

23-Jul-2020

# West Pharmaceutical Services, Inc. (WST)

Q2 2020 Earnings Call

## CORPORATE PARTICIPANTS

**Quintin John Lai**

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

**Bernard J. Birkett**

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

**Eric Mark Green**

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

---

## OTHER PARTICIPANTS

**Juan E. Avendano**

*Analyst, BofA Securities, Inc.*

**David Howard Windley**

*Analyst, Jefferies LLC*

**John Kreger**

*Analyst, William Blair & Co. LLC*

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by, and welcome to the Q2 2020 West Pharmaceutical Services Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Quintin Lai, Vice President of Investor Relations. Please go ahead, sir.

---

**Quintin John Lai**

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

Thank you, Josh. Good morning and welcome to West's second quarter 2020 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 westpharma.com. This morning, CEO, Eric Green; and CFO, Bernard Birkett will review our financial results, provide an update on our business and present our updated outlook for the full-year 2020. There is a slide presentation that accompanies today's call, and a copy of the presentation is available on the Investors section of our website.

On slide 2 is our Safe Harbor statement. Statements made by management on this call and in the accompanying presentation contain forward-looking statements within the meaning of US federal securities law. These statements are based on our beliefs and assumptions, current expectations, estimates and forecasts. The company's future results are influenced by many factors beyond the control of the company, and actual results could differ materially from past results as well as those expressed or implied in any forward-looking statement made here. Please refer to today's press release as well as any other disclosures made by the company regarding the risk to which it is subject including our 10-K, 10-Q and 8-K reports.

During today's call, management will make reference to non-GAAP financial measures including organic sales growth, 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 now turn the call over to West's CEO and President, Eric Green.

---

## Eric Mark Green

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

Great. Thank you, Quintin, and good morning everyone, and thank you for joining us today. I would like to begin by saying that I'm incredibly proud of how our team members across the globe have remained steadfast in our commitment to supply the much needed components and solutions to our customers under tough circumstances.

Our Q2 performance emphasizes the continued resolve of our talented team members, the strength of our company and the criticality of the role West plays during these unprecedented times. We are in the business of helping our customers bring new medicines and treatments that improve the lives of patients which could be more meaningful than in times like today.

Driven by our mission, we experienced another solid quarter reinforced by the right market-led strategy to continuously deliver value for our customers and the patients we jointly serve.

Moving to slide 4, the pandemic remains our priority. Given the ever-changing situation, there's a huge sense of urgency in vaccine development. As the market leader, our teams are working tirelessly with our customers to ensure we supply the right components and solutions to help resolve this pandemic. The process for selecting the best, high-quality packaging components for use with injectable medicines including vaccines is a complex one driven by years of science which West has pioneered. We're helping our customers in the selection, testing and verification of components. We're doing this in a way that prepares our customers for the future commercial scale-up and launch of any successful vaccine candidates.

As we stated during our first quarter earnings call, we have seen a high adoption rate of our fluoropolymer-coated stoppers made by both West, and our partner, Daikyo. These are the industry standard for packaging sensitive molecules with an outstanding track record of quality and reliability. Notably, some of our customers have selected NovaPure as they have made this decision to use the best-in-industry component to ensure the highest degree of quality and safety.

As our customers' vaccine development rapidly moves into clinical trials, the entire West team has stepped up to make certain we can supply the demand for our high-value products as well as any immediate surge in requests for therapeutics. The organization is also preparing for the potential volume surges that could come, if and when, vaccines are approved for human use. All the work over the past few years across the enterprise to drive commercial and operational excellence, along with globalizing West manufacturing operations has put us in the best possible position to meet the future pandemic demand.

We are accelerating our capacity expansion to manufacture FluroTec and NovaPure components. These investments were in our five-year plan and we have brought them forward to address the expected increase in demand the latter part of this year and into 2021. From our perspective, it is still too early to estimate how much volume could be generated by vaccine packaging however whether it's hundreds of millions or billions of doses, our West team is prepared and ready when the time comes.

Turning to slide 5 and our performance in the second quarter, our financial position remains strong. I'm pleased to say that the growth trends we have experienced over the past several quarters have continued in the second quarter and the outlook for the balance of the year remains positive. We have 14% organic sales growth in the second quarter, driven again by robust, high-value product sales and with HVP sales growth we've experienced strong growth and operating profit margin expansion. This resulted in a strong adjusted EPS for the second quarter.

To be clear, the majority of the organic growth in the second quarter was from our base business with some incremental growth coming from COVID-19 sales related to therapeutics. As for guidance, we believe we are well-positioned for the second half of the year. That said, because of the strength and resiliency of our core underlying business and the incremental opportunities being presented to support our customers with COVID-19 solutions, we are raising our guidance for the remainder of the year.

Now, I'll turn it over to our CFO, Bernard Birkett, who will provide more detail on our second quarter financial performance and the outlook. Bernard?

---

### **Bernard J. Birkett**

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

Thank you, Eric, and good morning. I hope everyone continues to be healthy and safe during this time. So let's review the numbers in more detail. We'll first look at Q2 2020 revenues and profits where we saw strong sales and EPS growth, led by strong revenue performance primarily in our Biologics and Generics market units and Contract Manufacturing. I will take you through the margin growth we saw in the quarter as well as some balance sheet takeaways and finally we review guidance for 2020.

First up Q2, our financial results are summarized on slide 6 and the reconciliation of non-US GAAP measures are described in slides 13 to 17. We recorded net sales of \$527.2 million representing organic sales growth of 14.3%. COVID-related net revenues are estimated to have been approximately \$19 million in the quarter. These net revenues include our assessment of components associated with treatment and diagnosis of COVID-19 patient, offset by lower sales to customers affected by lower volumes due to the pandemic and stay-at-home restrictions such as dental, veterinary and elective procedures.

We continue to see improvements in gross profit. We recorded \$195.1 million in gross profit, \$37.2 million or 23.6% above Q2 of last year and our gross profit margin of 37% with a 340-basis point expansion from the same period last year.

We saw improvement in adjusted operating profit with \$106 million recorded this quarter, compared to \$81.9 million in the same period last year for a 29.4% increase. Our adjusted operating profit margin of 20.1% was a 270 basis points increase from the same period last year. Finally, adjusted diluted EPS grew 40% for Q2. Excluding stock tax benefit of \$0.09 in Q2, EPS grew by approximately 38%.

Moving to slide 7, our Proprietary product sales grew organically by 13.3% in the quarter, high-value products which made up more than 65% of Proprietary product sales in the quarter grew double-digits and had solid momentum across all market units throughout Q2.

Looking at the performance of the market units, the Biologics market unit delivered strong double-digit growth. We continue to work with many biotech and biopharma customers who are using West and Daikyo high-value product offering. The Generics market unit experienced double-digit growth led by FluroTec and film-coated products

sales. Our Pharma market unit saw low single-digit growth with sales led by high-value products and services including Westar and FluroTec components. And Contract Manufacturing had double-digit organic sales growth for the second quarter, led once again by sales of diagnostic and healthcare-related injection devices. So what's driving the growth in both revenue and profit?

On slide 8, we show the contributions to sales growth in the quarter. Volume and mix contributed \$59.4 million or 12.6 percentage points of growth, including approximately \$19 million of volume driven by COVID-19-related net demand. Sales price increases contributed \$7.8 million or 1.7 percentage points of growth and changes in foreign currency exchange rates reduced sales by \$9.6 million or a reduction of 2 percentage point.

Looking at margin performance, slide 9 shows our consolidated gross profit margin of 37% for Q2 2020, up from 33.6% in Q2 2019. Proprietary products second quarter gross profit margin of 42.8% was 330 basis points above the margin achieved in the second quarter of 2019. The key drivers for the continued improvement in Proprietary products gross profit margin were favorable mix of products sold, driven by high-value products, production efficiencies and sales price increases, partially offset by increased overhead costs.

Contract Manufacturing second quarter gross profit margin of 19% was 470 basis points above the margin achieved in the second quarter of 2019. The improvement is a result of improved efficiencies and plant utilization. There was approximately 180 to 200 basis points positive impact on margin, primarily due to a one-time engineering project work.

Our adjusted operating profit margin of 20.1% was a 270-basis point increase from the same period last year, largely attributable to our gross profit expansion. One point to note, we took a one-time charge of \$6.3 million for asset impairment. This is included in other operating expenses.

Now, let's look at our balance sheet and review how we've done in terms of generating more cash for the business. On slide 10, we have listed some key cash flow metrics. Operating cash flow was \$205.2 million for the year to-date 2020, an increase of \$52.5 million compared to the same period last year, a 34% increase. Our year-to-date capital spending was \$69.2 million, \$12.1 million higher than the same period last year and in-line with guidance.

Working capital of \$735.4 million at June 30, 2020 was \$18.3 million higher than at December 31, 2019, primarily due to an increase in inventory mainly as a result of increasing our safety stock levels and accounts receivable due to increased sales activity. Both DSO and DPO improved in the quarter.

Our cash balance at June 30 of \$445.9 million was \$6.8 billion more than our December 2019 balance, primarily due to our positive operating results. Our capital and financial resources including overall liquidity remained strong.

Turning to guidance, slide 11 provides a high-level summary. Full-year 2020 net sales guidance will be in a range of between \$2.035 billion and \$2.055 billion. This includes estimated net COVID incremental revenues of \$60 million. There is an estimated headwind of \$26 million based on current foreign exchange rates. We expect organic sales growth to be approximately 12.5%. This compares to prior guidance of \$1.95 billion to \$1.97 billion and growth of 8%.

We do expect growth in Contract Manufacturing to be less in H2 versus H1 as a result of tougher comps. We expect our full-year 2020 reported diluted EPS guidance to be in a range of \$4.15 to \$4.25 compared to prior guidance of \$3.52 to \$3.62.

As Eric discussed, we are expanding our HVP manufacturing capacity at our existing sites to meet anticipated 2021 COVID-19 vaccine demand. CapEx guidance is raised to \$170 million to \$180 million. This compares to previous guidance of \$130 million to \$140 million.

There are some key elements I want to bring your attention to as you review our guidance. Estimated FX headwinds on EPS has an impact of approximately \$0.07 based on current foreign currency exchange rates. The revised guidance also includes \$0.16 EPS impact from our H1 tax benefits from stock-based compensation.

So to summarize the key takeaways for the second quarter, strong top line growth in both Proprietary and Contract Manufacturing, gross profit margin improvement, growth in operating profit margin, growth in adjusted diluted EPS and growth in operating and free cash flow. Our long-term construct remains at approximately 6% to 8% organic sales growth and continued EPS expansion.

I now would like to turn the call back over to Eric.

---

### Eric Mark Green

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

Great. Thank you, Bernard. With our rich history of leading in times of great challenge, our customers expect this of us and this is what we're committed and prepared to do. I want to emphasize that across West, we are leveraging our global manufacturing capabilities, size and scale to innovate, lead and operate with a sense of urgency to make a positive impact in healthcare and society.

Our performance continue to reaffirm that our market-led strategy is delivering unique value propositions to our customers. Our global operations team is efficiently manufacturing and delivering products with market-leading service and quality and we're continuing to invest in our business with digital technology and automation across our operations, if you look an even brighter future. We remain committed to deliver value to all our stakeholders on a sustainable basis, as well as to maintain and build upon the values that make up our One West team. On behalf of the team members at West, we continue to wish you good health in the days ahead.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question comes from Juan Avendano with Bank of America. You may proceed with your question.

**Juan E. Avendano**

*Analyst, BofA Securities, Inc.*

Hi, good morning. Thank you and congratulations on the quarter and the growth on your planning the COVID response.

**Eric Mark Green**

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

Thank you, Juan.

**Juan E. Avendano**

*Analyst, BofA Securities, Inc.*

Yeah. My first question is what is the mix between FluroTec and NovaPure components that you are seeing being evaluated by the COVID vaccine players? And any thoughts on the most likely packaging format such a single-dose or multi-dose and how many doses in the multi-dose?

**Bernard J. Birkett**

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

Yeah, Juan. Look, let me take these two questions. One is in regards to FluorTec and NovaPure components, primarily most of the interest with the – and again we have a pretty healthy participation rate with the number of companies working on a vaccine solution. In the vaccine area, we're seeing more interest from FluorTec as the primary technology versus NovaPure.

Now, there are certain situations where NovaPure is a better solution and customers have elected to go in that direction. But majority I would say is in FluorTec.

In some of the therapeutics that we're working on; where they are already marketed or been labeled or expanded that's using the combination, mostly NovaPure and some FluorTec.

In regards to the second part, that's a tough question where we stand today as you think about how our customers are looking at vial configuration; whether it's one dose or multiple doses per vial, and it's a little bit uncertain at this point of time. But the way that we mapped out all these opportunities with our customers, each one is a little different; from the number of doses, the volumes that we're looking at would accommodate either one dose or multiple doses per volume. But at this point in time I think it's pretty difficult to pinpoint exactly number of doses per vial that our customers will be going with.

**Juan E. Avendano**

*Analyst, BofA Securities, Inc.*

Thank you. Appreciate the responses and the color there. And my second question is we've seen a number of public announcements from Coronin, silicon oxide or SiO<sub>2</sub> and ApiJect on the glass vial supply side for COVID-19. I would have expected to have seen something on Crystal Zenith from West. And so my short question is



what can you tell us about Crystal Zenith, how it compares competitively versus some of the other solutions out there that have gotten government grants for the COVID response and what sort of COVID opportunities are you seeing for Crystal Zenith?

---

**Bernard J. Birkett**

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

A

Yeah. It's – we look at it a little differently. I think when you think about the preferred solution in the market right now, it's still glass. And so I know that the companies that are manufacturing glass are working on making sure they have the appropriate volumes, but I can't speak to them specifically.

When you think about Crystal Zenith, it's already a proven technology in the marketplace with a number of critical drugs specifically around the biologics and the demand that we have for Crystal Zenith is increasing. In fact, we are in process of increasing capacity in our Scottsdale, Arizona facility to address the increase around our 1 milliliter Insert Needle technology.

We do see certain customers that require the Crystal Zenith technology in the areas of vaccine exploring that option. But I would say, at this point, we have not gone out and sought government grants, frankly. I think our company as the market-leader, we were leading from the front and we work with number of customers around the CZ technology. But I would say right now what it looks like is that the preferred solution on the immediate phase would be around glass.

---

**Juan E. Avendano**

*Analyst, BofA Securities, Inc.*

Q

Okay. Got it. I'll leave it there. Thank you and congrats once again.

---

**Bernard J. Birkett**

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

A

Thank you, Juan.

---

**Operator:** Thank you. Our next question comes from John Kreger with William Blair. You may proceed with your question.

---

**John Kreger**

*Analyst, William Blair & Co. LLC*

Q

Thanks very much. Can you talk a bit more about your CapEx expansion plans? Are you – can we assume you're running sort of at full tilt at this point or do you have the ability to flex your output with your current configuration and when can we expect the new capacity to come online that you talked about with the higher CapEx budget? Thanks.

---

**Eric Mark Green**

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

A

Yeah. John, what we have done is we decided to bring forward capital in regards to specifically equipment that will be placed strategically in three of our center of excellence sites of high-value products. We had this equipment earmarked for latter years based on trajectory of our current business and our current portfolio. But due to our discussions with customers, we are preparing to make sure that we will be able to address this surge that we'll see specifically around FluroTec Stoppers in the marketplace.



Now in regards to the timing, we're looking at towards the end of this year of having the capacity installed and validated and we will be able to start the expansion of volume at that point of time.

Bernard, do you want to talk a little bit more of the [indiscernible] (00:24:06)?

**Bernard J. Birkett**

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

A

Yeah. On the timing, John, some of the capacity will be in at the end of this year and it's particularly related to FluroTec products and then we will be layering in incremental capacity early on in 2021. And so all of the commitments that we have needed to put in place are actually in place with our equipment suppliers at the moment so we'll have a phased introduction of that equipment so it won't have any – it won't disrupt our business in any way. All of the equipment that we're ordering is replicating equipment that we already have in place at West so we're really set up well to make sure that we can onboard that equipment quickly and meet customer demand.

**John Kreger**

*Analyst, William Blair & Co. LLC*

Q

Excellent. Just a follow-up to that. What sort of capacity boost will that give you for FluroTec, if you're willing to say?

**Eric Mark Green**

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

A

Yeah. We haven't revealed exactly the amount but it's significant in the areas around FluroTec specifically.

**Bernard J. Birkett**

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

A

Yeah. So based on all of the discussions we've had with customers and analyzing a number of different models, we believe that we will have sufficient equipment in place to meet any customer demand when it comes.

**John Kreger**

*Analyst, William Blair & Co. LLC*

Q

Excellent. Thanks very much. I guess one last one. Anything you can add on the sustainability of the pick-up in growth in Contract Manufacturing?

**Eric Mark Green**

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

A

Yeah. What's happening with Contract Manufacturing really is around the diagnostics area and also injectables – auto-injectors and what we're finding is a lot of this is installed capacity that we've been ramping up for the last couple of years. We do see that the growth rate of high single-digits to low double-digits is more in-line with what we expect of Contract Manufacturing and it has been running a little bit stronger over the last several quarters.

But on the other side, we continue to have discussions about future installed capacity of similar products. So we see that second half of this year a little bit softer than the first half from a Contract Manufacturing perspective.

**Bernard J. Birkett**

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

A

Look, that's purely a comp issue [ph] among on the (00:26:27) growth rates. From a dollar perspective, we don't see any softening in Contract Manufacturing. You can actually – excuse me, see the revenue itself growing – excuse me, but it will grow at slower rates purely because of the comps that we're facing in the back half of the year.

And you can see the positive impact that's having John on margins where we were able to report 19%. Now, there were some one-time gains in there regarding certain engineering work that we were doing which we would not expect to repeat in the second half of the year but we forecast to see a strong quarter-over-quarter growth when we compared it to last year on the margin front. And this is something that we've been talking about for a while as we continue to improve the efficiencies and the utilizations within the Contract Manufacturing network and taking a lot of the learnings that we've had in Proprietary over the last number of years and really starting to implement those within Contract Manufacturing. And so I would continue to see – expect to see margin expansion not to the levels of 19%.

---

**John Kreger**

*Analyst, William Blair & Co. LLC*

Great. Thanks much.

---

**Operator:** Thank you. Our next question comes from Dave Windley with Jefferies. You may proceed with your question.

---

**David Howard Windley**

*Analyst, Jefferies LLC*

Hi. Thanks. Good morning. Congrats on the nice acceleration. I wanted to ask a couple of questions around your COVID vaccine comments. We are hearing from some other vendors that are involved in the development, whether it be in clinical trial space or maybe contract manufacturing space about the government's involvement in the overall funding or various governments I guess I should say in the overall funding of these development activities and discounting as a result. And I guess I want to – you're clearly calling out FluroTec and NovaPure and you have for a little bit. Are you getting or expecting to get full price on those volumes when they ultimately scale up and go commercial hopefully?

---

**Bernard J. Birkett**

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

Yeah. Dave, our agreements with our customers are based on historic and also current price points. So we are looking to obtain what we traditionally have received for those products. I realize that there's some funding going into certain manufacturing and R&D side, but we're not seeing the money really going into the percentage of the COGS or the money going into the COGS of the supply base. So it's low.

If you think about our product kind of on a configuration, it could be anywhere between \$0.15 to \$0.35. If it's one dose or five dose, you can see how from a per-dose perspective it's not a significant percentage of the COGS. So I think we're well-positioned and the expectations will continue with our policies around how we price according to the value we create to support our customers.

---

**David Howard Windley**

*Analyst, Jefferies LLC*

So on the – you anticipated where I might go next. Quintin may have tipped you off. I guess the curiosity that I have is that the – that historical argument has been one that you've made. I've certainly made that that the cost of

these components as a percentage of in, most cases, a very high priced. Maybe even four-figure per dose type price on a biologic is a very, very small percentage.

When we're talking about a price per dose at – with some of these companies are promising at like \$10 or if it's a four or five dose per vial, it's – maybe it's \$40 or \$50 of value is a very different equation than a \$1,000 dose biologic. How is it that the interest level or the sensitivity to that price is – as low as it is or appears to be as low as it is.

And I guess to spin the question the other way if customers are able to get over that so easily in this environment, is that a signal that the adoption rate outside of COVID for high-value products should significantly accelerate because the price sensitivity is really as low as it is?

---

**Bernard J. Birkett**

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

A

I can take the first part of the question and maybe Eric might want to cover the second part of the question, Dave. So – just so we're clear, we have – we're not getting support from any governments. West is investing an extra \$40 million essentially this year in CapEx and even some into 2020. We've obviously – we're funding that ourselves and when you look at – you're comparing the cost of our product to the selling – the end selling products. What they are saying it is the cost of our product is a percentage of their COGS. So their COGS doesn't change no matter what they sell the product as, the COGS – the cost of producing is still the same, and we're still a relatively low part of that. And then if you work out the price per dose, potentially there could be 5, 10, 20 doses in a vial. Well, we sell one stock or per vial so you got to divide back the cost...

---

**David Howard Windley**

*Analyst, Jefferies LLC*

Q

Sure.

---

**Bernard J. Birkett**

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

A

... for the stock by the number of doses, so it becomes a really small part of the COGS. Regarding pricing, we haven't gone and tried to jack up prices in this whole process. We're maintaining the pricing essentially that we've had in place on many of these products. Now, pricing changes [indiscernible] (00:32:28) regarding configuration but I think that's the way to look at it rather than saying as a percentage of their price. Is that helpful for you? And then the number of doses per vial and...

---

**Eric Mark Green**

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

A

And Dave when you think about our customers have been and will – they have been using our – they're using FluroTec or they're using NovaPure are very comfortable with it because they have used our components on other molecules they have in the marketplace for other purposes, especially around biologics. And so there's a comfort when you think about how they can go to the market fast. When you think about regulatory, you think about safety, you think about quality and scale. And we have the scale. We can manufacture the volumes that we're speaking of in a very, very short period of time. So I think Dave that's where it gives the customers confidence and comfort to continue to go after that part of our portfolio versus using this basic standard product. And – so I'll stop there, but that's the reason why we're seeing the demand in that area.

**David Howard Windley***Analyst, Jefferies LLC*

Q

Okay. And maybe a last question in the news at least, I'm sure by numbers and perhaps the ones that don't get as much interest or press, the smaller companies are numerous. Some of the highest profile of these players chasing the vaccine and the ones in [indiscernible] (00:34:00) for example, I would think would be classified in your Pharma segment. Can you speak to differences in growth rate that you're seeing, is that something perhaps as simple as timing as to where those inquiries and adoption rates and sampling demand might come from in regard to, again like to just to name a couple of the AstraZeneca's and J&J's of the world that are in this vaccine chase?

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

A

Yeah. Dave when you think about whether it's small or large because of the nature of the molecule, we classify that as biologic.

**David Howard Windley***Analyst, Jefferies LLC*

Q

Okay. Okay.

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

A

So the [indiscernible] (00:34:41). Yes. So when we talk about vaccines, we're all-encompassing. I wouldn't try to split out the vaccine opportunities between the three units from our performance perspective.

**David Howard Windley***Analyst, Jefferies LLC*

Q

Got it. Okay. All right. Very good. Thank you.

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

A

Good. Thank you, Dave.

**Operator:** Thank you. Your next question comes from Larry Solow with CJS Securities. You may proceed with your question.

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

Q

Great. Thanks. Good morning, guys. Just a couple of quick follow-ups.

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

A

Good morning, Larry.

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

Q

Good morning. A couple of follow-ups. Eric, you mentioned that the \$0.15 to \$0.35 per vial, would that be just for FluroTec or what is that sort of range discussing and you mentioned some customers have chosen NovaPure which I get encompasses sort of all the HVPs. Is there any buyer just choosing FluroTec and maybe would Westar also potentially get into that equation?

**Bernard J. Birkett**

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

Yeah. Larry, it does vary. It wasn't the final configuration and all this additional services we provide. That number that was referenced is more around the FluroTec portfolio versus NovaPure. NovaPure is higher.

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Right. Okay. And the \$19 million you guys referred to in the quarter, \$19 million in the quarter and the \$60 million for COVID-related revenue, is that the full-year number?

**Bernard J. Birkett**

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

Yeah. That's the full-year anticipated number, Larry.

[indiscernible] (00:36:11 -00:36:16)

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Okay.

**Bernard J. Birkett**

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

Yeah. That's the full-year number about \$60 million that we see right now.

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Got it. And I imagine some – you've mentioned a little bit on the therapeutic side for [ph] remdesivir (00:36:30) I guess, and then the vaccines. I guess obviously it's just verification components and testing and whatnot and then inevitably if something is commercialized and scaled then you would – obviously numbers would grow a lot more, is that how we look at that?

**Bernard J. Birkett**

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

Yeah. Larry, the way I look at it, yeah, I think you're right. It's the way we break it out and the way we're looking at. We don't give out the numbers but we're segmented, so we understand what's around hospital enablement. So this like the IV and blood tubes when you think about supporting therapies, particularly in the ICU and then therapeutic treatments which we have a very high participation rate because of our biologics position. Those are really the key areas when you think about more near-term.

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Right.

**Bernard J. Birkett**

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

And you say – as we think about vaccines as we work with our customers, obviously there is some element of providing product for trials, but that is obviously low volume. And therefore we don't – we can't and it's very difficult to predict when and how much and by whom. So we're holding it – we're holding off at that at this point. But as we said in our capital investment is that we are going ahead to ensure that we have the capacity on-hand by the end of this year, so we can handle the surge, if it is as early as early-2021 or late-2020.

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Got it. And then the margins in the quarter sort of really demonstrate the power of the operating model with 37% and 20% operating. Was there anything unusual? I know you called out a couple of hundred bps on the Contract Manufacturing side. Was there anything else unusual in the quarter that could have benefited those margins?

**Bernard J. Birkett**

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

No. Other than the piece in Contract Manufacturing that I called Larry, all of the COVID-related costs have been recorded in COGS.

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Right.

**Bernard J. Birkett**

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

They're all included in that margin number.

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Right.

**Bernard J. Birkett**

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

So, it's pretty clean other than the – that CMPs and I think the Contract Manufacturing piece, I guess that's about it. And then within operating margin, you called out impairments of certain assets and that's a one-time.

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Right. But you took that out on the adjusted number, right, or is that in the adjusted number too, the write-off?

**Bernard J. Birkett**

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

Sorry, I...

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Is the write-off in your adjusted number or you adjusted out the...

Q

**Bernard J. Birkett**

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

In the adjusted number. It's in there.

A

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Oh! It is in there. Okay.

Q

**Bernard J. Birkett**

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

We didn't [ph] back it (00:39:12) out.

A

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Okay. And then you mentioned some – the increased overhead which impacted your margins a little bit, was that – is that in reference to FluroTec and NovaPure or that capacity that hasn't come online yet? It's something else I guess, right?

Q

**Bernard J. Birkett**

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

Well, yeah. Well, there is cost around PPE. There is incremental cost, supporting a lot of the workforce at our plants. We've gone to split shifts so and we're obviously paying shift premiums to keep the plants up and running so – and then also there was some incremental freight costs.

A

**Larry S. Solow**

*Analyst, CJS Securities, Inc.*

Right. Okay, great. All right. Thank you very much. Appreciate it.

Q

**Eric Mark Green**

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

Thank you, Larry.

A

**Bernard J. Birkett**

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

Thanks, Larry.

A

**Operator:** Thank you. And I'm not showing any further questions at this time. I would now like to turn the call back over to Quintin Lai for any further remarks.



## Quintin John Lai

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

Thank you, Josh, and thank you everyone for joining us on today's conference call. An online archive of the broadcast will be available on our website at [westpharma.com](http://westpharma.com) in the Investors section. Additionally, you may access the replay through Thursday, July 30 by using the dial-in numbers and conference ID provided at the end of today's earnings release. That concludes this call. Have a nice day.

**Operator:** Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.

### Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.