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# West Pharmaceutical Services, Inc. (WST)

J.P. Morgan Health Care Conference

#### CORPORATE PARTICIPANTS

Eric M. Green

Chief Executive Officer & Director

## OTHER PARTICIPANTS

Michael R. Minchak

JPMorgan Securities LLC

### MANAGEMENT DISCUSSION SECTION

#### Michael R. Minchak

JPMorgan Securities LLC

Good afternoon. My name is Michael Minchak, and I am a member of the healthcare services equity research team here at JPMorgan. Very pleased to have West Pharmaceuticals Services presenting at the conference this year. For those of you who may not be familiar with them, they are a leading manufacturer of packaging components and delivery systems for injectable drugs and healthcare products. Here today to tell us a little bit more about the story is the Chief Executive Officer, Eric Green, and following the presentation, there will be a breakout down the hall in the Yorkshire Room. Eric?

#### Eric M. Green

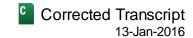
Chief Executive Officer & Director

Great. Thank you, Mike, and good afternoon, everyone and thank you for attending the session here on West Pharmaceutical Services. And afterwards, we'll take Q&A just down the hall. I just wanted to remind you about the Safe Harbor statement can be found in the SEC filing and also at the westpharma.com website. West Pharmaceutical company is a 90-year-old organization that is really focused around designing and manufacturing packaging and delivery systems that are used by several of our clients around the world in the pharmaceutical, biotech, generic and the biologic space.

When you look at our portfolio and how we impact patients' lives, if you look at the business roughly around 80% – 75% to 80% of our business is what we call proprietary products. These are the several products around the elastomers, whether they are stoppers, seals, caps, prefilled syringes and components. Also, moving from the elastomer business all the way towards the delivery devices, you hear about our Smart Do se that's in the market place, and also CZ vials and syringes that are new innovations that are allowing the biologics to be more – administered to patients more effectively.

That business is roughly \$1.1 billion. The other \$300 million business is a contract manufacturing business that's focused on really working side-by-side with our customers and design and manufacturing large volumes and materials used in the pharma and the biotech space. If you look at the healthcare industry, we manufacture about 40 billion components annually, roughly about 32 billion of those components around the elastomer in the component space. And when you look at the top 75 biotech and pharma customers, injectable companies, we're in

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- we're partnering with all 75 of those and we have a very diverse customer base around the globe and obviously in the top 75.

What's really interesting is, if you look at the top 35 biologic injectables, West and our partner in Japan, Daikyo, are involved with all top 35 biologics. So we're involved with many different products around the geography with many different customers. The trends are very positive for West. If you look at the dynamics around the biologics space, the Asian population and the developing economies that are driving demand look at alternative treatments and delivery options, not just the simple injection, but looking at delivery mechanisms to administer to the patient in a convenient and efficient manner. The increase in biologics — biosimilars and generics is also very attractive for West and more importantly, the quality standards continues to increase from the regulatory barriers and that's where West excels and we've continuously partnered with our customers and these market trends are well positioned for the growth of West going forward.

Let's take a look at the business in different lenses. One, let's take a look at from a geographic perspective. A little over 50% of our business is out of the Americas. So most of the Americas sales are in the U.S., it's roughly 49%, with a strong presence in EMEA, roughly 44% and the balance in Asia-Pacific of 7%. These are the 2014 numbers. What's interesting is that, recently we invested over a \$100 million of capital in Asia to give us the foundation, the footprint to enable us to manufacture these products of the same standard – quality levels, standards and service levels as are accustomed in the North America and also in European region.

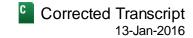
When you take a look at from our product portfolio perspective, it's really three buckets to take a look at. The first one is from our contract manufacturing. It's around 21%. The other two is around our high-value components and proprietary devices. And this typically fuels and supported by the biologics space. The other third, roughly 40% is our standard packaging and disposable components and that's how our business is broken up in the different product segments.

West is very diversified. Customers, as I mentioned earlier, we're working with all the major pharmaceutical biotech firms across the globe. There isn't one customer that's greater than 8% of our sales. And we operate in 20 countries with 26 manufacturing sites across the globe. And we have over 7,000 employees with a large portion of those employees are focused in the manufacturing process, the scientific, technical, engineering and in customer support.

The business has consistently grown. In the last five years, from 2010 to 2014, under revenue, the growth has been roughly 6% CAGR. When you're looking at the first nine months of 2015, that we reported back in October, the growth rate, on a reported basis, I'm sorry, on a performance basis was little about 6.4%. So we continue with that trend. And if you look at diluted EPS for those time period, about 10.5% CAGR and we look at the first nine months of 2015, it's roughly on a adjusted diluted basis, it's roughly a 20% for the first nine months. Again, strong performance at West.

In the ROIC with the assets we have around the globe to build support our customers, it's one of the major benefits differentiator of West with our — with the competitive landscape is that \$1.5 billion of assets around the globe to build support our customers and we're leveraging those assets more effectively year -after-year and you can see 260 basis point expansion over the last five years. When you look at use of cash and the allocation, we have roughly around mid-teens of operating cash flow from — as a percentage of revenues from our current operations and the way we allocate our cash today is roughly around 10% to 11% of our revenues we allocate back into our business where our capital expenditure is roughly between \$140 million to \$170 million depending on the year and this is invested in new facilities that I'll talk a little bit further about such as Waterford, the Center of Excellence in Waterford, Ireland, in North Carolina and also in Singapore.

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The second use of cash is we do about \$30 million a year in dividends. That is about 24 consecutive years of increase. And the third we look at is around inorganic opportunities. If you look at our balance sheet, it's quite healthy and we have opportunities to leverage our cash to apply towards bolt-on acquisitions around technology, geographic placement and other assets that allow us to better service our clients. We obviously have debt repay ment we focus on, and then stock repurchase, we've recently announced for 2016, it was recently announced about 7 00,000 shares to really keep the diluted shares, pretty much static as we go through the year.

When you look at the business and break it down into the five components from a product portfolio perspective, the two drivers of the growth of the business is around proprietary devices and high-value components. And this is representative of the growth of the biologics phase, and also, the needs of the customers for higher quality and expectations around the components.

Let's start with the high-value components. These are the products that we referenced earlier before the elastomer business. Customers are looking at moving away from the standard packaging components with their new biologics, in some cases, in the generics space to really bring in the high-value components, which is growing in the double-digits, and the margin is about 2x of the standard packaging.

The proprietary devices, while the margins are a little bit less than 30% today, that's really a utilization effect, as we continue to grow out our CZ and our SmartDose portfolio would leverage our existing assets. We'll see that move to the right over time. And again, obviously, the standard packaging is roughly close to low-single digit to mid-single digit growth, and contract manufacturing about the same growth rate for West.

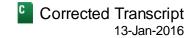
End of last year, we've spent a number of months — three months to do a deep dive on the enterprise strategic plan at West, and we communicated this back in our October call. We took roughly around 14, really top notch individuals of the organization from different geographies and business units, brought them together, and we looked at the enterprise, and tried to identify what are the opportunities to continue to accelerate the growth of West, but more importantly move the company from a product-led organization to a market-led organization. And we have four key drivers that I'll discuss and what will be our focus going forward for the long-term strategy at West.

What I'd like to articulate is this change was communicated earlier this week with the organization to really drive in a global commercial organization that's focused around three units, around biologics, pharmaceutical and the generic space. We also are pulling together our innovation groups, so the R&D groups, from a region and business unit perspective to global innovation technology, and we're going to drive operational efficiency and lean manufacturing with a global operations footprint. All these changes that are in place moving forward will allow us to let us achieve our long-term objectives and that really is to be the world leader in integrated containment and delivery of injectable medicines.

Starting with the market focus, by becoming the market focus organization is three distinct markets we're focused on at West. There are about roughly the same in size of revenues when you look at from a customer perspective and, obviously, each one present unique opportunities and the driver of this is really trading value propositions that better serve these three distinct customer groups.

As you can see in the biologic space, it's not just the area of primary containment, which West is very strong, a deep history of being the leader in primary containment of the drug, but now moving into the delivery devices such as the SmartDose.

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When you look at these three units, the biologics and generics are growing slightly faster than the pharmaceutical segment and also what's not listed on here is contract manufacturing. And so the biologics and generics are growing slightly faster than the other two.

Look at the differentiating product offering, the high-value product offering has historically been around the standard packaging of elastomers with seals [ph] receptors (12:04). And what we're doing with this high -value product offering is really coding the units with FluroTec and bring up the value chain of Westar ready -to-sterilize components, Envision check, all the way up to NovaPure, which is the highest level of quality standard that we can offer our customers. This is addressing the need in the biologics space. We have a very strong market share in that particular area by driving more customers towards these quality standards.

This is – this part of the business we're continuously investing more of our capital, specifically around Waterford, Kingston, North Carolina, and also in Singapore to better service our customers on a global basis. Today, this particular part of the business is roughly \$450 million. In the last five years, it's been slightly over 10%. So we believe going forward high-single, low-double digits is definitely achievable in this particular sector.

When you take a look at how our strengths and our core competencies can move us into the integrated approach in delivery devices, fundamentally, when you look at the primary container, that's West's strength. We have a very strong position with all our customers. When you're talking about the primary container, as you move over to the delivery device, majority of the delivery devices whether it's auto injectors, whether it's wearable devices like the SmartDose, require the primary container to be effective and to be able to meet the regulatory and quality barriers and that's where West plays; both on the primary container, as I spoke earlier about the high-value product portfolio, but also in the delivery devices.

A great example on success in this particular area, in October, we communicated that we currently have seven customers working on delivery using the SmartDose in the development phase and we have roughly around 14 clinical trials and studies going on in the Daikyo Crystal Zenith.

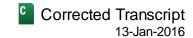
A great example of success here is working with our customer. They communicated that – Amgen has communicated with Repatha using the SmartDose and the Daikyo Crystal Zenith plus the NovaPure, FluroTec's primary container in their launch with the integrated drug containment device which is scheduled for a PDUFA date of July of 2016.

So we're very pleased with the progress we're making in this particular area, but more importantly, strategically, our ability to drive value in the primary container and move it to the delivery devices enables West to play in a larger landscape than we had in the past.

The contract manufacturing is an important part of our business, because when you look at strategically, today, we're focused in the pharmaceutical and medical device space and the benefit of that is, again, the customers that we're talking to through our contract manufacturing, the same customers we're working with in the primary container business.

And so we have this business that's roughly around – little over \$300 million and it continues to grow in about low-single to mid-single digits. But, again, the driver of this is the criticality of providing products, which is the IPs owned by our customers, but to build design, manufacturing and large scale manufacturing to support them. Examples of manufacturing would be around the EpiPens, also the insulin pens, and more importantly, when you look at that, we're also producing majority of the world's supply on the primary container within the insulin pen, so that it gives us a really good position with these customers.

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We have received awards with our lean manufacturing and our engineering capabilities around quality and quality controls as you can see. But more importantly, this business is really driven from the technical side of the engineering and the design of our folks and it continues to be an important part of West.

By centralizing the operations going forward allows us to leverage our operations more effectively. As I mentioned, we spent about \$1.5 billion on assets around the world and we're very well positioned to build grow off of a strong foundation.

We're currently developing centers of excellence, particularly around the high-value products portfolio, in three locations of Waterford, Ireland, Kingston and Singapore. The Waterford, Ireland campus is coming along quite nicely. We broke ground in 2015 and we anticipate in 2017 this operations in the first phase will be going through the validation process.

We're also investing in Asia as I mentioned earlier. The new plant in India is operational and it's allowing us to produce seals that are effectively used within the Indian market and also exported, and allows us to certainly emerging markets.

One of the areas that West is driving and continue will drive forward around the lean and operational excellence. As you know, our margins have been expanding and that is due to product mix, some price, and that price contribution is usually around 1%, 1.5% to 2%. But, more importantly, is leveraging our existing operations as far as utilization and capacity. And this is one area that will continue to drive margin and ROIC expansion and continue with the expansion that we're currently experiencing.

Quality is one initiative that we've driven really aggressively last year and a half and it's really driving what we call the zero defect initiative. It's driving any particulates or any quality issues out of the system so that our customers [ph] are focused (18:05) on defects. And again, that's where the high-value product offering comes in, where we're able to supply products to our customers with that zero defect mindset. And I would say West is very well positioned with the quality systems, controls and fairs quite well with audits from our customers.

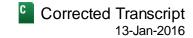
Really, the key messages of West today is that we're key partners with several customers around the world. We're dependent on one particular customer and specifically in the pharmaceutical and the generic med device base. We have a — there's a high barrier of entry to get into this business where we observe strong growth. If you look at our products are designed in the regulation process whether it's the DMF that we file and also with our customers.

We have a significant investment on a global footprint, which differentiates West from a lot of our competitors and our customers appreciate the ability to work with us – a global customer, anywhere around the world and have consistency of language, quality of service and reliability from our organization.

One part of West that's part of the DNA is around the scientific and the technical capabilities. It is a scientifically driven organization and we differentiate ourselves with bringing new products to the market, understanding our customer needs and helping them solve problems to ensure that their drug they're launching to the market is delivered to the best delivery mechanism to the patient.

When you look at the organization, the drivers that we're focusing on around the commercial, around the market-led organization, supported by our global operations, and also the innovation and technology, which will be fueled by the needs of our customers and the organization that we have going forward which is building on strength that we currently have today.

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From a financial perspective, the company continues to do well. We have a strong balance sheet, and we have a strong operating cash flow that we expect to continue to move in the right direction and leverage as we go forward whether its organic or inorganic investments to continue to build value to our customers and our shareholders and to our employees.

So really to summarize, I do want to take this opportunity. I want to thank JPMorgan for the opportunity to present today, but more importantly, I do want to mention that without the 7,300 employees around the world to do what we do every day, walk to the doors understanding that every day our products are touching 100 million patients a day is a great reason why our organization continues to drive forward with the patient in mind.

So, I thank you for your time. I thank you for your attention and we'll take questions across the hall. Thank you very much.

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