significant shift in the mindset over the last several years and is paying off dividends and again, not just on how we responded with the

COVID vaccines, but also how we are able to respond with our base business and the continued growth in all areas of that – of the portfolio.

I want to turn our attention to slide 9. This is a kind of a landscape of our portfolio – product portfolio and what you'll notice is that as you continue to go up to the right, these obviously – these products have a higher economic value for West but obviously and more importantly is they have tremendous value creation for our customers and ultimately the patients. And as we think about investments, as we think about capital deployment, we think about people, team members that we bring into the organization, our focus tends to be up to the right of this landscape and we're starting to see significant penetration of adoption by our customers, which is really driving the performance that we are seeing here at West.

Now let's talk a little bit about that performance. If you go to the next slide, the results from a top line perspective, it's been very strong double digit growth with our High-Value Products over the last five years. Obviously first three quarters of 2021 even stronger results, but it's the consistent opportunity that we have with High-Value Products to really drive the performance of the enterprise. And we believe that there's more runway ahead of this High-Value Product initiative going from a components perspective to more of a system approach and West has the right to play as we interact directly with our customers across the globe.

I want to turn your attention to the next slide and this is – really there's two elements to this I want to talk about. One is the margin expansion, second one is High-Value Product performance and runway. Let's first focus on the gross margin. You'll see in the middle section of this chart. And if you think back from 2016 to where we are now, it's approximately over 800 basis points – 850 basis points of expansion that has occurred for multiple reasons. One of the biggest lever of expansion has been the mix of High-Value Products.

And when you think about – if you look from the left to the right on the chart, you have the volume expressed High-Value Products about 400 – 4 percentage points increase over the last five years of volume expansion. And as a percentage of the overall what we've produced here at West, and this year we're approaching 45 billion – I'm sorry, 2021, we approached 45 billion components produced here at West.

Now that translates into revenue contribution from 45% in 2016 to about 58% for the first three quarters of 2021. And you can see just by the graph here is how that benefits the gross margin and obviously ultimately impacting our customers and in a positive way with ultimately better outcomes for patients. The big driver in the runway, when you think about High-Value Products, is in the marketplace, it's around the Biologics and it's continuously expand the High-Value Product portfolio and again not just on the component perspective but also moving into – [ph] to other systems. (00:10:39)

If we then go to slide 12, all this translates into attractive diluted EPS of strong double-digit growth. And we do believe that this is obviously High-Value Product mix shift occurring. We also do believe that the global operations leveraging the globalization of the operations allowing us to leverage some of our assets more effectively and how we manage our costs across the enterprise. So I'm very pleased on their ended results from a EPS point of view.

If we move to slide 13, if you think about the market-led journey that we're on – indicators on how well our market-led journey is around – when you look at the pipeline and our participation rate. Look, we obviously continue to see very strong participation rate with by all the new approved Biologics and also very robust pipeline. And we also know that in our portfolio that tends to be towards FluroTec and NovaPure technologies. When we think about the – in the past few years the penetration rate in Pharma and Generics, [ph] and (00:11:52) small molecules continues to be stronger than it has historically. And I'm very pleased by that because it demonstrates the resiliency and the strength of having a market-led approach and we're truly identifying uniqueness of each

market and coming out with solutions as we continuously do to be able to address those issues with our customers and obviously make them more successful at the end of the day.

If we go to slide 14, this is on the operations side as I mentioned a couple of years ago, we globalized the operations and I'm very pleased with what the team has accomplished so far. And what I would argue is if that actually was not taken two or three years ago, the real question is how would we been able to respond the last one or two years [ph] to be able to (00:12:46) support our customers again with the base business, but also with the COVID pandemic.

And I would argue that we have more opportunities in this area as we continuously deploy more capital into automation. We continuously level load our operations through a network approach. These are all initiatives that are well underway that will continue to see drive benefits as we move forward over the next several years. The supply chain has been very dynamic in the last few years for everybody and I'm very proud and how the team has rose to the challenge to manage and mitigate risks, whether it's logistics, labor, whether it's around raw materials. The team has done a very good job and to balance that and gives them the position that ultimately at the end of the day, we need to continuously deliver for our customer and meet our commitments.

If we go to slide 5 (sic) [15] (00:13:43) this is the illustration of where we've been making the investments over the last one or two years, particularly around the COVID demand surge and let me make it clear these assets we're putting in place are assets that we had identified over the next few years to be brought into West to be able to support the growth we're having in the High-Value Products, again particularly in the Biologics space. If you think about the nimbleness and the capabilities we're bringing in in-house today, that is going to not only be able to continuously match [ph] and to be ahead (00:14:22) of the curve of the demand that we're seeing with COVID-related products, but also in our base business.

We're very excited to see how the team is implementing these investments that we've made over the last two years. It is incremental to what we historically have, but these are pointed towards products that are in the higher end of the High-Value Products and have a demand forecast already set in the Biologics space and we're staying ahead of the curve as they say to make sure that we're able to support both levers at this point in time.

If we go to the next slide, please. I think – a comment about ESG here at West, look, I've been with West for about [ph] six or seven (00:15:08) years, one thing I've learned is that this is already deep rooted into the DNA in this company. The organization has always had a very strong focus on the pillars that we've articulated here. And I'm very pleased of the progress we've made – we've had but more importantly at the end of the day it's built into the strategy of the organization versus the initiative that we set up and I'm pleased on operating from that platform and as we move forward, we'll be able to continuously challenge ourselves to make sure that we're operating a business model that has significant sustainability and durability for many futures ahead of us.

In the last month or so, we recently updated our reporting to be in line with TFCF and also SASB, which you can find in our website if you're interested to see the information that we make public in our area of ESG. More to come, but I am very pleased to say the team – several years have been overdelivering on their commitments and we look forward to continue to be really good citizens in the communities where we live, work and play across the globe, not just in our headquarters location, but every facility, every plant across the globe, has the same consistent mindset around ESG.

So let me conclude, I believe I'm within the timeframe. We are operating from a position of strength. When I think about the strength of the base business, it continues to grow quite nicely for West. It has been double digits for the last couple of years and we believe that our participation rate continues to be at or above the market at this

point in time. We also – we're very excited about the future. We think about delivering on our purpose, improving patient lives.

One message I'd like to share with you is that as a traveler where I could travel to different sites and you look at absenteeism level in a manufacturing plant, it's the lowest it's ever been during the pandemic because of the fact that our team members, 10,000 of our team members across the globe understand the purpose that they bring each and every day to our facilities, and they know that each and every one of these components, out of 45 billion components a year, each and every one of them has a patient name on it.

That is the strength of this organization and I'm really excited about what we've built, but where we're going in the future and we have the right platform. We have the right markets that we're supporting. We have the right innovation and obviously capital deployment and ability to look at ways to continuously expand our capabilities here at West.

So on that note, Casey I'll turn it back to you and we're bringing Bernard Birkett, our CFO and we'll jointly answer any questions that anybody may have for today. [ph] Bernard? (00:18:15)

## QUESTION AND ANSWER SECTION

### Casey Woodring

*Analyst, JPMorgan Securities LLC*

Q

Thanks, Eric. That was a great overview. Maybe to get into the Q&A here. First one I have is that you guys reported a strong third quarter with 29% growth, including mid-teens organic sales growth ex-COVID. Can you maybe talk about the drivers of that growth rate and the sustainability of that growth rate over time?

### Eric Mark Green

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

A

Yeah. I'll start. [indiscernible] (00:18:39) If you think about the core obviously right now is around the Biologics. It's the fastest growing unit with and without COVID. And that really as we think about the [ph] CD in the (00:18:52) pipeline a number of years ago, particularly on NovaPure and FluroTec technologies that is now becoming commercialized and uptake in the marketplace. So Biologics is the number one. Our participation rate remains very high, which is – those are clear indicator that our customers are looking at a platform approach leveraging our High-Value Products.

The other two areas within proprietary, I'm pleased with the performance over the last couple of years because of the focus that they have, has been stronger than what I would say the market. So you see double digits in Pharma and also you see double digits in Generics. Historically, what you would see is Pharma around mid-single and generics about mid- to high-single. And I do believe that based on the data and based on what we are hearing from customers, it is again that the win rates or the participation rates we have on new molecules whether it's ANDAs or NMEs being approved. So the market-led approach is working and it is giving better lens to these particular markets, and it has given us the confidence that we have the right formula to move forward with growth.

### Bernard J. Birkett

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

A

Yeah. And we would expect based on the order book and the demand that we're seeing there to continue to see strong growth in our business. And we've typically guided in the past our long-term growth was 6% to 8% and a



100 basis points operating margin improvement, obviously we've been overachieving on that over the last number of years. And at this point, we're not really – we're not changing that construct but our objective always is to try and do better and serve the market whatever – with whatever demand and needs are there. You're on mute.

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**Casey Woodring***Analyst, JPMorgan Securities LLC*

Q

Sorry about that. Maybe on the COVID piece, you have guided to \$450 million in 2021 revenue there, can you remind us what the sales guidance looked like, maybe in the beginning of the year and how it was upwardly revised throughout the year? And any sort of color around 2022 for COVID? There's a lot of, I guess, variables there with Omicron, but maybe we can kind of start there?

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

A

Yeah. And I think when we look back at our guidance over the course of 2021 around COVID it just shows how quickly things change with responding to the pandemic. In February, we were guiding about \$260 million, and then in April we changed to \$345 million, and in July it was \$430 million, and when we came out with our guidance in our October call, we were looking at around guidance of \$450 million, net COVID impact for business.

So, this – it's forever changing, that the demand is obviously been increasing almost as we progressed through the year. We're not at this point going to guide for 2022, but we'll do that on our call here in February. And but again, as we said earlier, our order book is pretty strong. We have good visibility into 2022 and into 2023. And then we're also looking at to see how this response to COVID and the delivery methods, what impact will that have on our business is a potential upside for us there also.

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**Casey Woodring***Analyst, JPMorgan Securities LLC*

Q

Yeah. We know you touched on the different delivery methods, [ph] I certainly (00:22:33) want to get into that. So, there's been a discussion around the shift to new formats in vaccines such as fewer doses per vial and possibly moving to the single dose pre-filled syringes. I guess the first question around that would be, what are the implications here for your production?

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

A

Yeah. No, it's actually going to create an increase in demand for West as we think about our business model and we provide stoppers and seals for the vials and plungers for the pre-filled syringes and if you're going to go from 10 to 14 dose per vial to 1 to 3 as an example and assuming consistent patient population, and then the other variables of how many boosters are going to be layered in over the next 6 to 12 months, that is a net positive for West,

And if you move to pre-filled syringes, it's literally going to one unit per dose. And so – and the economics for our plunger and the vial configurations relatively the same. So, we – as customers migrate towards smaller doses per vial or to a pre-filled syringe, we're well positioned, investments that we're making and we've communicated that we made four tranches in the last two years towards to support the COVID demand and also our base business demand that will help us stay ahead of these demand requests that our customers are having discussions with at this time.

**Bernard J. Birkett**

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

You're on mute again.

A

**Casey Woodring**

*Analyst, JPMorgan Securities LLC*

Sorry about that. Yeah. I just had one come in on e-mail, so would you expand on 100 bps of margin expansion, is that a good starting point for 2022? Maybe talk a little bit towards...

Q

**Bernard J. Birkett**

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

So we're not guiding for 2022, obviously on this call, but our long-term construct that we've talked about in the past and we're not changing at this point is 100 basis points plus. And so that's a reasonable starting point [ph] I will take (00:24:43) but it's a – that's our long-term construct, we haven't changed that.

A

**Casey Woodring**

*Analyst, JPMorgan Securities LLC*

Got it. A follow-up to that would be, would you agree [indiscernible] (00:24:50) this morning I think was talking around the vaccine business would be – would double in 2022 over 2021 that's in terms of doses, would you say that's sort of in line with how you're thinking or not?

Q

**Eric Mark Green**

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

Sorry, I just – we can't comment at this point in time. We – obviously with everything you discussed and asked and what we commented on about different dose configurations, the current demand in the marketplace, more geographies to reach, [ph] these all are (00:25:21) net positive but we're not going to mention that at this point in time.

A

**Casey Woodring**

*Analyst, JPMorgan Securities LLC*

Got you. Okay. Maybe shifting over to the High-Value Products, in prior calls, you've talked about FluroTec and NovaPure as drivers of growth. Maybe to start, what are the reasons that you're seeing such strong uptake from both of those products?

Q

**Eric Mark Green**

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

Yeah. When I think about what's fundamental of those products, it's the barrier code that through our partnership with Daikyo in Japan, I don't know it's a 40-plus – we're almost approaching 50-year relationship with phenomenal group of talented individuals over in Japan. These four polymer-coated components as the industry standard for injectable drugs and that are sensitive to extractables and leachables, which are including large molecule and biologic drugs. So fundamentally that's what's driving the adoption and it's been considered somewhat the standard in the industry, frankly and particularly in the Biologics space.

A

So therefore, as we are solving customers complex issues, we're looking at the NovaPure, looking at the FluroTec as solutions for our customers, but it's really driven by the technology and the manufacturing process that is between Daikyo and West.



**Casey Woodring**

*Analyst, JPMorgan Securities LLC*

Q

Got you. How much additional capacity that you installed in 2021, would you expect to install in 2022? How much is that dedicated to FluroTec and NovaPure and maybe just more broadly talk about the investments you're making in both of those products, I guess from a capacity standpoint as well as sales and marketing?

**Eric Mark Green**

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

A

Yeah. So when you think about the capital that we're deploying above and beyond what we typically have done historically, it is really around the FluroTec and NovaPure technology. And what's really and what I'm very pleased about is, as we think about investments is that the global operations truly has right-sized I would say the facilities and infrastructure so that as we put these investments and majority – not all, majority of it is equipment or processes that as soon as we are able to turn these on, we're able to fill them and utilize for the demand that we currently have in our possession today. And so what you will find is that we're doing less land and buildings acquisitions, and so, therefore it's a faster turn and able to respond more effectively but it's – [indiscernible] (00:28:07) capital that was deployed in 2021 and throughout 2022 we have additional capital that we've committed and that's already coming in. It's going to the process for validation and we'll see that again in 2023 and a little beyond based on the forecasts that we have the capital lens we have through our confirmed order book well into 2023. The discussions we're having with our customers – base customers, but also the COVID customers, we're pretty comfortable that we're making the right decisions at the right time to get into our facilities to be able to support the demand that we have in our possession.

**Casey Woodring**

*Analyst, JPMorgan Securities LLC*

Q

Got you. Want to shift towards inflation and the labor market. That's been a headline here for all of our companies frequently here recently. So maybe can you comment on the impacts you saw in 2021, specifically from inflation and the tight labor market and what you expect here in the near term...

**Eric Mark Green**

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

A

Yeah, you want to...

**Bernard J. Birkett**

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

A

Yeah, from an inflation perspective we've seen cost increases come through in 2020 and, yeah, more so in 2021. We're fortunate enough to be in the position to be able to pass many of those costs on to our customers, and that's through agreements that we have in place. Now, there is a lag between when we see the cost increase initially and then when we're able to pass it on, but it's typically about one to two quarters. And so we can carry it for one or two quarters, it's not an overly material item for us. But again we have that ability and also we did see increases in logistics costs. Again, we were able to pass much of that on to customers and through negotiation and agreements that we have in place.

On the tight labor markets, we've seen that specifically within the US. In Europe and Asia we had some impact but not to the extent we've seen here in the US. But with the systems that we have in place, with the HR structures that we put in place we've been able to hire the correct number of people that we need in many of our facilities. And for most cases [indiscernible] (00:30:23) retain those people as well. So we're – I think it's been a challenge but we've been quite successful at getting the numbers that we need. On wage inflation and payroll

inflation, again, we have seen some. We've been able to respond to the market. And what we're seeing, then we're able to offset that with increased efficiencies within our facilities and our many of these facilities were able to run 24/7 so we're getting better absorption. So from a cost perspective, we've been able to manage it quite well and throughout 2020 and 2021.

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**Casey Woodring***Analyst, JPMorgan Securities LLC*

Q

Got you. And maybe a follow-up there is on supply chain, are you seeing any sort of headwinds there in terms of securing supply and, yeah, anything there?

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

A

Maybe you can...

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

A

So, yes, you're absolutely correct. So what we're – if you think about the supply chain, two things, one on the logistics side we found ourselves the need to partner with certain firms that'll fly materials across the globe versus ocean freight as an example, so there's additional costs associated with that, but we want to make sure that we are not creating any delays to our customers. But from a supply, from a raw material perspective, there are certain areas where we made sure that we had secured supply by increasing the amount of safety stock that we'll have in a couple locations, particularly when you start thinking about materials that we work with Daikyo on and there's plenty of distance between our plants and Tokyo. So, we've done – the team's done a really good job.

But it's a constant challenge. The team – when we think about what they've gone through in the last two years, the work they did prior to that, about identifying secondary and tertiary supply, qualifying and validating and making sure that it's equivalent, that work is paying off because at this point in time, there may be a delay in one area where we'll pick it up in a different area. And so, so far we've been able to manage through this, but it's changes every day and – but the way that we structured it, where we're looking at it from a global perspective and the global teams in place, we'll be able to manage through this quite nicely [indiscernible] (00:32:35)

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

A

There's a cost, but the more important thing is we're able to service our customers. But as Eric rightly said, it is a challenge, it's forever changing but – and we're proactively managing a lot of these issues. We've identified the key components and materials that we need and the supply chain and the networks. And, again, that goes back to pre-2020, the work that was done really making sure that we had the structures in place to make sure that we didn't run out and – but again, it's something that we have to work at every day.

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

A

Yeah.

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**Casey Woodring***Analyst, JPMorgan Securities LLC*

Q

Got you. One on CapEx here and a follow-up to the capacity question. So, in addition to increasing CapEx for capacity, could you describe some other areas that you're looking to invest, I guess both organically and maybe inorganically?

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**Eric Mark Green**

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

**A**

Yeah, I'll start. Absolutely. So from an organic point of view, we are continuously investing and we're not – and we're doing a very methodical approach, particularly in the areas that we know that the products that we're going to produce will support more than just one particular area of the business. So as we think about variability and COVID demand but obviously in Biologics there's consistency on the portfolio, which is very beneficial as we think about these investments [indiscernible] (00:34:02) going to put these investments in. So the number one priority is around capital deployment, around organic growth, around equipment and capabilities internally, includes such as automation, improving our efficiencies and yield and throughput and quality for our customers, which I'm quite excited about because it is [indiscernible] (00:34:23) again the High-Value Products. Digitization of our organization is another area of investment. We made tremendous leaps – steps in the last two to three years that's given us a platform now to be able to make decisions faster. Information is readily available and allows our facilities to be more efficient. So these are the more of the organic type of investments.

Do you want to touch on inorganic?

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**Bernard J. Birkett**

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

**A**

Yeah. On the inorganic side this has become more a focus for us, and we're actually building the – increasing the level of competency and capabilities we have within the organization to be able to go and take on more acquisitions and to become more active in that space. We started building out a corporate development team on top of what we already have. We started that in September of 2021 and that's underway. So there are a number of different areas we're looking at to see both from brand new technologies, how early we get involved in those, what changes are happening in the market. As Eric mentioned earlier, looking at system approaches, are there different technology that we can bring to our customers and different solutions, more comprehensive solutions and also looking at the drug delivery and wearable space, are there areas that we can expand on there? So there are a number of different [ph] end (00:35:43) focuses for us and the level of activity would increase here in the near future.

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**Casey Woodring**

*Analyst, JPMorgan Securities LLC*

**Q**

Got you. One just came in on e-mail, so R&D spend is just \$50 million, I think that's annually, why is that an appropriate level of R&D spend for you guys?

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**Bernard J. Birkett**

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

**A**

Yeah, we are consistently reviewing that and we're looking at ways to where can we redeploy? So, for example, we realigned our R&D efforts in the last year really at the end of 2020 or into early 2021 and we focused on how do we go harder on the R than we historically have done in the past mostly around development. Doesn't mean that development is less important. It's actually increased this year with a number of development agreements we have with customers, both on the components side, but also on the device side. So we're quite excited about the prospect of what that will – what will come out of that efforts with our drug companies. So, we're constantly

looking at investments in this area. We've made considerable investments around people, around talent, bigger on the R of R&D and we'll see that kind of play out in 2022 and 2023 as we go forward.

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**Casey Woodring***Analyst, JPMorgan Securities LLC*

Q

Got you. Maybe in the last few minutes here, going back to the inorganic piece, can you talk to maybe are there any gaps in the portfolio that are sort of notable that maybe you'd look to add inorganically there?

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

A

I think the way to describe it is that it's interesting because of our position in the market, because the trust that we built with our customers is being brought into the discussion about how do we solve these complex problems versus from a component perspective, but from a system perspective and we're engaged with more of those types of conversations in the last couple years than we have ever had before. And we see this as kind of a shift that's occurring and we're very well-positioned to be able to address that. So, it would be parts of the portfolio where we just simply don't have those types of products and/or services that are very close or adjacent to what we do today.

Yes, we have very strong elastomeric and seal manufacturing capabilities. We have very strong administrative systems capabilities, device capabilities, but there are certainly areas within that whole containment and delivery devices that we see as opportunities – strategic opportunities to be able to reinforce our portfolio and move it to more of a complete solution or system approach with our customers.

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**Casey Woodring***Analyst, JPMorgan Securities LLC*

Q

Got you. Maybe in the last couple minutes, I didn't fit this in when we were talking about the High-Value Products earlier, but I'm wondering impact on margins given the higher pricing that you guys see on those products? Can you just maybe talk about this dynamic and how that's sort of you expecting that to play out over the next few years?

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

A

Yeah, so we – you can see the impact that the High-Value Product has on margin over the last number of years as the conversion to High-Value Products or the adoption of High-Value Products [audio gap] (00:39:03-00:39:18) has taken place [indiscernible] (00:39:19) point volume percentage to really a large revenue and margin expansion opportunity and that has been reflected in the results that Eric outlined earlier in his presentation. And again a lot of that is driven through the Biologics segment, and that's why we've seen Biologics move from 22% of overall revenues to close to 40% for the first three quarters of 2021. And, again, that's the most profitable part of our business. So it's very powerful mix shift.

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**Casey Woodring***Analyst, JPMorgan Securities LLC*

Got you. Okay. Well, looks like we're bumping up to the end of our session here. Want to thank the team from West. That was a great overview. And enjoy the rest of the conference.

## Eric Mark Green

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

Great. Thank you, Casey.

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