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West Pharmaceutical Services, Inc. (WST)

J.P. Morgan Health Care Conference

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Tycho W. Peterson

Analyst, JPMorgan Securities LLC

Okay. We're going to kick it off. I'm Tycho Peterson from the Life Science team at JPMorgan. It's my pleasure to introduce our next company this afternoon, West Pharmaceutical Services. We're going to do a breakout right after in the Olympic Room, which is just down the hall.

So with that, let me turn it over to Eric.

Eric Mark Green

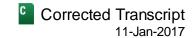
President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.

Great. Thank you, Tycho, and good afternoon. It's a privilege to be here at the J.P. Morgan Health Care Conference. I do want to introduce one of my colleagues here, joining me today is Bill Federici, our CFO of the company, and we will be available after this for Q&A session.

When you look at West – first, I'll start with the Safe Harbor statement. It's referenced here; also it's available on our website at westpharma.com. If you look at our business, our focus really is to be the leader in integrated containment and delivery of injectable medicines. We have been in this space for over 90 years, and our focus is really partnering with the pharmaceutical, biotech, generics and medical device companies across the globe. With a 90-year history at West, we started focused on creating rubber formulation to enclose or contain injectable medicines. The first project, major project we worked on was on penicillin back in the early 1940s and the success of West since that time has clearly been the leader and we talk about elastomers for containment of injectable medicines.

Over the period of 90 years, we have spent resources to expand in different geographies, such as Europe and in Brazil and in Asia. We've been in many of those markets for several decades, so they're not a new geography for West. As you can see the evolution of the company, as we continue to work with several customers on the containment of their drugs, we started to work towards the delivery devices, whether it was the acquisition of Medimop or The Tech Group in contract manufacturing or our long partnership with Daikyo over 40 years, which

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I'd like to comment today as of last week we actually renewed those agreements with Daikyo for the next 10 years.

So, it's a very strong partnership and we look forward to another several decades with our partner, Daikyo. So, you see the evolution of the company over the last 90 years, we're very pleased where we are today.

We are a critical supplier in the healthcare space. Today, we produce over 40 billion components across the globe. Roughly around 32 billion of those components are for primary containment of injectable drugs. The other 8 billion are really in contract manufacturing.

We are on the top 35 injectable biologics and we're also working with, partnered with the top 75 pharma and biotech companies that are producing injectable medicines across the globe. When looking at our portfolio today, we split our business out into two reporting segments. One is around proprietary products, roughly 80% of the business, roughly around 8,000 SKUs across the globe. And the proprietary products, these are the typical stopper seals, caps, working with Daikyo on the CZ vials and syringes, self-injection devices such as SmartDose that we recently launched.

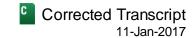
The other 20% of our business is contract manufacturing. It is an integral part of our organization [ph] which continues (03:36) to leverage the relationships we have with global pharmaceutical companies on the contract manufacturing to bring in the elastomer part of the business and that's roughly as I said 20%. You'll find us designing mass manufacturing and assembling of insulin pens as an example, or continuous glucose monitoring systems that we do produce for our large customers in U.S. and in Europe. It's a diverse business. When you look at the portfolio from a geographic point of view, we have very strong presence in the U.S. and in Europe; about 40% of our revenues are exposed in Europe today, 7% in Asia, roughly low single-digits in South America to make up the Americas number. We do believe because we do have strong assets on the ground that we're operating through in our manufacturing facilities in China, India, Singapore and Brazil, allows us to produce locally for the local consumption of those products in those geographies.

We're also positioned very well in a diverse portfolio when you look at 50%; approximately 50% of our portfolio is growing in the double-digits. Talk about the high-value components, we'd love to give you greater detail a little bit later; it's roughly 40% of our business. Delivery devices, where it's more early stage at this point, roughly 7% and then the balance of the 50% is split between contract manufacturing and the standard packaging, which is more of the legacy part of our business over the last several decades.

And from a customer segment point of view, we are operating from segments as of last year from the pharma, generics, biologics and contract manufacturing and our go-to-market approach. Approximately almost 50% of that business is growing double-digits because of the generics and the biologics space. So we're very confident in our position of a diverse geographic reach, product portfolio and also the customer segmentation. When we look at the customers' concentration, we have over 2,000 customers, that's very important when you start talking about the emerging biotechs, when you start talking about the small pharmas, this is where you can get early phase adoption of your products, and as they go into commercialization we're partnering with them as they launch into the marketplace. We do have 28 manufacturing facilities across the globe with 50 facilities.

Now last year, at this time, we communicated a new strategy in the company, and that was really those three major pillars on that strategy. One is around reorganization around becoming more market-led. We have historically been really focused on product [ph] for (06:29) manufacturing excellence, but we've felt that there was an opportunity to create more value with a market-led approach and through customer experience, which I'll go in greater detail in a moment.

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The other two pillars is around operational excellence. In order to produce 40 billion components a year with high-quality standards, you need to have an operational capability that is second to none in the industry. And I clearly believe with the reorganization of becoming more global of our operations and bringing it together versus regional or site-specific is going to drive even more margin expansion with lean principles throughout our operations.

And the third pillar is around innovation. We do have a portfolio of 8,000 products, but it's innovation behind the portfolio product line expansions and also into delivery devices. And all these activities and initiatives that we're driving is really ultimately driving shareholder value, customer value and also employee value here at West.

I'll go a little deeper with our customer segmentation. We have four distinct customer segmentations that we've segregated based on the value propositions. You'd seen before how the organization is split by the revenues, but generics and the biologics continue to be the fastest-growing piece of the business. As you know the marketplace, the market of generics is high single-digits, biologics high single, low double-digits, the pharmas low single to mid single and then contract manufacturing low to mid.

In all cases, I can say for the first year-to-date of 2016 for the first three quarters, and I won't comment on Q4 or even 2017, is that we have grown in all four situations at or above the market, which I'm very pleased with. But the reason why we drove into these four segments is really the unique value propositions that we're focused on to deliver our sales and marketing and business development in each segment. So we have dedicated resources that are [ph] focusing in (08:36) talking to the generic customers, the biologic customers and the pharma, and this is the direction that we started last year, and we're continuing to see penetration with our customers.

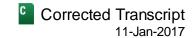
One of the metrics we look at is our adoption rate into the new molecules that have been approved by the FDA. And frankly this is really an outcome of work that's been done years in advance, so really when you think about the go-to-market approach, it really is focus West has brought in at Phase 1 or Phase 2 or Phase 3 of the process.

At this point, it's too late. This is actually launch of the commercial drug, and we need to be written in with the regulatory filings of the drug, which is the case for the most part of West. In 2016, there were 20 new approved injectable medicines or drugs into the marketplace and 18 of them, 18 of the 20, West is participating. And that's a typical result that we've seen over the last few years, and we believe we'll continue with those type of participation rates going forward.

Let me talk a little bit about the value proposition of our portfolio. So, I mentioned before we have 8,000 products. We'll start with the standard products. This is roughly, as I mentioned before around 40% of our business. However when you look at the number of units produced out of the 32 billion products – or units produced in the standard and the high-value products, the stoppers and seals, 85% of them are in the standard portfolio. This is the historical portfolio that we've built over time and it's predominantly focused on the small molecule and some of the generics space.

As you start looking at what is the constitute of a high-value component, this is the new innovations that were developed and implemented over several years where we're actually taking the standard product and either doing a coding with FluroTec or washing or sterilization on behalf of our customers, which is constituting the high-value products. Today, high-value products is roughly 47% of the whole sales of the company, but only 15%, approximately 15% in 2015 of the number of units. So, you can see the runway ahead for West in the high-value product portfolio is quite attractive.

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To round out the high-value product portfolio, we've continued to add new capabilities such as Envision inspection. This is the ability to look at particulate levels at a level that it drives zero defect quality initiatives.

In addition to that, we have a new portfolio that we recently launched, is Quality by Design, it's enabling and supporting small biotechs, we're looking at all the way from documentation of the raw materials all the way through manufacturing and delivery of the products. We're able to support our customers and help them accelerate the filing process with the regulatory bodies.

These last two additions to the high-value product portfolio are more in we would call in their early innings. We have a lot of runway in these areas, they're more recent adoptions. As you can imagine, the price per unit or the cost per unit increases as we go along the spectrum here of the high-value product portfolio.

Looking at the devices that West is producing, we have really three components here. One is around administration devices, this is really through an acquisition we made several years ago with Medimop in Israel, and it allows us to be competitive in the – such as Vial2Bag into the marketplace. We have containment leveraging our relationship with Daikyo using Crystal Zenith or polymer-based syringes or vials to enable us to be competitive, really high sensitive biologic products in the marketplace. And self-injection, SmartDose and also SelfDose, our products that enable the patient use experience to be actually enhanced with these devices.

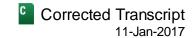
This portfolio here is more a long-term growth part of our portfolio. We're putting about half of our innovation and technology resources on this part of our business, while the other half is around the high-value product components, seals and in the rubber business. And as we go forward, you can see how the interconnection between primary containment to delivery devices is starting to create even more value with our customers who are looking at the whole portfolio.

I'm going to spend a minute on the attributes of contract manufacturing. Again, this business is about 20% of our organization. If you split that out, it is really two buckets. About a quarter of that is in consumer products. The other three-fourths is in the healthcare space, pharma, med device and that's our primary strategic focus with this business. The same customers that are buying our stoppers and seals, they're also buying the contract manufacturing devices. Typically the IP is owned by our customers, they're looking to us to design and to do mass manufacturing in dedicated facilities. We just recently opened up a new facility in Dublin a month and a half ago. And what's really pleasing is those type of facilities are already producing product for our customers. And that's the type of reaction that we have with our customers, and consistency, and allows us to continue to grow this business. The benefit of contract manufacturing is you're starting to see the primary drug containment of these devices still use West stoppers and that's important as we start looking at how we can bring the two together to really have a complete solution for our customers.

So when you look at the whole spectrum of the portfolio, you see the integration from the containment to the delivery devices, and that's what West has, the competency, the more near-term growth that you've seen with West today is around the high-value products, the standard products in more the long-term growth and our projections start incorporating the investments we made really with the delivery side of our business.

I think one of the areas to be really clear on is the economics and what's driving both the top line and also the margin expansion you're seeing at West. While, first of all, if you look at it, break it up into two sections, the contract manufacturing we talked about 20% of the business is growing at roughly low to mid single-digits over the last five years. When we look at the margins, the margins are roughly around 20%. The proprietary business is higher, but that's broke out into three areas, the standard packaging, which is roughly around 27% margin, and roughly around 5% top-line growth, that business is more of the historic business. What's really growing in the

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double-digits is the proprietary devices as we talked about, CZ; we talked about the injection devices, SmartDose; and then the high-value product components. Again, margins are 2x because we're adding more benefits and features for our customers and we're also able to drive more conversion of new molecules towards high-value products because of generics and biologics, plus existing molecules that are having difficulties with quality and we're moving them up the quality scale to the high-value product components.

This is a good way of looking at the business, the higher-growth parts of our business, biologics to generics, are really in the proprietary and high-value components and from a product portfolio, both are growing well in the double-digits.

If you look at the last five years, the CAGR has been 6.7% and we've mentioned in the past conversations of 6% to 8% growth in the top line. We've seen that historically with the focus we have in the markets that we're serving and the market trends, dynamics, we're continuing to see 6% to 8% as we go forward more long-term. This also drives natural margin expansion just on product mix shift and again, you're seeing that with our gross margin expansion really through the high-value product conversion.

We're looking at the global operations I mentioned earlier, we do about 40 billion components globally and out of 28 manufacturing sites. What's really interesting about West and what we have really excelled at is around quality. It has been part of the DNA and core of this company for several decades.

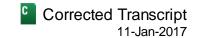
There's a statistic up on the chart here that may not be popping out, but you should take a moment to reflect on. It's our defect rate is well less than 100 per billion, and for those that are statisticians and understand Six Sigma, this is well above better than the Six Sigma's standards that you would have in this part of the industry. And we have our customers enter our facilities every day. We had 290 audits of our customers in our facilities across the globe, which gives us the confidence to continue to work with our customers and continuously building the quality programs. So, very strong portfolio, broad and we are at standards that I believe are leading within the industry.

I do want to take a moment to talk a little bit about 2016 highlights. There's a lot of awards up on the chart, we selected a few that represented both our people, that represents a little bit about our innovation, represents contract manufacturing, our core business of elastomer business and also some geographies. This is just a representative sample, but the company has performed quite well in 2016 with the recognition from our peers.

What I'm really proud about is that we realigned the organization to be a market-led and start executing on strategy. And with those new initiatives in late 2015 and early 2016 we have continuously delivered to our customers, which is reflected in our financials. We have completed the expansions in Kingston, North Carolina, which is a center of excellence for high-value products, that allows us to put more volume through that particular facility. In Dublin, I mentioned earlier, we opened that facility in early December with our customers. And we're also on track with the completion of Waterford in Ireland for high-value product manufacturing capabilities in 2017, we're currently doing validation with our customers in this year and we'll be commercially live of that facility in early 2018.

The operations team, for those that follow West, see the backlog as one of the indicators of the booked order at West. We had a large backlog in early part of 2016. The operations team focused on improving the delivery times and reducing the cycle times significantly to a point where we're at all-time lows on our cycle time to our customers, which does reduce our backlog, but it's healthy and the quality metrics again as I mentioned earlier all-time high. The safety metrics of the company, new records in 2016 and new innovations that have been launched. We had three approvals in the last 14 months of leveraging our Crystal Zenith technology with three drug

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compounds. We've launched the NovaPure 1-to-3 mL plunger, which is quite significant and we had approval of a combination of a drug in our device SmartDose in the second half of 2016.

We're confident that the innovation engine will continue to flourish as we go forward with a new global innovation approach. In fact, we hit an all-time high of the number of applications that were filed and approved for patents in 2016, so quite pleased with the performance of the organization.

I think we looked at sustainability; the growth of West over the last several years has been consistent of around 7% CAGR. We were quite pleased with that result, but looking forward we believe the strategy we have set will continue to drive this business to our 2020 target. We also believe the margin expansion and leveraging our SG&A when and appropriate allows us to drive our adjusted diluted EPS well in the double-digits and in fact the year-to-date in both categories of 2016 is exceeding both those parameters.

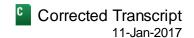
And the last is bringing shareholder value. As I mentioned, it is about bringing value to your customers, and that's where we're focused on, and all [ph] 6,300 (21:43) employees are delivering that each and every day, but it's also bringing value to the shareholders, and I think the chart on the right, and we're part of the S&P 400, that speak volumes on how the shareholders are reacting to the performance of West.

So, I would like to leave you with this. While there's been a lot of changes in 2016, the markets are dynamic. We are playing in very attractive spaces. We have a very strong position in both, obviously in the pharma position, but we are also in the generics and in the biologics space. We have a healthy contract manufacturing business. We do believe the market-led strategy gets us deeper into the – and to understand the unique needs of our customers in each of those specific areas, and our operations and our innovation teams are responding to those particular customer segments. We're operating from a position of strength. We have quality part of our DNA as an organization. We will continue to leverage that and differentiate. We've globalized our operations, we're going to leverage our assets, we have about \$1.5 billion of assets on the ground. We continue to put approximately \$150 million of investments into our facilities each year; that continues to create a bigger barrier of entry in the marketplace.

And lastly I'd like to comment, and our balance sheet is quite strong. Our net debt is zero, and we have a great opportunity to continue to build a stronger business as we look forward at West and to support our customers.

So, thank you for your time. We'll have Q&A down the hall. And thank you very much.

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