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West Pharmaceutical Services, Inc. (WST)

Morgan Stanley Global Health Care Conference

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

We're happy to have with us West Pharmaceutical to wrap-up day three of our conference and we welcome Eric Green, the company CEO and Bill Federici, the company CFO.

Before we get started, I'm obligated to mention that all important disclosures including personal holdings disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website and can also be found at the registration desk.

And with that, I believe Eric you wanted to make some opening remarks.

Eric Mark Green

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

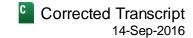
Sure. Well, first of all. Absolutely Scott. Thank you very much and to invite us here today at Morgan Stanley Conference. It's been a very productive day and so thank you very much. I just wanted to just – kind of give you an overview for those that may not have heard the West story, just to ground you on the conversation we're going to have this afternoon.

When we look at West mission, it's really to become the world leader in integrated containment and delivery of injectable medicines. And we are the market leader, and specifically in seals, stoppers [ph] and septa (0:56) for injectable medicines, as well as administrative devices such as reconstitution devices. We also have a contract manufacturing business that specializes specifically in drug delivery and diagnostic devices.

We have a partnership of over 43 years with a firm called Daikyo in Japan and that relationship is extremely strong. And jointly together, we provide Crystal Zenith, a polymer-based material that provides a superior alternative when we look at glass [ph] and continued (1:29) sensitive injectable drugs like biologics.

And earlier this year, you've read in the press release that our SmartDose delivery technology platform was approved for use with Amgen's PCKS9 inhibitor Repatha. So we've made some good progress here in 2016. In 2015, we generated about \$1.4 billion of revenue and just a dimension that for you. We've organized our business around four distinct customer segments, the Biologics is roughly around 20% of our business, Generics is about 30% of our business, when you look at Pharma -Branded Pharma it's roughly 30% and Contract Manufacturing, the balance of 20%. How we're positioned in the marketplaces, when you take a look at the top 35 Biologics in the

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marketplace today, West and our partner Daikyo are in all 35 of those drugs. And we're a supplier with all top 25 pharma and biotech companies on a global basis.

Just look at the vast array that we produce, we manufacture 40 billion components each year, and quality is our top focus with all 7,300 West employees globally. And each one of – all our employees understand that each component has a pretty important impact on patient's lives each and every day.

Over the past five years, as you know, we've generated organic sales of about 7%, led by growing demand of injectable drugs, and the adoption of higher value products that offer. This year, year-to-date, first two quarters of 2016, we delivered a 9% organic growth, and an EPS growth of approximately 20%. And we're also encouraged by the continued growth of our high value product portfolio with the first six months of approximately 20% organic growth. When we look at our business, we believe there is no fundamental growth driver change to the growth drivers for a long term perspective of 6% to 8% organic growth for a number of years to come.

Let me spend a couple of minutes on high value products and what does that mean. We basically have indentified how to design products from standard materials adding washing capabilities, sterilization, [ph] in vision (3:59) inspection and bagging and delivery to our customers at a quality standard that is second to none in the industry. We're finding that the high value product portfolio is attracted by our Biologic customers for obvious reasons, but also our Generic customers as we align ourselves with the four customer segments. The Generic customers are having a higher penetration that we initially thought with our high value product portfolio, which is driving additional growth with that product portfolio.

With higher growth of high value products comes higher margins. When you look at the standard packaging materials, it's roughly around 27% to 28% gross margin, historically last year, and the high value products is 55% to 60%. So as you can imagine, as the business continues to grow with Biologics, and the Generic markets growing high-single to low-double, the margin mix is also expanding due to the natural shift.

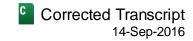
I do want to talk a minute about the realignment of the organization. As I mentioned about the commercial realignment, we are stabilized, we've been operating really well this year. We have four distinct groups that are dedicated and focused on those four customer segments. To be a market led company, you really need to understand what is the right value proposition, how do we design products, how do we manufacture products, and how do we deliver products to our customers in a fashion that supports them.

And what's unique is that, generic customers have a different need than biologics, pharma,

and our contract manufacturings and that's paying dividends as we [ph] sit here and talk (5:38) today. What we also have done is, we've taken a 28 manufacturing sites, that's been really run at a site or region level and have globalized our operations this year. That'll allow us to leverage our existing asset base, which is about \$1.5 billion of assets on the ground, and continue to differentiate and become more of a global network versus individual sites, which may create some redundancy. I'm actually quite encouraged of the initial traction and there's more to come, but the focus around lean, manufacturing, and operations is in the forefront of our teams globally.

And the last change we made was we took our R&D centers across the globe. We have the number 12 R&D sites throughout West, and we have brought in together as one innovation and technology group that has really enabled us to align ourselves to the four different customer segments. Already – as I said earlier, our mission is primary containment all the way to delivery devices. So, we have a team – a global team that really understands the interactions of materials with drugs all the way from containment to delivery devices. And I believe that's how we're going to continue to differentiate in the marketplaces that we serve.

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So overall, first half of this year good success, good traction on the realignment of the organization and our teams of 7,300 employees are focused, are really servicing our customer needs. I'd like to add now one point, and I'll ask Bill, our CFO to give us deeper dive into our capital deployment and how we're continuously investing in growth at West.

William J. Federici

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

Thanks Eric. So, the way we look at our capital deployment on an annual basis, we try to envision what the things are that are going to drive the most increase in shareholder value. So first and foremost, given what Eric just said about it – about West's leadership in the containment and delivery integration of – of integrated delivery systems. We look at investing back into the core of the business. So, whether it's more a washing capacity for Westar processing, or whether it's more vision systems for being able to inspect the products as they go through the manufacturing process, a step we call Envision, or whether it's clean rooms for bagging and a clean environment to reduce particular loads, which is something that the industry and our regulators are demanding. Those are all the types of things that we're doing to invest back into the core of the business.

Of the capital expenditures, this year, estimate of a \$150 million to \$175 million, a good chunk of that is for those types of expansion activities, whether it'd be Waterford, Ireland, where we believe we'll have a – not only a redundant facility for the very important insulin sheeting materials that we produce for the majority of the world's insulin pen cartridges, and secondarily a center of excellence for finishing capacity in Ireland.

The second thing we do from a capital deployment perspective is, we have a small dividend that we pay each year. We look at payment of a dividend, it happens to be about \$33 million, \$35 million a year, so not a huge amount, but very important to some of our shareholders.

Third, we look at – looking at bolt-on technologies. So, are there things like the SmartDose device that we acquired several years ago or the investment we made earlier this year in a small private company, that's looking at – intradermal delivery of injectable drugs. Those are the types of things we'll be looking at. We have a board authorized small buyback of shares that we look at to try to keep the share count neutral, that's been ongoing for a while as well.

So those are the types of things that we look at when we are looking at our capital deployment. And again, we look at that annually focused on what's the best way to look at our dollars to be invested for the shareholder.

Eric Mark Green

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

Right. Thank you, Bill.

Unverified participant

Thanks Eric. Thanks Bill.



QUESTION AND ANSWER SECTION

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Moving into Q&A, I want to start with a question on the reorganization of your sales force. I think, early when you began the year with that re-org to a market-led structure, you had given us some kind of targets around or at least some goals around what you think the biologics, generics and pharma can grow at. And since then, you've pretty much outperformed in biologics and generics, and you've kind of met expectations in pharma. Is that because — was the initial estimates conservative or is the new kind of go-to new sales strategy just outperforming?

Eric Mark Green

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

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I think, it was probably a combination of both. I do believe that when we look at the markets, specifically in the biologics and generics, the underlying market trends are high-single digits and low-double digits, and at West we're really focused on growing at least that market, if not slightly better. The pharma, as you indicated, low-single-digit up to mid-single digit is what we're seeing. Contract manufacturing, frankly, is about low-single digit to mid-single digit. And you're right, we've been at or above in all four segments.

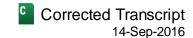
What's interesting with the shift of the organization to be more market-led. And again, it's not just the commercial organization, if you'd visit one of our plants, you would actually sit and talk to one of our operators, they actually have a good appreciation of how that end – that product goes to the end market and tell how it's being used.

But more importantly is what we try to do is minimize the disruption of our sales professionals with a particular customer. So we've minimized the changes we had there, however made sure that we've instead of looking from a regional perspective we looked it from a market segment perspective. I think what we also have learned with this organizational change is that the organization is getting a deeper appreciation, and I'll you use generics as an example of, what are the needs of generics, and frankly they're not the same as the pharma and of the biologics. There is different value propositions, we've aligned ourselves accordingly. There is a big element about speed to market. And we're able to support them to overcome some of the regulatory barriers, we've provided them with the highest quality of our high value product portfolio, as an example, how we're able to support our customers around generics.

I think what it also has done, it has given us a lens on our customers at a little bit different level than we've had in the past, great example is biologics. And when you talk about biologics, you tend to think about the biggest players on the face of earth. But if you look at the other drivers, they're going to create growth for us long-term is the biosimilars, and also the third is the emerging biotechs.

And as you know, the emerging biotechs is a great conduit of innovation into the larger firms. So, we have actually designed our organization in biologics to be focused on those three discrete areas to do – continue to drive growth at or above marketplace. So, I would say it's a little bit of both, a little conservative, but I also think we've been very clear that double-digit growth is expectations of generics, of biologics, mid-single in Pharma and mid-single in contract manufacturing, that's what we have we've been saying.

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So let's dig a little bit deeper into the high value product section. I think – we hear a lot about Crystal Zenith, we hear a lot about SmartDose, and those are obviously key growth drivers for the company, but I think can you – your high value product portfolio aren't just those two assets, can you talk – can you give us an update on kind of the revenues and growth rates associated with the other products in high value products and things like Westar, FluroTec, NovaPure?

Eric Mark Green

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

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Yeah. No, absolutely. What's fascinating, we look at the portfolio of high-value products or high-value components, these are basically taking standard materials and moving up to the quality chain, and the value chain, and build/support our customers at levels that frankly some of our competitors can't do, that's a competitive advantage. And what you're seeing right now is the adoption of high-value products is clearly in the biologic space. It's just to – a lot of the large molecules aren't able to interact with standard packaging materials that creates – you have issues with a particulates and quality, that's what the high-value products' initial intention was to focus on.

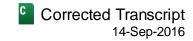
What we're also learning is that in the generic space, because there is an element of speed to market, we are able to offer the high-value products, which allows our generic injectable drugs to get into the market faster and bring in the operations from their site into our site and handle those type of complexities, which enables them to get it through the regulatory barriers much faster.

So to dimension our high-value product component today, in 2015, roughly \$450 million was high-value products, about \$450 million was standard packaging on revenues. But from a units' perspective, roughly around 15% of the 32 billion components we make in that portfolio are high-value products, 15%, the balance are the standard packaging. That migration of not just new molecules coming to the pipeline of biologics, but also the – and also the generics, going from branded to generic, what we're also seeing in some cases an uptick of existing molecules on existing packaging being moved from standard packaging to high-value products, truly help solve the problem with our customers. The economics are attractive and that's what you're seeing with the growth. When you look at the margin profile it's two times, for a high value products versus standard packaging.

So we believe this is a run way that has some legs to it and we are continuing to expand that portfolio. We're continuously [indiscernible] (16:06) innovation and technology team, not just focused on new novel technologies like the [ph] novel paths (16:10) that we brought in, but also how do you expand the existing core product portfolio with new formulations, new quality by design characteristics like NovaPure 1 ml to 3 ml plungers. So, we are continuously adding on to the portfolio.

So, let's talk a little bit CZ and SmartDose. Obviously, you announced that you have one product approved for the packaging solution. You have a number of development programs in place. How long is the typical process from start to commercialization for the SmartDose product and how should investors think about the overall size and the market opportunities?

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Eric Mark Green

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

Bill, you want to take that?

William J. Federici

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

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Sure. So, as it relates to, first of all, we've had one approval with the SmartDose. The first wearable injector from our perspective, combination device. But there has also been two other approvals of CZ [ph] in bio format (17:04). One we've talked about in the past and one we're not allowed to talk about for confidentiality reasons. So, we're seeing a tremendous amount of commercial success of the program, which really excites us.

To your point earlier, [ph] Scott (17:19), is it's still a very nascent business for us. We're talking – in 2015 there was less \$30 million of sales, so those two product lines combined CZ and SmartDose. So, we are seeing a lot of activity in the space. A lot of opportunities we have in addition to the one drug that's been approved. We have seven other development agreements with SmartDose, that are very – under various – basically, the customer working with West trying to figure out, is the drug compatible in that format, does the packaging work for this?

It's an exciting space, it's a new space, one that we're working with customers developing. But your point is a very, very good one, and that is, these things take a long time to develop. We worked with our customer on that – on the drug for SmartDose for more than five years.

And, from some of the other CZ commercial opportunities, the one that we've talked about, that was first started to be developed in 2004, and it came to market in 2016, so that's a 12-year gestation period. So the point that you're making is a good one, and that is, these are very, very sticky products. Once you're approved a combination device, you're not only being written into the approval from the primary drug container perspective, which is where West has traditionally been, but also the device that used to help that drug be self-administered is also written into the approval process. So you become very, very sticky, as it relates to that drug and that customer. So we look at it as an opportunity for us to further that development and further our expertise and our leadership in the containment and delivery of integrated delivery system.

So that's the way we look at that CZ being a very, very key component of that for the reasons Eric mentioned, now some drugs do not have a favorable reaction with glass and some of the other limitations of glass like breakage and delamination. But also from the fact that we can help customers differentiate their drug in the marketplace.

How do you – how should we slice up the market and when we think about CZ, right, because there's obviously going to be lower value products that are just never going to get there. And then, how should we think about the opportunities, the opportunity all biologics or is it just the ones that use your high value products or is it just the ones that will be in combination with SmartDose, like how do you slice up that market?

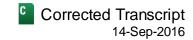
William J. Federici

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

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So, the way we look at it is, there is a tremendous opportunity. CZ is actually a platform, the way to think of CZ. The material can be used all the way from the containment of the bulk API, all the way down through the complete

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life cycle of the drug. So, whether it's a vial presentation, a pre-filled syringe presentation, an auto-injector or a SmartDose pump, it is a way to contain the drug in what we believe is a very safe and efficacious way, throughout its whole entire life cycle.

So, it's very difficult, [ph] Scott (20:33), since it's a kind of a novel space that's been developed. We've heard people estimate that somewhere between 25% and 35% of biologic drugs. We'll either use or migrate from glass to plastic over a long period of time now, whether that's five years or 10 years, probably not, but certainly in the 20 year kind of time horizon, those kinds of numbers are reasonable to expect.

Key again is that everything go slow in this industry, so when we continue to think about our prospects for our company, these are very, very important products that we bring to the customer as an appropriate way we believe to help them solve their needs and the issues that they're confronting as a company within the industry. But these are not things that we're looking to in a short time to be able to help move the meter so to speak.

Let's talk a little bit about the 20% of your business is contract manufacturing. This business has lower than corporate average growth rates, lower than corporate average gross margins, why keep it? Are there really synergies between this and the other 80% of your business?

Eric Mark Green

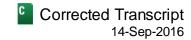
President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.

Let's go you look at – you're right, the contract manufacturing is about 20% of our business, the margins are more challenging than the rest of our business. But when you take a look at, approximately about 25% of that contract manufacturing is really towards pharma, med-device, diagnostic companies. The other 25% – approximately 25% is for consumer products – consumer goods, which you could argue as less strategic.

But taking a look at the core part around the pharma, the healthcare side, is that we are working with customers to really help design and mass manufacture their components whether it's a insulin pen, whether it's continuous glucose monitoring device, so – and there is other types of devices out there. What's interesting, many of them require a primary container, which is where our core business comes in also. So when we're having a conversation to a large pharma, not just about their insulin pen for the diabetes market, we're also having conversations about the elastomers required to make that pen work. So there are some synergies when you're talking to a customer at the enterprise level.

Secondly, on the operation side, contract manufacturing, our team and we've owned this asset for over 10 years, is very effective at lean manufacturing. And they understand mass manufacturing of devices. As I mentioned earlier, we do want to start connecting primary containment to delivery devices, and their expertise gives us some inroads, insight on how to manufacture. And an example would be SmartDose. Our team and our contract manufacturing team was able to help us enable us to be able to manufacture in larger quantities effectively. So there are synergies, it's a different economics, the business profile. We kept it separate just for that reason and we'll continue to drive and make investments as we go forward.

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So if we move on to margins, in the first half you made some headway towards margin expansion, what should we expect in the second half of the year? And can you talk to us a little bit about your longer term expectations around margin expansion?

Eric Mark Green

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

Sure, Bill.

William J. Federici

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

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Sure. So absolutely right. One of things we've seen as we look at our margin profile is the mix shift towards higher value products that you and Eric have been talking about throughout the program, really does drive exceptional margin expansion. So we've seen, as we mentioned earlier, nearly strong double-digit growth in high value products, that has resulted in what – which is above our norm by the way, which is resulted in above-norm margin expansions during the first two quarters.

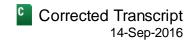
West is a traditional business, traditional manufacturing globally. In the back half of the year, our sales and our margins tend to be more moderated due to seasonality. So when we look at the third quarter, most of our European manufacturers and a lot of the U.S. manufacturers closed plants during the summer to do preventive maintenance and shutdowns for product updates et cetera. We do the same thing in our plant. So we naturally we'll see and it's predicted itself over the last, at least five years, more than a margin point lower margin in the third quarter than we see in the other quarters. And it's relative to this. It's relative to this shutdown and startup activities that we have over the summer.

When you think about the longer term – and we don't see any reason not to suspect that will happen again this year. From a longer term perspective, we talked about it earlier, we have this view that, when you look at the entirety of the business taking the high value products which are growing double digits as Eric suggested, driven by Biologics and Generics, you take contract manufacturing growing low-to-mid singles and standard products low-to-mid singles, we believe that when you look at that and you can't do it on a quarterly basis, but over long periods of time, you're about a 6% to 8% natural grower organically. Associated with that, we tend to see about a 50-basis point to 70-basis point margin expansion associated with that 6% to 8%.

As I mentioned earlier, if you have high value product growth, you're going to see higher margin expansion. So the corollary to that would be, that doesn't happen continuously over time. We believe that things will come back to the norm again more closer to the 6% to 8%, which means that you'll have lower growth in some quarters than you have had in the past quarters. Fundamentally, we haven't seen anything that changes our longer term growth trajectory for this business being a very, very healthy 6% to 8% organic grower with a somewhere in the 50-basis point to 70-basis point margin expansion, natural organic margin expansion growth story over the near-term.

So, I think in the few minutes that we have left, if we can talk a little bit about strategic – kind of more strategic questions. I think, as you move more into developing and marketing your own proprietary devices, do you ever find that it brings you into, kind of a competitive situation with some of your customers on the device side where you have existing relationships, either as a contract manufacturer or as a component supplier.

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Eric Mark Green

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

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Yeah. We don't see the conflict going forward, as a component – actually our customers are looking to help – has helped them solve problems of combining the primary containment to the delivery devices. As long as we are bringing innovative technologies to the table like our SmartDose or CZ, as long as we continue to see drive in those innovations, we will be continued to be invited in those discussions, really to help solve some pretty complex issues, specifically in the biologic space. How do you differentiate the product into the marketplace?

So the delivery device is one avenue that has been looked at and I think, West has a right to play. Just remember, any delivery device that's in the marketplace, whether it's an auto injector or a future competitor in the wearable space, they still need the primary container – containment for that drug, which is where West plays on a large portion of that. I think when it comes to contract manufacturing, we've been pretty clear with our customers on how we treat their IP and how we manufacture their products in large quantities at dedicated facilities. So we're able to keep that separate as we move forward driving IP.

And then I think, essential theme of this entire conference has been kind of the pricing pressures, in that for your pharma customers especially are seeing. And can you give us some idea into your ability to increase pricing year-over-year and how your customers approach their packaging choices and whether you see that being impacted anyway by the scrutiny on drug pricing?

Eric Mark Green

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

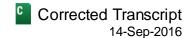
Right. There is a couple of ways to look at this. One is, just to mention that our largest customer as we've said in the past is about 7% of our sales. We're working with – and I don't want to use the word agnostic, but we're working with every customer you can imagine in the healthcare space. We have a very broad portfolio. Again, low single digits of order of magnitude of our largest product. So we're very diverse. We've a diversity – a diverse portfolio in both customer and product. We also have – when you start looking at where we enter with the customer is usually early on i.e. Phase 2 and Phase 3 of their development. And so that's when they're indentifying what is the appropriate primary containment for their drug.

Seeing all that, when you look at our business model, and we have – you look at last five years, on average, our price contribution is about 1% per annum. We believe, it's no different going forward for the next several years. It's a modest price increase to address some of the inflation issues and some of the cost of materials, but it's pretty consistent, pretty predictable at this point for us. But we're really positioned well, yes you're right, with customers, they want to look at how do you reduce cost. But that's where we start bringing the high value product conversation and driving costs out of their system, and therefore moving up the value chain with the products that we offer to them.

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So, in essence, it could even be, instead of a challenge an opportunity for you to further push that kind of conversion around high value products?

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Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
That's correct.	
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All right.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
That's correct.	

Unverified Participant

And I think with that, we're out of time. I want to thank Bill and Eric again for coming.

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