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West Pharmaceutical Services, Inc. (WST)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Q4 2017 West Pharmaceutical Services Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions]

I would now like to turn the call over to Quintin Lai, Vice President of Investor Relations. Please go ahead.

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

Thanks, Viola. Good morning, and welcome to West's fourth quarter and full year 2017 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 www.westpharma.com.

This morning, CEO, Eric Green, and CFO, Bill Federici, will review our results, give you an update on our business and provide a financial outlook for the full year 2018. There's a slide presentation that accompanies today's conference 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 law. These statements are based on management's beliefs and assumptions, current expectations, estimates, and forecasts. There are many factors that can influence the company's future results that are beyond the ability of the company to control or 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 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 make regarding the risks to which it is subject in 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, 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'd now turn the call over to West's CEO and President, Eric Green. Eric?

Eric Mark Green

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

Great. Thank you, Quintin. Good morning, everyone, and thank you for joining us this morning. As it was seen in the press release issued this morning, our Q4 performance returned to more typical growth patterns for our Biologics and Generics market units. While we saw a decline in our Pharma business, this was balanced by very strong quarter from our Contract Manufacturing team. If we exclude impacts from the deconsolidation of operations in Venezuela and hurricane-related shutdowns, we estimate that organic sales growth would have been 6% for the quarter.

Fourth quarter 2017 was also impacted by a discrete tax charge related to the U.S. tax reform legislation that reduced EPS by $0.64. Excluding this impact, fourth quarter 2017 adjusted diluted EPS grew by 19%. As we turn to 2018, we expect to see another year of above-market sales growth and operating profit margin expansion. The underlying markets we serve have been growing at 2% to 3% in unit growth. Our annual revenue growth rate has consistently outperformed the market. We continue to leverage the demand for our high-value products and contract manufacturing services along with the technical and scientific leadership that differentiates West in the industry. This remains our focus for growing our business organically.

Let's now turn to the detail of our market unit performances for Q4 and the full year on slide 4. As noted earlier, we saw a return to double-digit growth in our Biologics market unit in Q4. Biologic customers continue to demand West high quality product offerings and our growth was led by the adoption of NovaPure products as well as Westar Components.

We are encouraged that West maintain participation on 100% of the biologic new molecular entity FDA approvals in 2017. Both large and small Biologics customers rely on West and our partner, Daikyo, for high quality product and wrap-around service offerings such as our regulatory and technical expertise to contain and deliver these exciting new molecules.

While West participation in the Biologics market space is strong, our experience shows that growth is not always linear and quarterly fluctuations occur. Customers often build a stock for launches and follow this with de-stocking periods which we saw in 2017. Our commercial teams have been working with our customers to get a better understanding of their needs and timing which in turn helps our demand planning. For example, we know that Biologics will have a tough comp in the first quarter of 2018. Meanwhile, the full year trends continue to look positive and we'll see a meaningful ramp-up in growth as the year progresses. We expect to see full year 2018 growth in our Biologics market unit of high-single to double-digit growth.

Our Generics market unit had a good finish to the year, posting high-single digits growth in Q4. Full year 2017 sales were flat versus prior year due to previously discussed inventory de-stocking by several customers. You might also recall the softer sales we experienced in some markets last year due to customer regulatory issues. I am pleased to say that we feel that most of these issues are behind us and we anticipate a return to a more sustained and consistent growth pattern in 2018.

Generics customers continue to communicate their need for speed and simplicity and our AccelTRA program meets both of those needs in addition to the high-quality that West is known for. This program was launched in 2017 and more than 80 customers were sampled over the course of the year. We now have customers testing for drug compatibility with several of the largest generic companies moving forward with this unique product offering. We expect to see full year growth in our Generics market unit return to mid- to high-single digit growth rates in 2018.

Following a very strong first half of 2017 for our Pharma market unit, sales in the back half of the year moderated with Q4 sales below the prior year period. For the full year 2017, Pharma organically grew mid-single digits, which is in line with our expectations on a long-term basis. Looking to 2018, we expect our Pharma unit to continue to grow faster than the underlying drug market it serves with Q1 growth somewhat muted due to the tough comp from the de-consolidation of our former Venezuela operations. Bill will go into more detail in his discussion.

And finally, our Contract Manufacturing business had impressive results throughout 2017 including Q4 where we saw double-digit growth. I'll come back to talk in detail about this market unit in a moment. But first, I want to revisit our strategy around high-value product adoption which, as I stated earlier, is key to our long-term growth.

On slide 5, we show total sales for our Proprietary Products business over the past five years. In this timeframe, we've seen our high-value products grow by 11% annually. In addition, we experienced 100 basis points of volume growth in 2017. The most important thing to take away from this slide is that there's still a great deal of room for us to continue to grow our best-in-class high-value products. With the demand in regulatory backdrop for the packaging and delivery of injectable medicines, customers are seeking high-value products now more than ever across all market units.

In 2017, we expanded the SmartDose portfolio with the introduction of next-generation devices and had good success with the SelfDose injector. In fact, SelfDose was awarded the Exhibitor Innovation Award at the Annual Pharmapack meeting in Paris just last week.

As we work to improve adoption of high-value products, growth in this area will also come from volume and price and, in the future, new product launches.

On slide 6, we highlight three areas of R&D focus for 2018: advancing our core; delivery devices; and administration system products. Our innovation and technology team advanced our core offerings in 2017 by introducing to the market new products like the LyoSeal cap, West Rigid Needle Shields, and the NovaGuard SA Pro safety system, all designed to broaden our product offerings in response to unmet customer needs. Together with our partners at Daikyo, we expect to introduce additional high-value products in 2018 that will directly meet our customers demand for high quality.

In addition to expanding our drug delivery business with the next-generation of SmartDose platform and SelfDose, we are also working to expand offerings within our drug administration and reconstitution business, we saw healthy double-digit growth in this product portfolio in 2017, especially in the United States. We expect to expand this offering into new geographic markets, invest in additional capacity for increased production and launch improved products in 2018 and beyond. Together, the new products launched over the past five years in these this focus areas, contributed more than 100 basis points of organic sales growth in 2017 and expect this trend to continue in 2018.

Let's turn back to the Contract Manufacturing side of our business now on slide 7. Just as we are working to transition our business from standard to high-value product offerings in the proprietary segment, in the Contract Manufacturing business, our team has been on a journey to transition the focus of our business away from consumer products towards an increase in healthcare products. As you can see on the slide, we have grown the healthcare business by 9% annually over the past five years. This growth has come primarily from our drug delivery and diagnostic customers, resulting in five consecutive quarters of double-digit growth.

While we have been growing the healthcare business, we have also been de-emphasizing our consumer business. As you see in the chart, consumer sales have decreased by 2% annually over the last five years. In late 2017, one of our longstanding consumer customers moved production in-house. As a result, we reduced a number of our consumer production lines and we'll use the resulting capacity to supply the increasing demand from our healthcare customers. Even with this impact, we expect our Contract Manufacturing business to grow mid-single digits in 2018.

On slide 8, we have highlighted some of the areas of expertise for which customers engage West. Our deep technical insight enables us to support a wide variety of complex products. We are unique in that we also have market leading expertise on the impact of elastomers within the drug delivery devices. Our plant in Dublin, Ireland is a great example of this focus on strategic alignment. We nearly doubled the manufacturing space of our facility in December of 2016 to meet increasing demand. The expansion has been operational for one year and is already profitable. The core offering in Dublin includes manufacturing expertise and continuous glucose monitoring devices and is a nice complement to the new insulin sheeting production at our Waterford, Ireland plant which will be – initiate commercial operations later this year.

Before I turn things over to Bill, I want to spend some time discussing the strong progress we have made in Global Operations. On slide 9, we're highlighting some of the team's accomplishments in their first year operating under a unified global operations and supply chain strategy. With 28 sites, the team is driving better service to customers; improve levels of quality; and a safer working environment for our team members.

In 2017, the team worked to reduce lead times by more than 40%, leading to better service for our customers. We continue to improve upon this important metric and plan to reduce [lead] times even further in 2018. In addition, we're seeing better quality results delivering less than 80 out-of-spec parts per billion, in line with our commitment to delivering the highest quality in the industry.

We have also accelerated process excellence improvements across the global plant network so we can deliver value back to our customers and run operations more efficiently.

In conjunction with the ongoing Global Operations strategy, our board of directors has approved a restructuring program that will streamline the plant network and enable us to make investments to drive growth in high-value Proprietary Products and healthcare-related contract manufacturing business and expand margin. These changes, together with executing the commercial and R&D strategies, will ensure our business continues to grow within our 6% to 8% long-term organic sales growth range.

Now, I'll turn it over to our CFO, Bill Federici, who will provide more color on our financial performance and to provide details on our long-term outlook. Bill?

William J. Federici

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

Thank you, Eric, and good morning, everyone. We issued our fourth quarter results this morning. Our Q4 results include the effects of U.S. tax reform which resulted in a discrete charge to reflect the repatriation tax on unremitted offshore earnings and the reduction of our U.S. deferred tax assets. Excluding the effects of special items from both this quarter and the prior year, fourth quarter 2017 earnings were $0.64 per diluted share versus the $0.54 we earned in Q4 2016. A reconciliation of these non-GAAP measures is provided on slide 16 through slide 20.

Turning to sales, slide 11 shows the components of our consolidated sales increase. All references to sales amounts are into constant currency. Consolidated fourth quarter sales were $415.6 million, an increase of 4.5% over fourth quarter 2016 sales. Proprietary Products sales were $306.4 million, a 1.4% increase over same quarter 2016. Sales price increases and the volume mix increase contributed equally to the Q4 sales growth. High-value product sales increased 5.1% versus the prior quarter.

For the full year 2017, high-value product sales increased approximately 4% versus 2016. Our Biologics segment sales increased by double digits, and our Generics market unit saw high-single digit growth, but our Pharma market unit sales declined low-single digits in the quarter. Combined CZ and SmartDose sales and development activity were $40 million for the full year 2017, a 47% increases versus the prior year 2016.

Contract-Manufactured Products sales were $109.2 million, a 14% increase over sales in the prior-year quarter as customers ramped up activity in our recently expanded Dublin contract facility.

As provided on our slide 12, our Q4 2017 consolidated gross profit margin was 30.9% versus the 32.3% margin we achieved in the fourth quarter 2016. Proprietary Products fourth quarter gross margin of 34.8% is 2.1 margin points lower than the 36.9% achieved in the fourth quarter 2016. The mid-single digit growth of high-value products sold, modest sales price increases, and continued [ph] lead savings (17:45) and plant efficiencies were more than offset by the impact of higher labor, material and overhead cost including under-absorbed overheads in our newer facilities like Waterford, Kinston and Scottsdale which created headwinds for our margins.

Contract-Manufactured Products fourth quarter gross margin of 20.1% was 2.5 margin points higher than the prior-year quarter due to favorable sales mix, lean and plant efficiencies, and the ramp-up of activity in our newly expanded Dublin facility.

As reflected on slide 13, Q4 2017 consolidated SG&A expense decreased by $2 million compared to the prior-year quarter. The decrease is due primarily to lower pension expense, lower achievement levels on incentive comp programs, offset by staffing and salary increases. As a percentage of sales, Q4 2017 SG&A expense was 1.7 percentage points less than the prior year period.

Slide 14 shows our key cash flow metrics. Our operating cash flow was $263 million for the full year 2017, $44 million more than 2016 due primarily through our improved operating results. Capital additions of roughly $130 million were made in 2017. Roughly 60% of the capital spend was our new products and expansion efforts including approximately $26 million in our Waterford manufacturing facility. We expect capital additions of approximately $150 million in 2018. Slide 14 also provides some summary balance sheet information. Our balance sheet continues to be strong and we're confident that our business will provide necessary future liquidity.

Our cash balance at year-end was $236 million, $33 million higher than on December 2016 balance. Roughly 60% of that cash is invested overseas. The U.S. tax reform bill signed into law late last year mandated a deemed repatriation tax on undistributed foreign earnings and a reduction of our deferred tax assets based on reduced federal income tax rate. A discrete tax charge of approximately $49 million is included in our Q4 2017 GAAP results.

Debt at year-end was $197 million, $32 million less than at the prior year-end due to the repayment of our headquarters' term loan. As of year-end, our cash balance exceeds our debt balance and as such, we are delevered on a net debt to total invested capital basis. Working capital totaled $464 million at year-end, $63 million higher than at the prior year-end. Customers continue to push extended payment terms which puts pressure on our working capital. We continue to work with our customers and suppliers as well as our internal inventory levels to manage our working capital investments.

We have issued our full-year 2018 guidance in this morning's release. That guidance is summarized on slide 15. Our guidance is based on an exchange rate of $1.20 per euro. Our actual 2017 results are translated that at $1.13 per euro rate. More than half our revenues are generated outside the U.S. U.S. dollar has weakened versus a number of international currencies, most notably the euro. If this trend holds, currency translation will be a tailwind to earnings in 2018. As a reminder, every $0.01 change in the euro-dollar exchange rate has approximately $0.01 annual EPS effect.

We expect our effective tax rate will decrease by roughly 3 percentage points to 4 percentage points as a result of the new U.S. tax legislation. We expect our 2018 effective tax rate will be approximately 26% excluding the effects of excess tax benefits from option exercises. Our tax rate is highly dependent on the geographic mix of earnings, which in large effect is driven by the sales of high-value products. Our 2018 guidance includes a two-set EPS benefit resulting from our board-approved 800,000 share repurchase program.

In Q1 2017, we recorded $0.21 of excess tax benefit from option exercises whereas we expect Q1 2018 benefit from option exercises to be about $0.04 to $0.06. We expect our 2018 results will continue to be adversely impacted by customer inventory management and under-absorption of overheads in certain of our newer facilities. In Q2 2017, we deconsolidated our Venezuelan subsidiary which will create sales and earnings headwinds for Q1.

In addition, 2018 will be adversely impacted by one large consumer Contract-Manufactured Product that the customer opted to bring in-house. Additionally, the under-absorption of overheads from newer facilities is expected to increase by approximately $3 million in Q1 versus the prior-year quarter. The combined impact of these items represents an $0.11 headwind for Q1 2018. We expect our Q1 2018 growth mix and operational efficiencies will offset all of these items other than the reduction in the year-over-year stock comp tax benefit.

We do not expect any 2018 income from a technology license that occurred in Q3 2017. During the first half of 2017, our Pharma market unit had above average growth and throughout 2017 our Contract-Manufactured market unit grew well in excess of our norms, setting up tough comps for both of these market units. With growth accelerating throughout 2018 in our Generics and Biologics market units, we expect a stronger second half of 2018 compared to the first half.

All of these items have been considered in our 2018 guidance. We expect to deliver on our full year 2018 earnings guidance of $2.80 to $2.90 per diluted share. Excluding the tax benefit from stock-based comp, this represents an increase of between 14% and 18% in diluted EPS over 2017. Our guidance excludes the restructuring charge of $8 million to $13 million or the expected fully completed annualized savings of $17 million to $22 million outlined in this morning's release.

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

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

Thank you, Bill. In conclusion, we're making progress in executing our long-term market-led strategy. Our commercial team has developed an even greater understanding of the underlying market dynamics of our industry and is delivering tailored product and service offerings that meet the unique needs of our discrete customer groups.

Our Global Operations team is driving improved quality, safety, and service to our customers and is working to streamline our manufacturing network to make room for investments that'll fuel future growth. And our innovation and technology team is building a strong pipeline of integrated containment and delivery products to meet customer needs. We look forward to another year of above market growth and remain committed to our long-term outlook for West.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Dave Windley with Jefferies. Your line is now open.

David Howard Windley
Analyst, Jefferies LLC

Q

Hi. I think they called on me at least on my end of the line just FYI. And Eric, your concluding remarks there, the audio went pretty choppy.

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

A

Sorry about that.

David Howard Windley
Analyst, Jefferies LLC

Q

I'll start – it sounds like the old Blackberry interference type stuff. So. anyway I wanted to start with questions around the sales performance by market unit, by customer unit, and just a clarifying question first that I guess as I think about the relative size of the units, I'm having a little bit of a hard time understanding how double-digit Biologics, high-single digit Generics, and then offset by low-single digit Pharma nets to only a 1.4% growth. Is there something that I'm not taking into account and thinking about how those net together?

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

A

Hi, Dave. It's Bill. No, I think you're thinking about it incorrectly. You have to remember that the size of those business units are slightly different and the growth is relatively, as you said, double-digit for the Biologics and high-singles for Generics. The Pharma business which is the largest of those business was actually low-single digit decline. So, when you add all of those things together, you get to your 1.4% in proprietary. Now, if you remember then the issues that are affecting those, as Eric said on the call, there were some inventory destocking that was going on by customers, there was a product that was pulled from the market by the customer. So, there are some special items that are impacting that and when you take those and the Venezuela impact on our proprietary organization, the Q4 growth rate for Proprietary Products will be somewhere in the 5% to 5.5% range.

Quintin Lai
Vice President-Corporate Development, Strategy & Investor Relations, West Pharmaceutical Services, Inc.
A

Dave, I think we may be losing you here. Operator, let's go to the next caller. Then Dave, if you can just come back in the queue and maybe the line will clear up for you.

Operator: Our next question is from Tim Evans with Wells Fargo. Your line is now open.

Tim C. Evans
Analyst, Wells Fargo Securities LLC
Q

Thanks. Hey, Bill, can you just, for everyone, walk through what exactly happened in Venezuela, why did you have to deconsolidate this facility?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Sure.

Tim C. Evans
Analyst, Wells Fargo Securities LLC
Q

Is this something where the volume moved somewhere else or is this something where you just don't get the volume anymore? And then lastly, exactly how much revenue did it do in Q4 2016 and how much did it do in Q1 2017 so we can understand the comp?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Okay. Great. So, Venezuela, as you know, has been suffering from very, very high inflation and a lack of ability in that country of getting cash out of the country. So, many, many of the companies served in Venezuela have deconsolidated their subsidiaries. We hung on as long as we could. We hung on through all of 2016 when a lot of companies have bailed and through the first quarter. But at that point in time, it had been almost a year since we had received any cash payments out of the country and we deemed at that point in time that our asset, our ability to control our subsidiary was no longer there. So, under GAAP rules, we are required to deconsolidate. What that means is that we took a charge, it was a deconsolidation charge of about $11 million relative to our Venezuelan subsidiary and we no longer, from that point forward, had any income or expense associated with that.

We are serving those customers, many of them anyway, from other parts of our South American operations. So, we have not lost customers other than customers who have gone out of business, who have diverted elsewhere. Some of those customers that asked us to sell through Brazil and others of our South American operations. So, we have not lost the business per se.

In terms of the actual financial results, in the fourth quarter of 2017 versus the fourth quarter of 2016, the sales differential was $3.5 million less in 2017 Q4 than 2016 Q4. In Q1 2017, we had $9.1 million of sales in Venezuela that we will have none in 2018's first quarter.

Tim C. Evans
Analyst, Wells Fargo Securities LLC

Q

Well, so I guess this is where the confusion comes in, right. So, if you had $9 million of sales in Q1 of 2017 and some of that business has effectively been moved to other sites in South America, why is it zero in Q1 2018?

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

A

It's a demand issue. So, when you have – we've been selling them – we had stocked up at lot of inventory through that time period and we have been – customers aren't ordering a whole lot in that area and we are serving them with the existing inventory on the ground. We don't have – there has been some – some of that $9 million has been – will be made up in Q1, but not a tremendous amount.

Tim C. Evans
Analyst, Wells Fargo Securities LLC

Q

And this is standard products that go mostly to large pharma customers?

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

A

Standard products to large pharma customers, yes.

Tim C. Evans
Analyst, Wells Fargo Securities LLC

Q

Okay. You usually call out committed orders for the proprietary, I didn't hear that, did I miss it or...

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

A

No, no. It's $377 million, which is roughly 1% on a currency neutral basis higher than the same period in 2016.

Tim C. Evans
Analyst, Wells Fargo Securities LLC

Q

Okay. Lastly, can you walk through the dynamics of Q1 EPS. I think you said there was going to be an $0.11 year-over-year headwind, but then you said you'd offset all of it except for the stock comp accounting...

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

A

Yes.

Tim C. Evans
Analyst, Wells Fargo Securities LLC

Q

...what is that net to?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Okay. So, when you think about – let's take them into two pieces. So, the stock comp we'll go first. The stock compensation expense in Q1 2017 was $0.21. We are projecting, for two reasons, a lot smaller number in 2018. The first reason is that now that the tax rate is 21%, not 35%, the actual benefit you'll derive from stock – we, as a company, will derive from those stock option exercises will be about a third less.

Secondly, we had a number in 2017 of our – of large option exercises, of deep in the money options that have either – because they were getting ready to expire. So, a lot of those have already gone through the system so we expect a smaller pool of – we have a smaller pool of option benefits to be earned over the next several years. So, our estimate is only $0.04 to $0.06 for option – the tax benefit from option exercises in Q1 2018. So, take that and put that aside, okay.

Tim C. Evans
Analyst, Wells Fargo Securities LLC
Q

Yes.

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

That's the first decline. The second one is when you look at the Venezuela impact, the impact of that consumer product customer and some of these under-absorbed overheads that we talked about, and their impact Q1 2018 versus Q1 2017 will be about $0.11. We fully expect that our growth in operations, our favorable mix from Generics and the Biologics space coming back, and our operational efficiencies will help us offset the $0.11, but that net delta between the $0.21 of excess tax benefit versus the $0.46 we believe will happen in the first quarter of 2018. We do not believe that we will be able to overcome that.

Tim C. Evans
Analyst, Wells Fargo Securities LLC
Q

So, just to be very clear, about $0.15 to $0.17 lower in Q1 2018.

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Correct.

Tim C. Evans
Analyst, Wells Fargo Securities LLC
Q

Okay. That's good. All right. I'll turn it to others. Thanks.

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

Great. Thank you, Tim.

Quintin Lai
Vice President-Corporate Development, Strategy & Investor Relations, West Pharmaceutical Services, Inc.
A

Operator, can we go back to Dave if he's back on the line?

Operator: Yes. Our next question is from Dave Windley with Jefferies. Your line is now open.

David Howard Windley
Analyst, Jefferies LLC

Q

Yes. Sorry about that.

[indiscernible] (35:02)

David Howard Windley
Analyst, Jefferies LLC

Q

I called back in on my cellphone. So, look, I'll get your answer to the first question off the transcript but I wanted to continue to clarify a couple of things. So, you guys said 100 basis points – I think Eric talked about 100 basis points of volume growth in high-value products in 2017. Should I think about that in the framework of the like 83% standard, 17% high-value, that shift in mix is continuing at 100 basis points, is that what that means?

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

A

Dave, that's correct. It's 100 basis points shift from standard to high-value products on a per unit basis. That's correct.

David Howard Windley
Analyst, Jefferies LLC

Q

Yes. And so, am I – because I'm thinking about with the destocking, the inventory destocking, some of the tougher year-over-year comps, et cetera, that the high-value product kind of in isolation, high-value product growth was relatively low by comparison to prior years. I guess, I would have thought that – I certainly want to see that mix shift continue, but I would have thought 2017 would have been a little bit of a weak year on that front?

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

A

Yes, absolutely. So, when you look at the volume component, when you take a look at the volume component of the standard, [ph] you're right, we're about (36:29) 83% back in 2016. That was about 100% impact going into for high-value products for this particular year 2017. There is a shift between the different market units which would drive some of that behavior.

David Howard Windley
Analyst, Jefferies LLC

Q

Okay.

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

A

So, to give you an example, [indiscernible] (36:50) Biologics customers, they tend to be the higher quality materials [indiscernible] (36:56) NovaPure offering, but much smaller units in that particular part of the portfolio group...

David Howard Windley
Analyst, Jefferies LLC

Q

Okay.

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

A

...very nicely.

David Howard Windley
Analyst, Jefferies LLC

Q

Okay. That's helpful. And then maybe continuing with that, as you mentioned NovaPure, I think Westar was another one, you highlighted a couple of quarters ago I believe that one of your large – a large biopharma customer with a fairly substantial injectable product portfolio had made the decision to transition to high-value products over a period of time understanding that that's a multi-year effort. But I guess I'm curious on maybe a high level update as to how that – what the cadence of that transition will be roughly. And is it right to think that having a customer make a big decision like that would accelerate that 100 basis point shift a year that you could actually see that be a little higher for a period of time while that's happening.

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

A

Yes, Dave, that's a good point. So, we're on track on with that [ph] with our (38:08) customer which we won't name. But it is approximately a little bit about two, a little over a two-year process to do the transition completely, a little bit less volume in year one than you'll see in year two, so there should be more of an acceleration.

It requires our customer be on-site to do [ph] auditing, validation (38:27) and also their documentation, so we're well on track. We're seeing the conversion occurring and we're quite pleased by this particular conversion. We do think this will help us with our discussions with other customers to transition from standard to high-value products with their existing portfolio of other large pharmas. So, we're on track. There could be a potential uptick as we talked about number of units moving from standard to high-value products as we look into 2018 and a little beyond that due to the [indiscernible] (39:01) transition.

David Howard Windley
Analyst, Jefferies LLC

Q

Okay. And last one, and I'll drop. Bill, you emphasized that you're now basically in a net cash position, small. What are the management team's thoughts about levels of debt that you're comfortable with kind of based on recent pattern that we've seen, zero net debt. But I guess I'm wondering particularly is there an opportunity to be a little bit more aggressive and opportunistic on the share repurchase side of things, now that you're in a position where CapEx has trended on the low-end of your range, your P&L is growing, you're going to generate more cash flow and you don't have a lot of debt.

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

A

Yes, Dave, I'll start talking little bit about the use of cash because that's a very good comment in regards to – our number one focus is around investing in organic growth. And you're absolutely correct when you start – we look at the CapEx spend in 2017, it's roughly around $130 million in prior year, so it was north of that. And you can kind of see in our results to we do have a couple of facilities that are state-of-the-art, customers are excited to transfer projects into those sites but they're underutilized at this point. And so, we believe we'll continue to invest in organic growth, but because of our Global Operations, the approach that they are taking with more of a network approach, we feel comfortable that we're looking at below the $150 million that we've mentioned.

The second area that we're starting to put more emphasis around is our – now that the teams in line is around our innovation and technology growth. You'll see – and while the number is still, as a percentage of sales, below 3%, we are trying to continue to invest in that area in double-digit growth. Because we are very encouraged with the pipeline and the type of pay-off that's having in the next three to five years.

One last comment, we will continue to look at bolt-on technologies and tuck-in type of acquisitions that really broaden our portfolio to really drive the vision of integrating containment and delivery devices for injectable medicines. We don't have [indiscernible] (41:20) complete portfolio as you know and we're working on ways, whether through innovation or through bolt-on opportunities, to bring that into fold.

I'll let Bill talk real quickly about the debt and how we use cash also around share buyback and dividends.

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc. A

Yes. So, Eric's absolutely right, the other two items in the mix there are, we do pay dividend, Dave, as you know, in the $40-million-ish range now on an annual basis. And the board just approved a 800,000 share buyback for the year 2018 that we hope to effect.

In terms of debt and our thoughts about debt, yes, you are right, we are delevered but we're not adverse to debt if there were opportunities, strategic opportunities that were out there from a bolt-on perspective, as Eric mentioned, or if we see opportunities to invest elsewhere in our network, we certainly will do that. And as I said, we're not debt adverse, we just happen to be in a delevered state right now.

David Howard Windley
Analyst, Jefferies LLC Q

Okay. Thank you. I'll drop.

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc. A

Thank you, Dave.

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

Thank you, Dave.

Operator: Our next question is from Paul Knight with Janney. Your line is now open.

Paul Richard Knight
Analyst, Janney Montgomery Scott LLC Q

Hi, Eric. Good morning. How are you?

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

A

Good morning, Paul. Doing well. Thank you.

Paul Richard Knight
Analyst, Janney Montgomery Scott LLC

Q

Great. So, I guess can we say now that Puerto Rico is behind us, de-stocking is behind us, is that done and taken care of, so to speak?

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

A

Yes, Paul, it's a good question. Puerto Rico, I would say, is behind us and I would just – a real quick comment about Puerto Rico. Our site is operating and our customers in on the island of Puerto Rico are importing at this point. So, we believe that is truly behind us. In fact, we'll continue to invest in our Puerto Rico site because it is actually one of our top producing sites for our performance.

In regards to destocking, I'm really pleased on how we've been able to come out of the situation with the Generics side. As you know, there was customer inventory builds, there was destocking, we do see normalized levels, we have visibility, we're pretty comfortable there.

Biologics, we will see a little bit up and down fluctuations based on product launches, when they're about to launch new molecule, they'll come to us and we'll help them build inventory. But the positive part there as you know, Paul, very well, is that the pipeline of molecules tend to be more Biologics, so we should see that to be very healthy for us.

So, I would say there's less destocking-type activities. We do here – one last thing, Paul, I'll add. This 40% reduction on lead times is significant. And our customers have noted it, they've been very pleased [ph] and our Head of Operations (44:10) with our commercial heads have been out to our customers and they continue to talk about how do they reduce their own safety stock to drive working capital improvement at their own facilities. So, we will have some oscillation as we go for the next few quarters, but it's a very good reason why that's happening. And I think for the long term, we're in a very good position.

Paul Richard Knight
Analyst, Janney Montgomery Scott LLC

Q

Okay. And then can you give us an update on Crystal Zenith, what's the customer involvement there, et cetera?

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

A

Yes. As far as the number of – the interest level remains strong. We have various projects that are in either in stage – phase 1, 2 or 3. We have several that are really in the development – early on in discovery phase at this point. So, the interest levels remains strong. I will tell you though, it really is a focused niche area that we have been going after because [ph] it won't displace all the class (45:12).

So, we're pleased – just in the Biologics space, we're actually seeing some of our pharma customers exploring because the size, the variability that we can provide in larger scale and so that is another option that we have at this point in time.

Paul Richard Knight
Analyst, Janney Montgomery Scott LLC
Q

And then last, Bill, could you give us a little color on where Q1 grows and op margins are going year-over-year?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Well, we expect for the full year that we will be able to increase margins. We will have those headwinds as we suggested, Paul, and I lined out all of those things. So, we should be able to offset, as I mentioned, the Venezuela impact, the impact from that consumer customer and our overhead of under-absorption issues with mixed growth and operational efficiencies. So, we feel very, very comfortable that for the full year that we will be extending margins.

The first quarter, because of the headwinds that we faced that we are talking through, happens to be very, very pronounced. So, again, we feel comfortable with the full year outlook. The first quarter will continue to be – margins will continue to be solid.

Paul Richard Knight
Analyst, Janney Montgomery Scott LLC
Q

Okay. Thanks.

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Thank you, Paul.

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

Thank you, Paul.

Operator: Our next question is from Dana Flanders with Goldman Sachs. Your line is now open.

Dana Flanders
Analyst, Goldman Sachs & Co. LLC
Q

Hi. Thank you very much for the questions. My first one here and apologies if I missed it, did you guys give just the high-value products organic growth this quarter? And then as we look at 2018, I know 2016 you guys were lapping some tough comps, should we expect that to accelerate as we head into 2018?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Yes. So, I'll answer the first question first. For the fourth quarter, our high-value product growth was right around 5% as I mentioned in the script. And for 2018, we mentioned that we'll see high-value products accelerating in the back-half of the year as Biologics and Generics come back. So, we believe that we will have more normal growth in our high-value products for the year. We expect high-singles to low-doubles.

Dana Flanders
Analyst, Goldman Sachs & Co. LLC
Q

Okay. Great. And then my second one quickly here, I know you announced a modest restructuring program not included in EPS guidance, how should we think about just the magnitude of savings over the course of 2018? Is that more 2019 weighted?

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

A

Yes, absolutely. And Dana, thank you for the question. In a regulated environment that we operate in, it is very, very difficult to move product around the network. There's validation protocols with the customer, et cetera. So, these things take a long time. Historically, that's why we talk in the 12- to 24-month category for when we expect to see those savings.

We will see – my guess – and you know the way it works is you can only take the charge and you get the savings then once those activities are actually exited, which we believe will start to happen towards the back-half of 2018. So, the savings there may be a little bit in the back-half of 2018, but certainly not a substantial amount and most of that will come through in 2019 and beyond, it'll be an annual effect.

Dana Flanders
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. That was it from me. Thank you very much.

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

A

Thank you.

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

A

Great. Thank you, Dana.

Operator: Our next question is from Larry Solow with CJS Securities. Your line is now open.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Great. Thanks. Good morning, guys.

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

A

Good morning, Larry.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Most of my questions have been answered. Just a few clarifications, so on the – just to take you back on net savings, it sounds like you're not building, although you may get a little bit in the back-half in Q4, you're not building in anything in your actual guidance for 2018, right?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

That's correct, Larry.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Right. Okay. And then as a follow-up, $0.15 to $0.20 or so, it looks like if you do the math, that sounds like we'll get that full impact, some of it in 2019 but, annualized, we'll probably get that full impact by 2020?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

No. Yes. Absolutely.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Great. Okay. And on the improved capacity, 40% reduction in lead times, obviously, a little – a victim of your own success on the backlog side, backlog's sort of flat. Going forward, should we – is backlog no longer as good of an indicator as it was maybe a couple of years ago before you sort of had this surge of supply orders? Or how should we view that now that it looks like your capacity has – or your improved capacity has somewhat normalized?

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

Yes. Larry, that's a good question because we have – because the lead times have been reduced significantly. I mean, in fact, in a matter 8, 9, 10 weeks in some cases reduction, our customers are actually not ordering as much in advance. So, if I take a look at few examples, you take a look at end of January, the growth of the backlog for Q1 delivery – again, just to be clear though, the backlog isn't the entire growth of the business, [ph] the sub-segment is up (50:32) about 10%. So, that is a good indicator from a short-term period and that's where the shift will occur. We're not going to have larger backlogs going forward because of the fact their lead times are significantly less and the confidence level from our customers that we can deliver consistently, as we've said we would, is a very high percentage at this point of time. So, we've got to be a little bit careful looking at what we look at three, four, five years of the backlog as a true indicator at this point in time.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Right. Okay. So, it sounds like there might be a little, what, period shakeout till we could sort of better [ph] analyze (51:13) that number, if you will.

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

Correct.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

But it sounds like your read outside of backlog sounds consistent and remains positive. Okay. Great. Just switching gears a little bit, obviously, high-value products, a little bit volatility during the – quarter to quarter. But all in, it sounds like you finished the year pretty good. Could you just – Pharma, obviously, down I think a little bit more than expected maybe in this quarter. Could you give an outlook for 2018? I caught the outlook on Biologics and Generics, but I didn't quite hear the Pharma one and maybe that's skewed by that as well a little more too?

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

A

Yes, Larry, it is a little bit of what you just commented on. Let me put it into – look at Pharma and the issue that we had in Q4. Some of these are predictable, some are not predictable and/or forecastable with our customers. But one was – we had a decline with one of our clients, a drug molecule was taken off in the European market which had an impact on one of our containment closures. And we also saw in this particular area what we call tooling, so we do a lot of work with our customers and we provide tooling in our Pharma business and the demand was quite a noticeable difference between Q4 of 2016 versus 2017, which is – it's quite a large number.

You add Venezuela on top of that. I know Bill mentioned earlier, when we bring these elements back plus the Venezuela to our base, we're roughly around 5%, a little over 5% growth in that Pharma business.

So, that's what the impact was in Q4. It wasn't clearly visible to us at the time we were talking with you in October unfortunately. But we'll continue to work on the visibility and the transparency to our investment community in regards to the future demands.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Okay. Great. And then on the gross margin on the quarter, a little bit less than expected, offset that by lower SG&A and I realize [ph] that's explainable (53:19) sort of again a little bit a victim of your own success on the new capacity coming online and the unabsorption. It sounds like you expect to improve upon that in 2019 – 2018, but still will have some drag from some underabsorptions, is that fair to say?

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

A

That is absolutely right, the way you see it, Larry.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Okay. And I guess sort of [indiscernible] (53:42) but I guess as you continue to grow over time hopefully that will switch to...

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

A

Absolutely. And having excess capacity, while it's drag now, is a good thing as you go into future year in a growing business where you can satisfy that demand for our highest quality product in these plants that are specifically designed to give our customer the highest value of product that we can offer.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Excellent. And then on the insourcing of the plastics contract, it sounds like that business obviously has become quite sort of non-core going forward and less of a focus. This one contract it looks like – it's like low over $20 million, $23 million, $24 million. Is that a lower margin contract and is this something that you expect additional contracts to come off over time? I realize this business is getting small as a whole, but any color on that?

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

Yes, Larry. I mean obviously, we want to [indiscernible] (54:40) service all our customers and in this particular case, our client, we've been working with for a long, long period of time despite the insources. So, it had the impact in our consumer part of the business, but it's an area of – we de-emphasize this area strategically as we put investments in place. But you're correct when you said it is a lower margin business.

The consumer business, going forward, the one we're talking about is roughly around $60 million and that'll declining slightly as you've seen over the last five years. So, that's the order of magnitude to that business as of today.

Just to remind you that about 50% of the business was consumer when we acquired Tech Group about 10-years ago, so this has been a shift especially over the last several years.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Okay. Great. Thank you very much, guys.

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

Thank you.

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Thank you, Larry.

Operator: Our next question is from Derik de Bruin with Bank of America. Your line is now open.

Derik de Bruin
Analyst, Bank of America Merrill Lynch
Q

Hi. Good morning. Sorry I'm traveling and jumped on late so my apologies if you did this. But just to sort of follow up on the last question, sort of what's the outlook for the gross margins for the different segments for 2018? Just trying to think about how the dynamics work given all the moving pieces.

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

So, thanks Derik for your question. On the contract manufacturing side, we'll continue to see margins be benefiting from the move away from consumer and towards more of our device and diagnostics businesses in Pharma. So, that will continue to be – and operational efficiencies. Longer term, we still feel very, very comfortable with the overall ability to grow organically and expand margins, as Eric mentioned in his commentary. That will be for 2018, we talked about the headwinds that that are impacting us in Q1 of 2018 and the fact that both Biologics and Generics are building as the year goes. So, as you know, we will get to, we believe, for the full year, high-value product growth in the high single to low doubles in the back half of the year. But in the in the front half, that will be a – will continue to be challenged. So, margins in the first quarter will continue to be challenged

Derik de Bruin
Analyst, Bank of America Merrill Lynch

Q

Okay. And I guess just from a – just some questions – and my apologies if you already answered these. I guess how does the FX impact to the top line for the full year and what's that gain on the margin level just from FX? And I know there are some changes in pension accounting rules, I'm just wondering if those will have any effect on the margins well.

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

A

Yes, that will have an effect on the margin as well, that's a good point, the pension accounting change. For us in the – you're talking about low- to mid-single millions of dollars so it's not like it's a violent change, but it is a change and it's strictly an accounting change. You're just re-classing from one area of the P&L to another. But it does have an impact on the margin, lowering margin. On the – I'm sorry, what was the first one?

Derik de Bruin
Analyst, Bank of America Merrill Lynch

Q

FX.

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

A

Oh, FX. Okay. So, as I mentioned in my prepared remarks, the FX we are – we have budgeted – the guidance we have prepared is that $1.20 per euro. Last year's full year effect was at $1.13 per euro, Derik, and that's each $0.01 is roughly $1 million. It's a little over $0.01. So, $0.01 of EPS, a little bit more than that. So, you're talking about going from that $0.07 – between $0.05 and $0.07 is where is the range of what you should expect from FX if it were to hold at $1.20 for the whole year, which we know it won't, but that's kind of a stake in the ground you have to put.

Derik de Bruin
Analyst, Bank of America Merrill Lynch

Q

Okay. Great. Thank you very much.

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

A

Thanks, Derik.

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

A

Thanks, Derik.

Operator: And our last question is from Dave Windley. Your line is now open.

David Howard Windley
Analyst, Jefferies LLC
Q

I'm coming back for three, a couple more clarifications. So, am I right in thinking that after the third quarter or through the third quarter, your year-over-year pattern in high-value product orders was negative that because of the reduction in wait times that you had actually seen a negative year-over-year pattern. And then at the end of December, you're back to kind of a 1% improvement in that pattern such that the fourth quarter itself would represent quite a strong catch-up. Am I thinking about that correctly?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

The general commentary is correct. We expect over an average year, Dave, as you know the construct says that we expect about 100 basis points of margin expansion due to mix shift, a little bit of price and the operational efficiencies and volume, obviously. So, we see that over long periods of time

We are impacted as we know in individual quarters by the inventory destocking and the building. We talked about the first half of 2018 being more severely impacted by things like Venezuela than the back half. We also talked about the fact that Biologics and Generics, as they come back to more normal order patterns, is going to be towards the back half of the year. So, yes, you're [indiscernible] (1:00:20) what we're counting on and we're guiding to is high-single to low-double digit growth in high-value products for the year but that will be challenged in the first part of the year.

David Howard Windley
Analyst, Jefferies LLC
Q

Okay. Next follow-up is coming out of 2016, we had, what, 22 drug approvals of which maybe 25% of those 5, 6 something like that were injectables. 2017, we had 46 approvals of which significantly more maybe 10, 11, 12 were injectables or more, maybe it was even 20. So, a significant improvement in overall approvals and a commensurate increase in injectables that you care about. You already talked about how you had 100% coverage of biologic approvals. What's the cadence, what's the timing with regard to when approvals then drive order patterns and revenue uptick for you in injectable products and should we be thinking about that being a big driver of your ramp-up in 2018?

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

Yes. So, there's two areas that we look at. One is there is a ramp-up of the – get approval on launches for the marketplace. So, it's roughly about a year lead time to get that into the marketplace into the distribution channel.

The second thing just to be aware of is that we're seeing – while there's a tremendous increase in number of molecules going through the approval process more recently, we have seen in some cases smaller volumes [ph] for drug molecules (1:01:59). In some therapies, they have been launched recently which are very exciting obviously and very, very effective for patients but the volume usage is quite small. So, we have to balance it, it's not the – the ratio is not one to one with every molecule, it does vary. Biologics tend to be smaller volumes while the Generics and Pharma is larger.

David Howard Windley
Analyst, Jefferies LLC
Q

Okay. And then final question on restructuring, I just want to make sure I understand because you've got both a restructuring charge, you've got CapEx that you are going to spend for that, and then a savings amount that you expect to get. Just operationally, are we talking about having identified a facility that you are able to completely take offline and exit and shutdown and then in order to do that, you've got to do some build out in some other places to absorb that productive volume, that productive capacity, before you can do that. Is that, in fact, what you're executing?

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Yes. So, the idea is exactly what you said, to move certain of our products for certain customers into – consolidate into some locations. A couple of those locations were actually closed but it will take some time to do that as you can imagine with regulated products. There will be some capital needed. We mentioned in the release $9 million to $14 million, that's a very modest amount that we believe will happen over the course of 2018 in 2019.

And then as we migrate those products over and those customers over, then we will have the opportunity to exit those facilities and those activities. So, as you know because of the regulated nature, it takes a little bit of time to do these things. That's why we've estimated 12 to 24 months. So, we don't expect a whole lot of savings in 2018, a little bit at the back end and then through 2019.

David Howard Windley
Analyst, Jefferies LLC
Q

And is the recipient of this volume is – are you able to kind of...

William J. Federici
Chief Financial Officer & Senior Vice President, West Pharmaceutical Services, Inc.
A

Yes.

David Howard Windley
Analyst, Jefferies LLC
Q

...is this part of moving the volume into kind of centers of excellence and kind of more, call it, superregional hubs like a Waterford or some place like that?

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

Yes. So, what we're doing is we're aligning it towards our Global Operations strategy that we've outlined last year where we're basically consolidating to centers of excellence. So, you're absolutely correct, we're pooling the resources and the technologies and capabilities into more discrete locations and this gives us an opportunity to run more efficiently, so, really moving towards more strategic sites. And as you know, we have 28 today around the globe so we do have some opportunities.

David Howard Windley
Analyst, Jefferies LLC
Q

Okay. Thanks.

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

Thank you.

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

A

Thanks, Dave.

Operator: And I'm showing no further questions.

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

Thank you for joining us on today's conference call. An online archive of the webcast will be available on our website at www.westpharma.com in the Investors section. Additionally, you may access a telephone replay through Thursday, February 22, by dialing the numbers and conference ID provided at the end of today's earnings release. We will be presenting in an Investors Conference in New York next Wednesday and, as always, that webcast is available on our website as well. Thank you, and have a nice day.

Operator: Ladies and gentlemen, thank you for participating in today's conference. You may all disconnect. Everyone have a great day.