08 Jan 2025 05:00:00 ET | 39 pages

West Pharmaceutical Services Inc (WST.N)

Compelling Setup Given Recovery Stage in Secular Growth Market; Initiate Buy

Deep Dive

CITI'S TAKE

We initiate on West Pharmaceutical Services with a Buy rating and a $400 PT. WST is a provider of packaging & injectable solutions and services for the pharmaceutical industry. The company is a well-entrenched player in the space for premium enhancements and devices, which the company labels as High Value Products (HVPs). We see significant growth opportunities for HVPs driven by a shift to biologics (spurred by COVID/mRNA vaccines), a stricter regulatory environment (Annex 1), and GLP-1s. Additionally, we see significant runway from ongoing capacity expansions specifically geared towards higher-margin products and believe the NT margin headwinds from these expansions are understood. WST is currently trading at ~29x FY2 EV/EBITDA, a premium to industry/coverage, but we believe this premium is warranted given their ability to capitalize on industry tailwinds and in-progress profitability improvements.

Growth / Margins — The company's LRP calls for +7-9% organic growth expected to drive 100bps of annual OPM expansion. Similar to companies in our coverage, growth rates fluctuated well above and below this outlook both during/post the pandemic years. We expect 2025 to be the final year of below-LRP growth, driven by lingering impacts of industry-wide destocking headwinds (these are in the final innings for WST, in our view). GMs hover around ~mid-high-30% with OPMs in the low-mid-20s%. The margin expansion opportunity is primarily driven by the conversion to the HVP product portfolio, which carries ~40-70% margins versus the standard product line of ~20-30%. Additional leverage may come from increased utilization as new lines become operational as well as other cost-out actions.

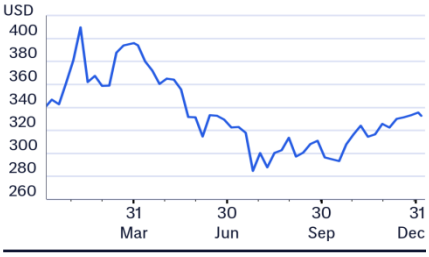
Valuation — We acknowledge that the stock trades at a premium to both the packaging peer group as well as Tools, but we see this as warranted given the long tail from recent capacity expansions, easing headwinds on the destocking front, and its attractive ROIC profile. We believe that margins should inflect significantly higher in the coming years given WST's products are already sold at a premium price vs. packaging and Tools peers (with existing capacity), in an industry where pricing is not necessarily top of mind (vs. quality to ensure regulatory approval). We apply 32.3x EV/EBITDA multiple to our Q5-Q8 EBITDA estimate of $899mn to get a $400 PT.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2023A	1.98A	2.11A	2.16A	1.81A	8.06A	8.08A
2024E	**1.56A**	**1.52A**	**1.85A**	**1.71E**	**6.63E**	**6.60E**
Previous	na	na	na	na	na	na
2025E	**1.67E**	**1.83E**	**1.94E**	**2.09E**	**7.53E**	**7.50E**
Previous	na	na	na	na	na	na
2026E	**2.01E**	**2.19E**	**2.23E**	**2.32E**	**8.75E**	**8.79E**
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Buy	
Price (07 Jan 25 16:00)	US$332.85
Target price	US$400.00
Expected share price return	20.2%
Expected dividend yield	0.2%
Expected total return	20.4%
Market Cap	US$24,106M

Price Performance
(RIC: WST.N, BB: WST US)



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WST.N: Fiscal year end 31-Dec

Price: US$332.85; TP: US$400.00; Market Cap: US$24,106m; Recomm: Buy

Profit & Loss (US$m)	2022	2023	2024E	2025E	2026E
Sales revenue	2,887	2,950	2,881	3,060	3,311
Cost of sales	-1,751	-1,821	-1,899	-1,961	-2,068
Gross profit	1,136	1,129	982	1,099	1,243
Gross Margin (%)	39.4	38.3	34.1	35.9	37.5
EBITDA (Adj)	**855**	**813**	**669**	**774**	**882**
EBITDA Margin (Adj) (%)	29.6	27.6	23.2	25.3	26.6
Depreciation	-115	-134	-102	-102	-102
Amortisation	-5	-4	-2	-3	-2
EBIT (Adj)	**762**	**691**	**562**	**663**	**772**
EBIT Margin (Adj) (%)	26.4	23.4	19.5	21.7	23.3
Net interest	-3	19	15	11	8
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	-79	-12	1	6	6
Pre-tax profit	**680**	**698**	**578**	**680**	**786**
Tax	-115	-122	-105	-122	-145
Extraord./Min.Int./Pref.div.	21	18	13	0	0
Reported net profit	**586**	**593**	**486**	**558**	**641**
Net Margin (%)	20.3	20.1	16.9	18.2	19.4
Core NPAT	650	609	489	553	636

Per share data	2022	2023	2024E	2025E	2026E
Reported EPS ($)	7.73	7.86	6.58	7.60	8.82
Core EPS ($)	8.58	8.06	6.63	7.53	8.75
DPS ($)	0.71	0.75	0.79	0.80	0.81
CFPS ($)	9.55	10.28	5.89	10.52	12.37
FCFPS ($)	5.80	5.49	0.78	6.77	9.18
BVPS ($)	36.09	38.71	9.80	11.17	13.28
Wtd avg ord shares (m)	75.8	75.5	73.8	73.5	72.6
Wtd avg diluted shares (m)	75.8	75.5	73.8	73.5	72.6

Growth rates	2022	2023	2024E	2025E	2026E
Sales revenue (%)	2.0	2.2	-2.3	6.2	8.2
EBIT (Adj) (%)	-0.1	-9.4	-18.6	18.0	16.4
Core NPAT (%)	-0.8	-6.3	-19.6	13.0	15.0
Core EPS (%)	-0.2	-6.0	-17.7	13.5	16.3

Balance Sheet (US$m)	2022	2023	2024E	2025E	2026E
Cash & cash equiv.	894	854	554	754	1,149
Accounts receivables	507	512	503	553	622
Inventory	415	435	426	447	484
Net fixed & other tangibles	1,262	1,460	1,740	1,875	1,958
Goodwill & intangibles	230	223	229	231	229
Financial & other assets	308	346	338	348	359
Total assets	**3,617**	**3,830**	**3,790**	**4,208**	**4,800**
Accounts payable	215	242	84	88	96
Short-term debt	2	134	0	0	0
Long-term debt	207	73	332	332	332
Provisions & other liab	508	499	501	505	512
Total liabilities	**932**	**949**	**917**	**926**	**940**
Shareholders' equity	2,685	2,881	2,873	3,282	3,860
Minority interests	0	0	0	0	0
Total equity	**2,685**	**2,881**	**2,873**	**3,282**	**3,860**
Net debt (Adj)	**-685**	**-647**	**-222**	**-421**	**-817**
Net debt to equity (Adj) (%)	-25.5	-22.5	-7.7	-12.8	-21.2

Valuation ratios	2022	2023	2024E	2025E	2026E
PE (x)	38.8	41.3	50.2	44.2	38.0
PB (x)	9.2	8.6	34.0	29.8	25.1
EV/EBITDA (x)	27.3	28.6	35.1	30.5	26.4
FCF yield (%)	1.7	1.6	0.2	2.0	2.8
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2
Payout ratio (%)	8	9	12	11	9
ROE (%)	23.3	21.3	16.9	18.1	17.9

Cashflow (US$m)	2022	2023	2024E	2025E	2026E
EBITDA	855	813	669	774	882
Working capital	-12	-20	-154	80	120
Other	-119	-16	-80	-82	-104
Operating cashflow	**724**	**777**	**435**	**773**	**899**
Capex	-285	-362	-377	-275	-232
Net acq/disposals	0	0	0	0	0
Other	-4	-7	-2	0	0
Investing cashflow	**-288**	**-369**	**-379**	**-275**	**-232**
Dividends paid	-54	-57	-58	-59	-59
Financing cashflow	**-294**	**-460**	**-410**	**-281**	**-281**
Net change in cash	**132**	**-40**	**-353**	**217**	**386**
Free cashflow to s/holders	**439**	**415**	**57**	**497**	**667**

For definitions of the items in this table, please click here.

Company Background

West is a provider of packaging & injectable solutions and services primarily for the pharmaceutical industry. Today, the company employs ~10,000 people across 50 sites globally. West was founded in 1923 by Herman West, and initially provided rubber components and packaging for some of the earliest injectable drugs including penicillin and insulin. During WWII, WST partnered with Eli Lilly (LLY, covered by Geoff Meacham) to supply penicillin in mass quantities; since then, WST has touted its relationship with LLY as an important one as we know today via GLPs. Through the 1950s and 60s, WST adopted new machinery and manufacturing techniques that led to increased efficiency and product innovation. In 1965, Herman West's son William was elected CEO, and in 1970 the company went public. The IPO allowed WST to expand to South America (Argentina, Brazil, Colombia), Europe (Spain, England, and Italy), and APAC (Australia and India), while also delving more into the plastics business including in the consumer realm. Throughout the rest of the 20th century, demand ebbed and flowed, but sales started to inflect at the turn of the century and in the coming decade, as sales grew from $376mn in 2001 to $1.25bn at the end of 2012. The company made two acquisitions in 2005 (The Tech Group and Medimop), the latter of which was key into its expansion into devices. In 2020, the company helped supply COVID vaccine vials and syringes, and is now on the forefront of injectable drugs as well GLP-1s, where the company supplies auto injectors, pens, cartridges, and pre-filled syringes. West is led by CEO Eric Green, who joined from Sigma Aldrich in 2015, with a market cap of ~$24bn.

For 2025, consensus revenues are ~$3bn (+6% Y/Y), with GMs ~36% (~190bps Y/Y). Consensus adj. EBITDA is $832mn (+16% Y/Y following a step down in 2024), resulting in ~27.2% EBITDA margins, and OPMs are around ~21.7% (+220bps Y/Y). Consensus EPS is ~$7.52, representing ~LDD% Y/Y growth. The company's LRP is +7-9% organic growth, +100bps of OPM expansion and +DD EPS growth, though management has signaled that 2025 will be a below LRP year from a growth perspective as destocking tapers out (similar to the rest of the industry). Margin expansion should be above LRP given lower comps from destocking in 2024.

Key Growth Drivers

We see multiple growth opportunities for the company with attractive markets and regulatory guidelines including Biologics, GLP-1s and Annex-1 in Europe. Citi's Equity Strategy team is now overweight Healthcare (slide 70) for this year after being underweight for much of 2024. We view WST in particular as more defensive vs. some of the other Tools companies in our coverage given less exposure to healthcare discretionary spend (academic / lab budgets) and to China (LSD% revs WST vs. ~10% for Life Science Tools).

Biologics – The growing complexity of biologic drugs including antibody and protein-based therapies and C&GT should fuel the shift towards WST's HVP offering. Biologics is the fastest-growing end market for Tools companies and Citi estimates (from IQVIA) show that Biologics demand is growing +DD. Overall, these products – from an efficacy, safety and important regulatory perspective – require sterilized parts / containers for both packaging and for injection, which WST's HVP offering provides.

GLP-1s – WST is participating in the GLP-1 boom in both segments. First, in Proprietary Products, WST manufactures components for pre-filled syringes and cartridges. These components include NovaChoice & Westar plungers for auto

injectors and pens, as well as seals. Together, this is around MSD% of Proprietary Products business (~$100-150mn in revenues). In the Contract Manufacturing group (not included in that ~$100-150mn estimate), the company manufactures single-use auto injectors (which PFS go into) as well as pens that can be used multiple times. The company is also expanding into drug handling as it relates to these auto injectors, specifically in its Dublin facility. During this process, WST's customers will fill and finish the drug at their own facility, then send to WST to put in the packaging. Given robust global adoption, label expansion, along with the number of clinical trials in the pipeline for injectable GLP-1s, we believe GLP-1s should be a LT tailwind for the company.

Annex 1 and the Move to Sterile Injectable Filling Lines – Annex 1 is a set of European pharmaceutical laws issued (most recently refreshed in 2023) by the European Medicines Agency (EMA) that regulates the production and quality control of sterile injectable drugs. This new set of regulations is catalyzing a shift towards WST's HVP product suite, as these products ensure that customers comply with regulatory requirements. Companies producing sterile injectables in Europe, or those who wish to sell such products into the European market, must comply with Annex 1. A recent revision of Annex 1 effective from August 2023 focused largely on the design of, and risk processes associated with, sterile injectable filling lines directly impacting WST / STVN in our coverage. While WST has talked about ~200 projects in process related to Annex 1, we believe it will lead to a significant mix shift beyond just biologics where impacts from the current regulations are catalyzing the switch to HVP, but also in pharma and generics as well. While the regulation itself has been designated for drugs manufactured in Europe, we believe the FDA will routinely let US companies manufacturing drugs in the US know that their standards might not comply with Annex 1, though companies in the US are not required to abide by these standards vs. their European counterparts.

Annex 1 has spurred more regulatory scrutiny from governments and NGOs when it comes filling lines for Biologics. Sterile injectable filling lines come in three designs: 1) open filling lines, where lines are contained in a clean room and the operator is free to interact with the line; 2) restricted access barrier systems (RABS), where a sheet of glass/plexiglass barrier limits operator interaction with the filling lines; or 3) isolated lines, where the line is in a hermetically sealed environment and cannot be accessed by the operator. According to the most recent Annex 1 revisions, the use of open line systems is now prohibited in favor of RABS or isolated lines, with isolated lines being viewed as the gold standard for sterile injectable fill/finish per our checks. This revision came after a period of communication and review with the pharmaceutical industry, and as such, should not have come as a surprise. Experts we have spoked with have noted that the implementation of Annex 1 has driven global filling line upgrades and replacements over the past 12-24 months: estimating that today, very few "open line" systems remain, and that most companies have or are well through the process upgrading their facilities to comply with RABS or isolated lines.

The EMA has begun strictly enforcing this regulation or taking away the license of some that have still not complied following the grace period (which was over a year). However, some healthcare regulatory authorities have been more lenient; where some pharma manufacturers were able to show purchase orders of the equipment upgrade required for compliance, and therefore were not shut down. Companies selling drugs into the US that are not manufactured using Annex 1 standards have

been cautioned by the FDA (which has been encouraging the transition), but they are not required to abide by law. Additionally, international organizations including UNICEF and Doctors without Borders have mandated that pharma companies from whom they are purchasing drugs from are compliant with Annex-1.

Addressable Market

Figure 1. West's Segment and End Market Overview

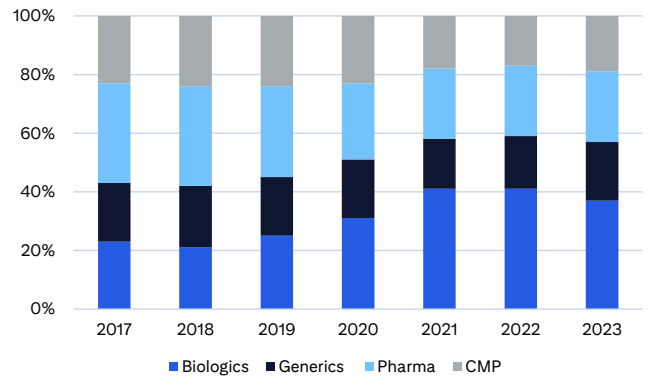
Business Segment	Proprietary Products (81% of 2023 Sales)			Contract Manufacturing (19% of 2023 Sales)
Product Category	High-Value Components	High-Value Delivery Devices	Standard Packaging	-
Citi Est. Market Growth	+HSD CAGR	+HSD-LDD CAGR	+MSD CAGR	+MSD CAGR
% of WST Revenue (FY23)	50%	10%	21%	19%

End Market Estimates				
End Market Estimates	Biologics	Generics	Pharma	Contract Manufactured Products
Citi Est. Market Growth	+HSD-DD	+MSD-HSD	+LSD-MSD	+MSD
% of WST Revenue (FY23)	37%	20%	24%	19%

Source: Citi Research, Company Reports

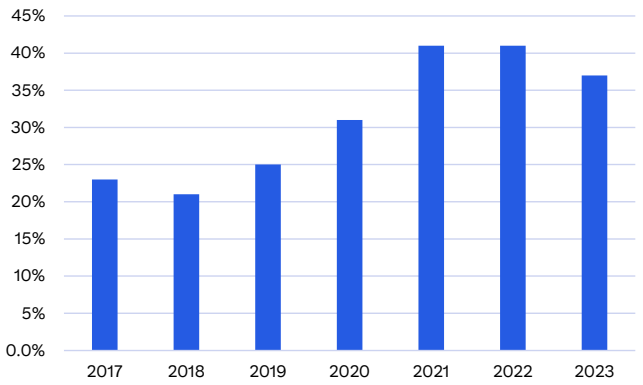
We estimate WST's TAM is $13bn growing +HSD. Biologics (~37% of FY23's $2.95bn revenue) is growing ~HSD-DD %. Biologics customers are developing treatments that use antibodies & proteins, mRNA vaccines, and cell and gene therapies. Over the past decade, more complex molecules and in turn enhanced regulatory scrutiny for biologics / injectables combinations have spurred demand for HVPs including Novabrand. Generics (20% of revenues) is growing +MSD-HSD%, Pharma (~24% of revenues) is growing +LSD-MSD driven in part by GLP-1s, and Contract Manufactured Products (19% of sales) is growing +MSD. Pre-COVID, Pharma was the biggest end market at ~34% of revenues from 2017-19. The significant shift to Biologics began in 2020 given the onset of the pandemic and demand for mRNA vaccines. This end market represented 31% of revenues (vs. 25% in 2019) and subsequently 41% of revenues in 2021 and 2022. This shift has remained in place (though COVID has largely come out of the model) with Biologics representing 37% of revenues and Pharma ~24%. Overall, management estimates that WST has ~70% market share in its current product suite, with Biologics ~90% or better.

Figure 2. End Market Mix



Source: Citi Research, Company Reports

Figure 3. Biologics as a % of Revenues



Source: Citi Research, Company Reports

Geographic Exposure

West has generated most of its revenue in North America, led by the United States comprising ~42% of net sales in FY23 (total Americas represents ~45% of sales). Outside of the Americas, Europe, Middle East, and Africa comprise ~46% of sales and Asia Pacific comprises ~9% of sales. Based on commentary from recent conferences and events, management discussed China, Asia, and Latin America representing less than 10% of revenue. We think it is fair to assume China is ~LSD% of revenues, which compares favorably vs. Tools given slowing growth in the country. Below we break out the geographical split of West, Schott (covered by Giang Nguyen), Stevanato, and Gerresheimer. One key factor to call out is West's over-exposure to North America (US) relative to its peers. We would expect their position in the US market to be a positive in the years ahead given the market opportunity and expected level of growth. Given the other competitors are based in Europe, it is appropriate for them to have a higher exposure to that region. APAC, with a particular focus on China, does not make up a significant piece of each company's revenue, which we believe investors will favor given the uncertainties regarding future tariffs and the country's general economic fallout.

Figure 4. Geographic Exposure

West	Americas	45%
	EMEA	46%
	APAC	9%
Schott	NAM	21%
	SAM	5%
	Europe	49%
	Middle East and Africa	1%
	APAC	24%
Stevanato	NAM	29%
	SAM	3%
	EMEA	58%
	APAC	10%
Gerresheimer	NAM	12%
	Europe	72%
	Emerging Markets (Brazil, India, China, and Mexico)	15%
	Other regions	0.1%

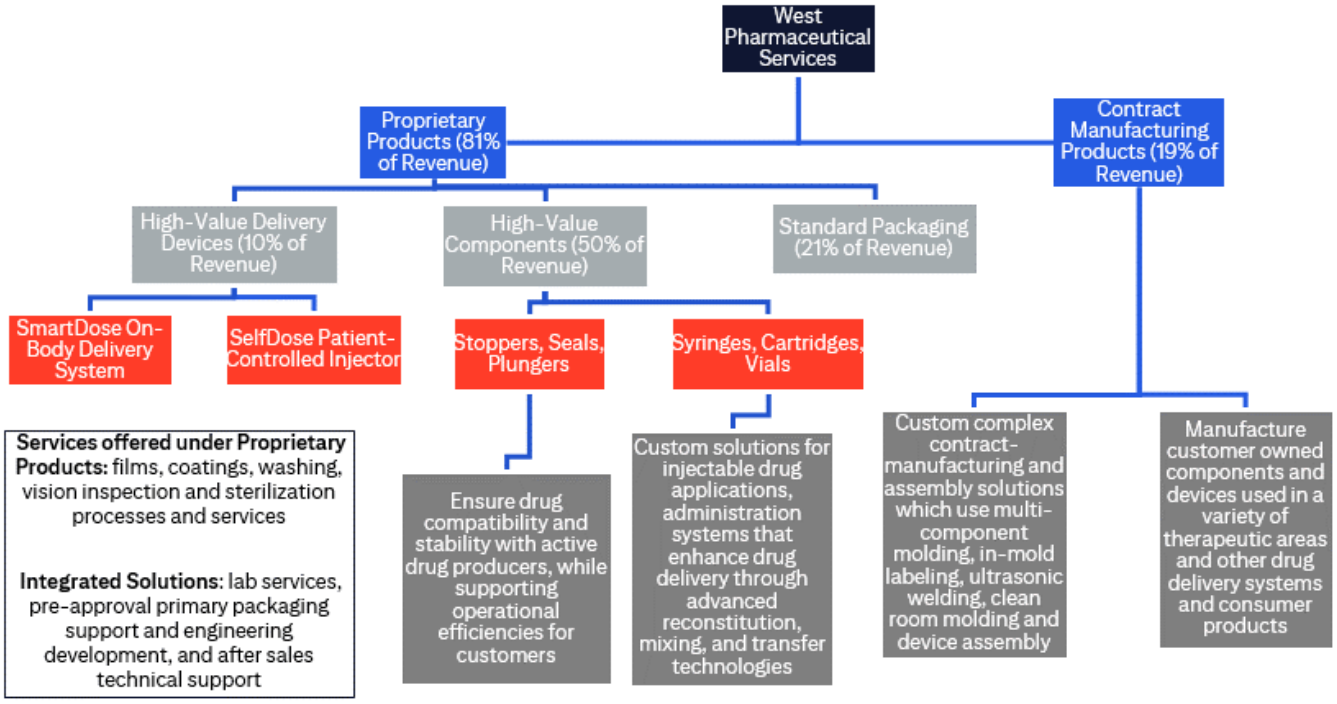
Source: Citi Research, Company Reports

West Products and Segments

WST has two main product segments: 1) Proprietary Products; and 2) Contract Manufacturing. **Proprietary Products** represented ~81% of FY23 sales and is comprised of three subsegments: *High Value Components (50%), High-Value Deliver Devices (10%)*, and *Standard Packaging (21%)*, with the former two collectively known as "High Value Products" or HVPs. As of 3Q24, Proprietary Products had ~39.2% GMs (+220bps sequentially). Contract Manufacturing

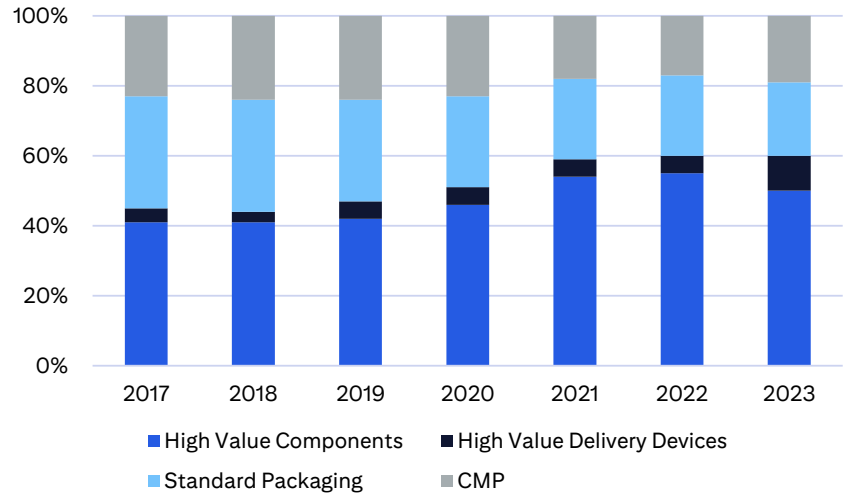
comprised of ~19% FY23 sales and had ~19.9% GMs (+370bps sequentially). Across both segments, the company provides service offering with visual inspection, washing and sterilization, along with after-sales technical support. We delve deeper into these segments on the next page.

Figure 5. West Product and Services Overview



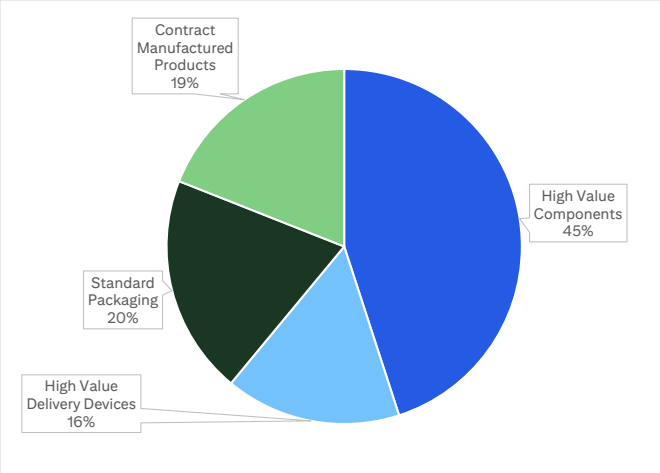
Source: Company Reports

Figure 6. Product Mix



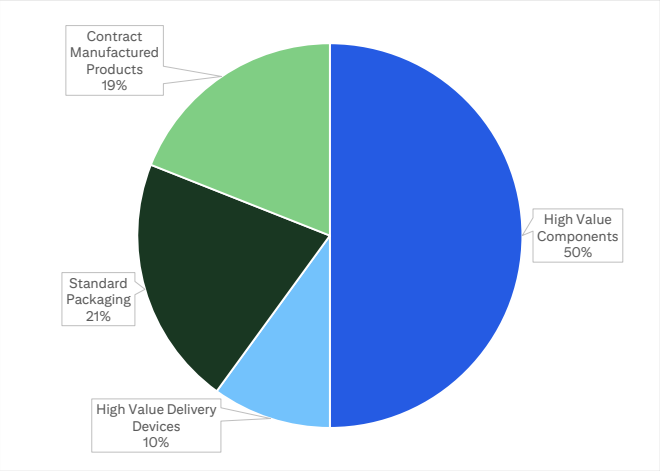
Source: Citi Research, Company Reports

Figure 7. 3Q24 Revenues by Product



Source: Citi Research, Company Reports

Figure 8. FY23 Revenues by Product

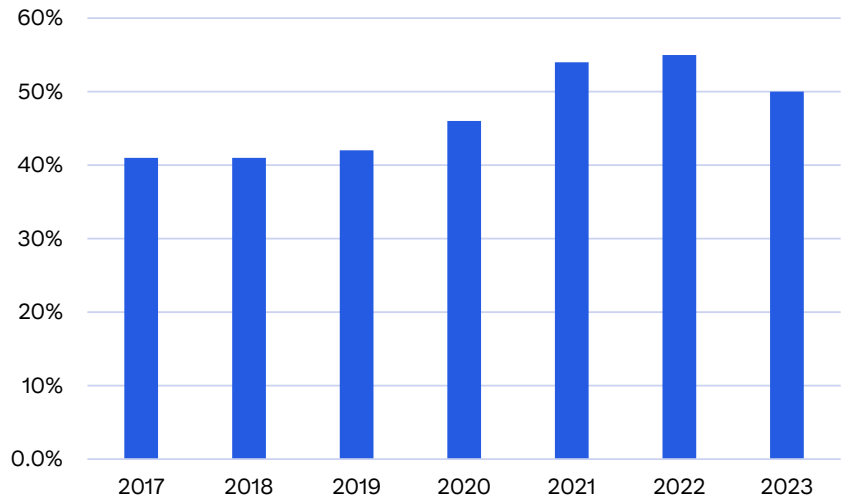


Source: Citi Research, Company Reports

Proprietary Products - High Value Components

High Value Components comprised of ~50% of FY23 revenues and 45% of 3Q24 revenues. High-Value Components and Standard Packaging have the same product offerings, but High-Value Components have added services such as films, coatings, washing, vision inspection, and sterilization. The products under both categories include stoppers and seals for injectable packaging systems, syringes and cartridge components for injectable drugs (administration systems that enhance reconstitution, mixing, and transfer technologies), as well as vials. Worth noting that certain vials and syringes are tied to the Daikyo partnership and their CrystalZenith technology (discussed more on page 10). Customers may choose to utilize these upgrades based on the therapeutic in question and the regulatory requirements/standards. Given the added services to the High Value platform, this group carries a higher list price (upwards of $1.00 per unit versus Standard Products $0.01-$0.03) and higher margin profile (40-70% versus Standard Products 20-25%). We view the biggest products / growth drivers as the NovaBrand seals, stoppers, and plungers, which have an enhanced coating that helps ensure compliance for regulatory approval and commercial use. NovaPure (which sits in the broader NovaBrand Portfolio) is designed for Biologics customers developing treatments (CGT, mRNA vaccines among others) where the drug formulation is more complex and requires enhanced protections. NovaChoice (also in the NovaBrand Portfolio) product suite is used primarily for Pharma customers including for GLP-1 products. Injectables for these do not require the same barrier coating as Biologic formulations. Figure 10 breaks down the High Value Components in more detail, which comprised of ~50% of revenue in FY23. For Generics (20% of FY23 revenue), ~60% of revenue is HVP and for Biologics (37% of FY23 revenue) ~90% is HVP.

Figure 9. High Value Components as a % of Revenues



Source: Citi Research, Company Reports

Figure 10. High Value Components Offerings

WST Product Enhancement Breakdown			
Films/Coatings	Flurotec*	Stoppers	Provides an effective barrier against organic and inorganic extractables to minimize interaction between the drug and the component. The Fluoropolymer film reduces sorption of the drug product and provides lubricity without the need for silicone oil, also reduced stopper sticking and clumping issues
		Syringe Plungers	
		Cartridge Plungers	
	B2-Coating*		Combination of high and low molecular weight silicones that is sprayed on, heated, and UV cured and compared to free silicone oil, B2 reduces subvisible particulate levels while improving closure machinability. Benefits include lower extractable silicone oil (especially at a high pH) and lower particle levels. Silicone oil sensitivity growing driven by growth in protein-based and large molecule drug products.
Washed/Sterilized Components	Westar	Stoppers	RS (Ready-to-Sterilize) - Products go through highly automated wash process and undergo full visual inspection to meet a tight particulate specification. Packed for easy entry into barrier systems
		Syringe Plungers	
		Cartridge Plungers	
		RU/RS Cartridge Plungers	RU (Ready-to-Use) - Autoclave sterilized in ISO 5 clean room and is available ready to use. Packed into sterilization units
		RU/RS Lined Seals	
Vision Inspection	Envision	Stoppers	The automated inspection system enhances the quality of RUS components by reducing adhered and embedded particulate found on packaging components. Assist productions by reducing COGS by minimizing the risk of rejecting drug products due to visible particulates and closure effects
		Syringe Plungers	
NovaPure Components		Plungers	Designed for pre-fillable systems, enhanced system delivery performance (designed with biologics in mind)
		Stoppers	All components are Westar RS wash or RU sterilized, Flurotech barrier, full West Envision
Lyotec		Stoppers	Single-vent igloo stopper is effective in eliminating the interlocking of double-vented stoppers during processing. Added safety to any lyophilization process such as cytotoxic drug products and for processing inside a barrier isolator
Daikyo	Daikyo D-Sigma	Stoppers	Available in RUV or RSV, low levels of extractables and volatiles, Flurotec film, RB2 coating (subvisible particle reduction related to silicone, enhanced machinability)
		Piston	
		RUV/RSV Stoppers	RSV (Ready-to-Sterilize-Validated) - undergone Daikyo's automated wash processes and visual inspection to meet tight particulate specification
			RUV (Ready-to-Use-Validated) - steam sterilized and go one step further than TSV in risk reduction through the provision of line-ready components
		Crystal Zenith Vials	Made of cyclic olefin polymer with glass-like transparency, superior break resistance, and low risk of chemical interactions. Available RU (Sterile and Ready-to-Use), provide safe containment for cold and cryogenic, eliminate the risk of delamination, and have protein and peptide adsorption
		Crystal Zenith Pre-Filled Syringes	Insert Needle System - system minimizes the potential contamination issues associated with glass, reduces protein aggregation, has no silicone oil, compatible for high-viscosity products, consistent plunger release and travel forces over time, ready-to-use for aseptic and barrier isolator filling line, and are compatible with auto-injectors
			Ophthalmic Luer Lock System - designed for intravitreal drug injections, low particle level, sterile and ready-to-use, fill-finish and testing services available
		PLASCAP RUV Seals	One-step assembly through an integrated stopper and plastic cap (FluroTec laminated)

*Flurotec and the B-2 Coating are licensed from Daikyo but trademarked through West Pharmaceutical Services

Source: Company Reports

Proprietary Products - High Value Delivery Devices

High-Value Devices was ~10% of revenue in FY23 and ~16% of revenues in 3Q24. This subsegment offers self-injection devices designed to address the need for at-home delivery of injectable therapies with its main products being the SmartDose On-Body Delivery System Platform and SelfDose Patient-Controlled Injector. WST is enhancing its Phoenix facility to support one customer's drug that already has a captive patient population (delivery mechanism shifting from IV to subcutaneous /

SmartDose). Commercial lines in place in Phoenix are currently semi manual, but WST is installing an automated line (for the purpose of this same drug) which should be commercial by the end of this year pending customer / regulatory approvals. Management believes that at scale with the automated line, margins could reach ~50s% vs. 20-30% currently. Worth noting is that the segment benefited from a $19mn incentive for achieving specific volumes, and the company expects this to be a benefit in 4Q as well.

Contract Manufacturing

Contract Manufacturing represented ~19% of FY23 total co sales and~19% of 3Q24 sales. This segment provides custom manufacturing and assembly solutions (involving molding and welding) for surgical, diagnostic, ophthalmic, injectable delivery systems customers, as well as some consumer products solutions. The company has deemphasized focus on consumer products to focus more on biopharma in the wake of COVID / GLP-1s and more momentum broadly across the healthcare space. This segment is expected to grow +MSD over the LT with a 17-20% margin profile on average. There is a path for higher margins in this segment as the drug handling capabilities become more utilized, which has ~mid-30% margins. Given this new service is in its early innings, it will likely take a few years before having a material impact on results.

Partnerships

Daikyo

Daikyo (formally Daikyo Seiko) is a Japanese company that manufactures components for primary containment of injectable medicine including closures, vials, cartridges, syringes, and medical devices. For ~50 years, WST and Daiyko have had a long-standing distribution / licensing agreement that was formalized in 2007, by which: 1) WST distributes and markets Daikyo's products across the world (ex-Asia); and 2) gives both parties IP to manufacture products covered by the relationship. Daikyo's flagship product suite includes: a) laminated rubber stoppers (FluroTec); b) plastic vial caps, and most importantly its Crystal Zenith line of vials, pre-fillable syringes, and cartridges. Daikyo's Crystal Zenith technology is made from cyclic olefin polymer that provides glass-like transparency, high break resistance, and minimal chemical interaction risk. Crystal Zenith is compatible for fill-finish, viral vectors, and flexible stopper options. As part of the agreement, Daikyo has the distribution rights of WST products in Japan. The distribution / licensing agreement has been amended multiple times throughout the years, most recently in 2019 when WST increased its minority equity stake in Daikyo to ~49% from 25%. In order for more amendments to be made to the agreements, there would need to be a super majority vote.

Corning

West and specialty glass manufacturer Corning (GLW, covered by Asiya Merchant) announced their partnership in January 2022 with the goal of combining Corning's glass technology with West's elastomer components. The collaboration includes a multi-million-dollar investment to expand Corning's glass technology to enable advanced injectable drug packaging and delivery systems. During the 4Q21 call, management discussed that Corning's initial capex investment in West totaled ~$50mn.

As part of the agreement, Corning's Valor glass and Velocity vials, which utilize an aluminosilicate technology versus the traditional borosilicate technology, were paired with West's Novapure components and Daikyo's Flurotec coating, providing complete high value package vs. just singular components. The initial focus of the partnership was to meet the need for a complete packaging system offering followed by a variety of offerings that may include vials, prefilled syringes (PFS), and cartridges.

Around a year later, the two companies announced their inaugural product launch collaboration with the West Ready Pack using Corning's Valor RTU Vials with West's NovaPure stoppers/Flip-Off CCS seals, and Stevanato's EZ-fill technology. This complete collaboration eliminates the risk of delamination and reduces glass particulate in bulk filling lines. Other benefits include container closure integrity of up to -80◦c, sterilized for ready-to-use format which can be directly introduced to filling operations, and availability in quantities for both small and large-scale filling operations. WST had previously alluded to a pre-filled syringe collaboration with Corning in addition to the vials, but timing remains uncertain.

Financials

How Should We Think About the Company in a Normalized Environment?

WST's LRP targets call for +7-9% organic growth, which is comprised of +1-2% volume growth and +2-3% price and the remaining mix. By end market, Biologics (37% of FY23 revenues) are expected to grow +HSD-DD, Generics (20% of FY23 revenue) +MSD-HSD and Pharma (24% of FY23 revenues) +LSD-MSD. Contract Manufacturing (19% of FY23 revenues) is expected to grow +MSD. This growth algorithm leads to ~100bps of annual operating margin expansion, primarily related to the mix shift towards HVP. In recent years, growth and margins have been negatively impacted by the COVID comp dynamic as well as destocking. Given these end markets are still recovering in 2025, we expect 2025 to be a below LRP year, potentially approaching those levels in the back half.

Figure 11. WST LRP

Revenue	**7-9%**
Volume	1-2%
Price	2-3%
Mix	~4%
Operating Margin Expansion	**~100bps**

Source: Citi Research, Company Reports

Ordering Dynamics

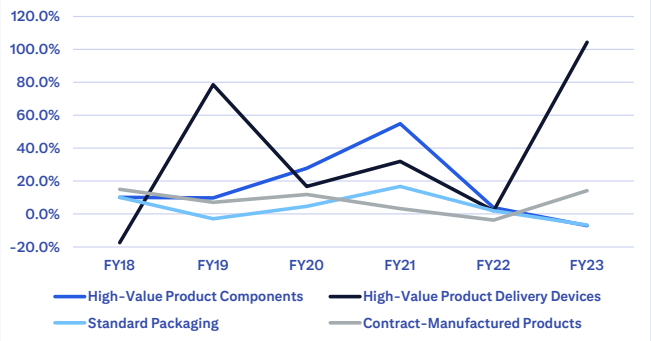
Generally, the company has observed larger orders in the first several quarters of the year vs. the later quarters resulting in longer lead times earlier in the year. As such, 1Q is typically the lightest from a revenue perspective, followed by a step up in 2Q, then leveling off in 3Q/4Q. Revenue is generated by performance obligations, for products and services. WST allocates a transaction price to these performance obligations and when the criteria is satisfied WST gets paid.

Management generally characterized normalized pre-COVID lead times in the 10-12 weeks range. However, during the height of COVID, lead times grew to 40-50 weeks given elevated demand and the prioritization of certain aspects of the portfolio (HVP stoppers and plungers) from Operation Warp Speed vs. non-COVID products where wait times were significantly elongated. To address these longer lead times, management accelerated plans for facility enhancements and improved capacity utilization for HVPs including in Kinston, Jersey Shore, Eschweiler (Germany), Dublin and Singapore. By mid-2023, lead times had declined back to 14-16 weeks for certain HVPs with some developments (Phoenix, Dublin, and Grand Rapids) still ongoing. Now, lead times are generally in the range of 8-12 weeks (slightly below pre-pandemic levels) given the increased efficiency and supply chain utilization that was put in place as a result of the significantly larger backlog. The company saw some customers pull forward orders to 3Q from 4Q, which is a positive sign for demand. We note these orders were already contemplated in the FY guide.

Revenue

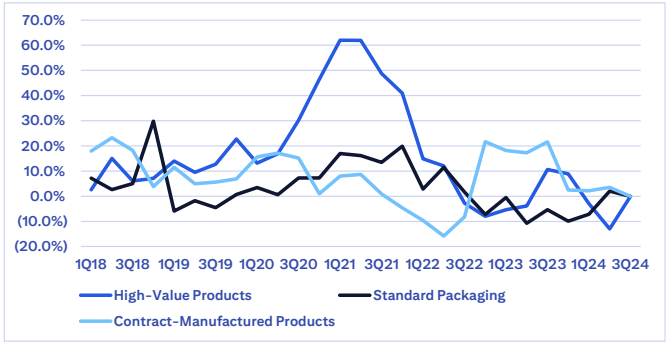
Over the past five years, High Value Products (comprised of components and devices) has grown at a ~15% CAGR, Standard Packaging has grown at a ~LSD-MSD CAGR, and Contract Manufacturing has grown +MSD (~15% in FY23). Growth rates within these subgroups have varied significantly, as shown in Figure 12 and 13. Notably, HVPs were positively impacted by the COVID pandemic in 2021 followed by a prolonged period of destocking observed as of late.

Figure 12. Product Growth Rates



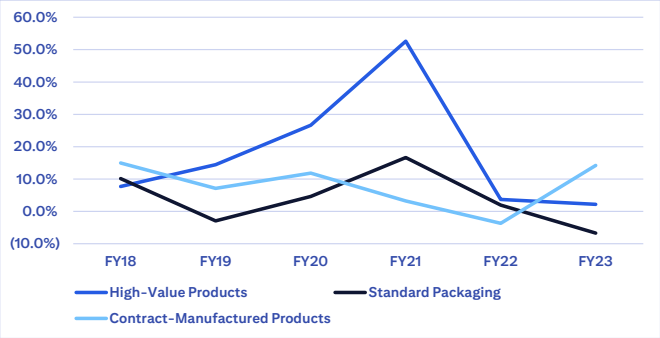
Source: Citi Research, Company Reports

Figure 13. Segment Growth Rates (Quarterly)



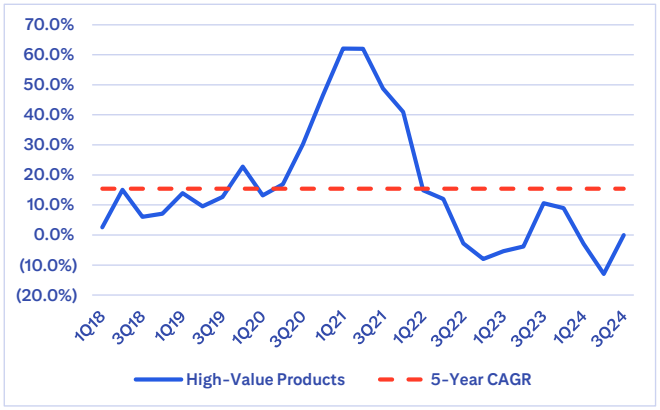
Source: Citi Research, Company Reports

Figure 14. Segment Growth Rates (Annually)



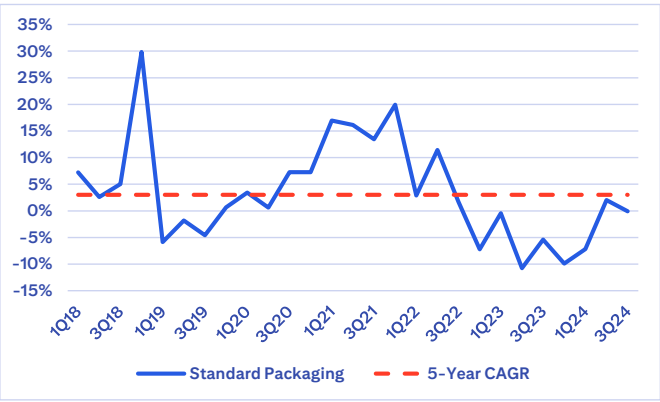
Source: Citi Research, Company Reports

Figure 15. HVP 5-Year Growth CAGR



Source: Citi Research, Company Reports

Figure 16. Standard Packaging 5-Year Growth CAGR

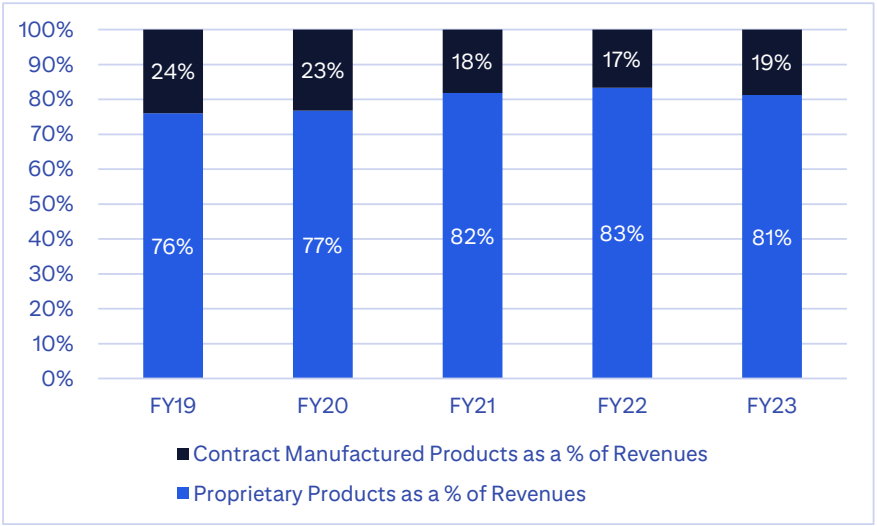


Source: Citi Research, Company Reports

Figure 17. Contract Manufacturing 5-Year Growth CAGR

Source: Citi Research, Company Reports

Figure 18. Revenue Mix



Source: Citi Research, Company Reports

Pharma Packaging Destocking – Almost Out of the Weeds

Destocking headwinds hit bioprocessing names (DHR, TMO, AVTR, RGEN (not covered) and SRT (not covered), among others) in late 2022/early 2023, though at the time had not yet hit WST (similar to STVN) to the same extent. In our view, this was likely due to the fact that lead times were further elongated for drug manufacturing components, which were at the time diverted almost entirely for COVID use (40-50 weeks) for non-COVID products, vs. bioprocessing consumables, where lead times were ~30 weeks.

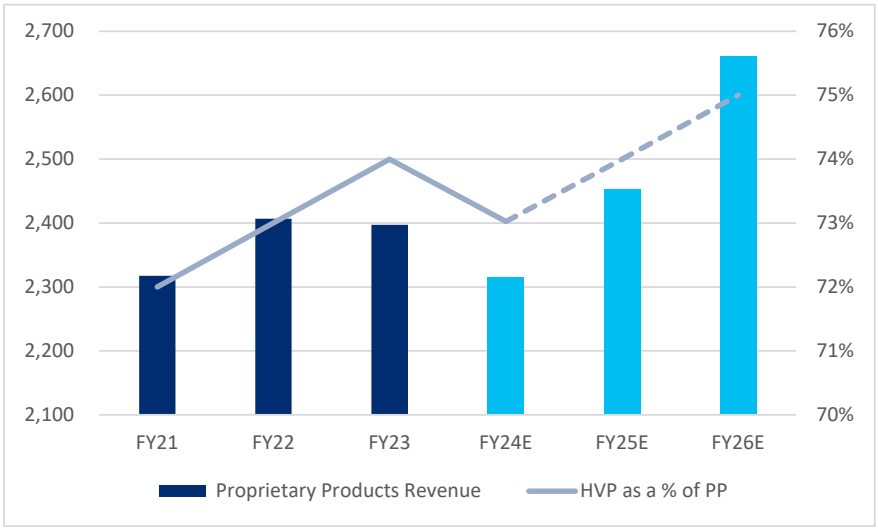
Timeline

- Late 2022 / Early 2023: Destocking headwinds hit bioprocessing names; WST relatively insulated at the time.
- Mid-2023: WST saw some stocking elements around medical devices, COVID and their standard product suite broadly, but had generally categorized it as immaterial.
- 4Q23: More pronounced stocking headwinds hit WST and the injectable drug value chain (primarily the bulk and standard products, but HVP has not been immune).
- 1Q24: WST continued to face destocking headwinds particularly from larger / more mature customers who were working down their inventory closer to pre-pandemic levels, now more so in the HVP arena vs. prior. At the time, management called out that ~75% of the destocking headwinds had come from six customers. Nonetheless, they categorized the current order book (which they view on a rolling 12-month basis) at the time as stronger vs. pre-COVID and believed that orders should recover throughout the year. Management noted at the time that they had visibility of multiple quarters ahead and felt confident about this, trending towards the LT construct growth rates of +7-9% in 4Q though estimates have since been lowered given prolonged destocking.
- 3Q24: For WST, Pharma / small mol destocking was largely in the rearview (more so because Pharma has used their Standard product suite), with Biologics (~90% HVP) lingering into 4Q (elastomers and products used for containment), but the company saw that getting closer to the end, particularly driven by improvement on delivery devices. Management called out some customers (Pharma) that pulled forward orders from 4Q to 3Q, but overall, the dollar value of these orders was already contemplated in the FY guide. Placing this in the broader context of the bioprocessing, at this point DHR had seen ~5 quarters of bioprocessing order growth, and TMO and AVTR had also discussed improving order trends.
- Latest WST Commentary from Conferences: Biologics destocking should moderate in 4Q, but it is too early to tell if this will moderate by the end of the year. Generics (60% HVP) destocking is expected to continue though 1Q25 given larger volumes of drugs in the market. This segment entered the destocking phase last, at least partially due to larger COVID-related backlog, so would likely be the last to come out.

Margin Discussion

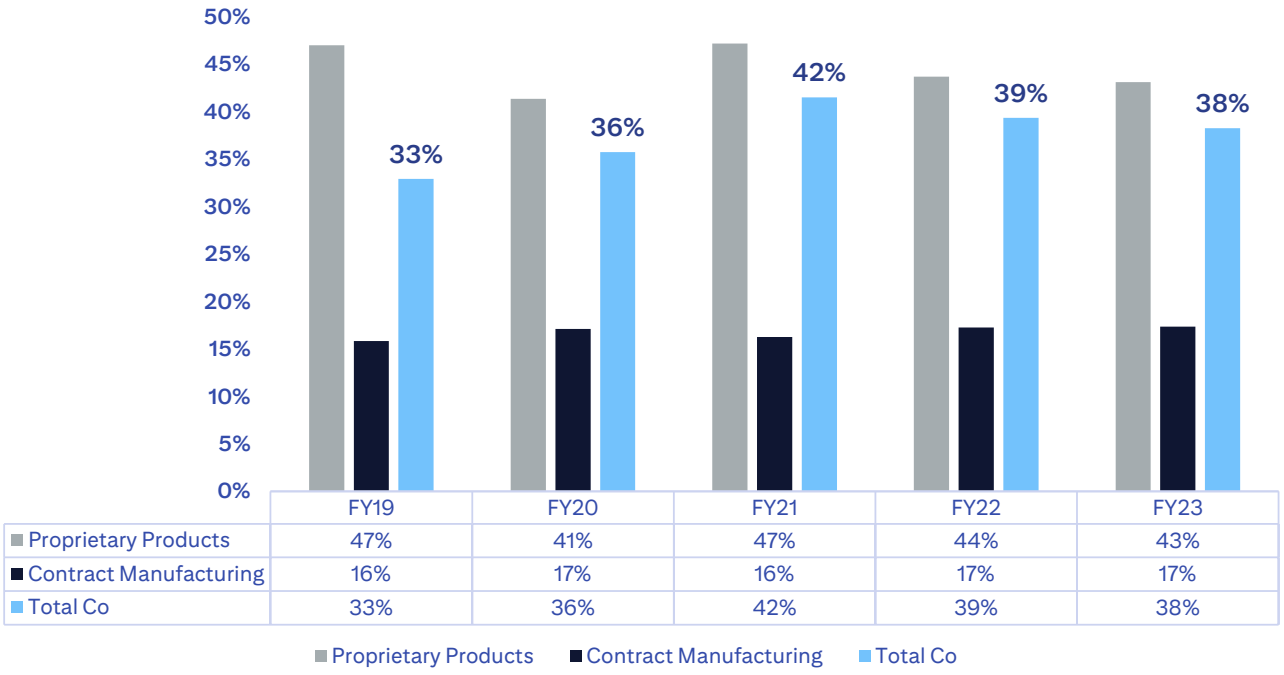
Moving to the margin profile, West has a ~mid- to high-30% gross margin profile and ~low to mid-20% OPMs, which puts it at the higher end of packaging peers. Regarding the typical margin cadence, margins usually peak in 2Q driven by greater utilization and absorption followed by a trough in 3Q due to the summer shutdown in Europe. 4Q typically sees an uplift from 3Q. Proprietary Products GMs have hovered in the high 30s%, with standard packaging ~20-30%, and HVP ~40-70%. NovaChoice products that are used for GLP-1s typically have an ASP of $0.15-$0.30 per unit and ~50-60% margins. We note that NovaChoice does not have a special Flurotec coating (that NovaPure has) and is used for GLP-1s as the peptide structure of the drug does not require it vs. more complex biologics. As such, NovaPure products used in Biologics could have margins as high as ~70-80% depending on the configuration. For High Value Devices such as Smart Dose, margins are ~20-30%, when the automated Phoenix lines are fully ramped, Smart Dose margins should reach ~50%. Contract Manufacturing GMs have hovered around 17-20%. Management expects a slight uptick as drug handling comes on board because it has a higher margin profile at ~mid-30%, but it will take a few years to scale the business and have a material impact on results. As shown in Figure 20, GMs have followed a similar pattern to revenue on an annual basis, decelerating from pandemic peaks given destocking headwinds, while NT factory ramps negatively impact fixed cost leverage. In the most recent reported quarter, GMs rebounded vs. 1H24 as destocking headwinds eased, with Proprietary Products GMs up ~220bps sequentially.

Figure 19. HVP as a % of Proprietary Products Revenue



Source: Citi Research, Company Reports

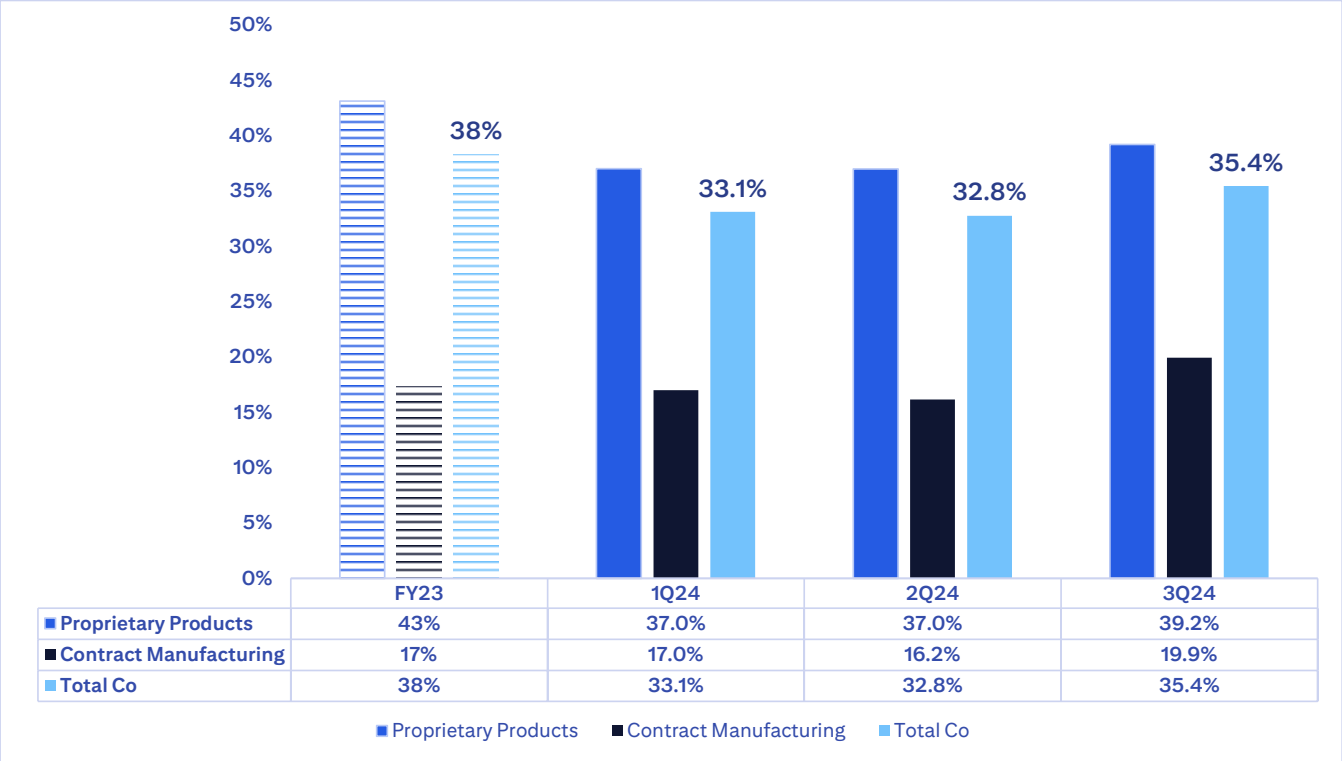
Figure 20. WST Historical Gross Margins



	FY19	FY20	FY21	FY22	FY23
Proprietary Products	47%	41%	47%	44%	43%
Contract Manufacturing	16%	17%	16%	17%	17%
Total Co	33%	36%	42%	39%	38%

Source: Citi Research, Company Reports

Figure 21. WST 2024 Gross Margins

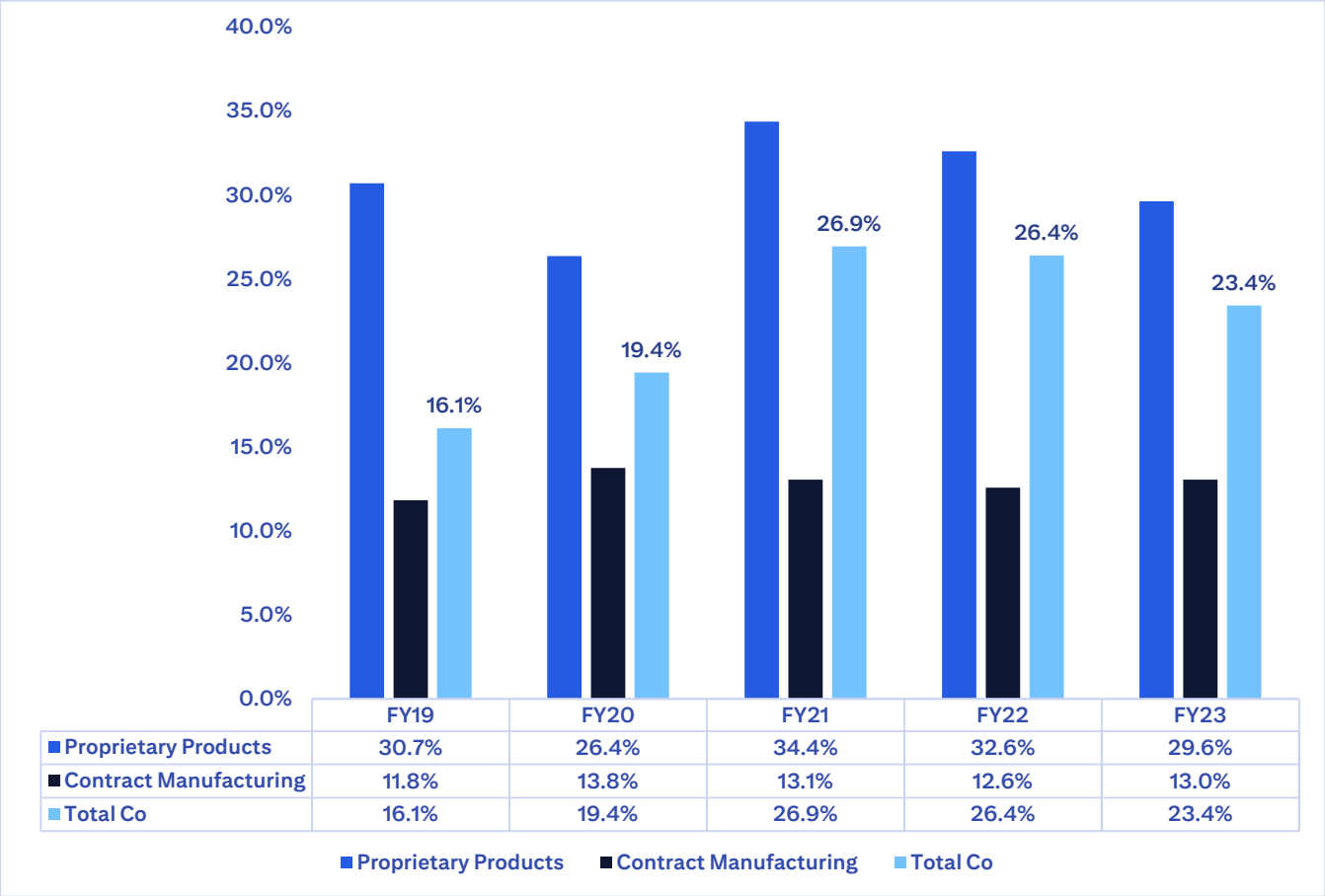


	FY23	1Q24	2Q24	3Q24
Proprietary Products	43%	37.0%	37.0%	39.2%
Contract Manufacturing	17%	17.0%	16.2%	19.9%
Total Co	38%	33.1%	32.8%	35.4%

Source: Citi Research, Company Reports

Turning to OPMs, the flow through varies greatly between the two segments given that R&D costs have only been in Proprietary Products since FY21. Over the past five years, SG&A has been in the low-mid teens as a % of revenue with R&D firmly in the LSD%. R&D efforts remain focused on investment on elastomer components, drug containment systems, self-injection systems and drug administration consumables as well. Looking ahead, the company does expect the return of incentive comp combined with depreciation from ongoing factor ramps to be an offset on margins. Pre-COVID and during, OPMs were ahead of peers but now are more in line given recent destocking headwinds. That said, 3Q was a turning point in that OPMs were up +250bps sequentially to ~21.5%, driven by improvement in destocking trends.

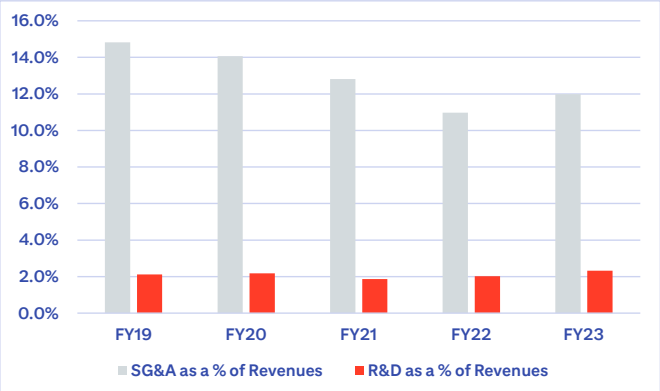
Figure 22. WST Annual OPMs by Segment



	FY19	FY20	FY21	FY22	FY23
Proprietary Products	30.7%	26.4%	34.4%	32.6%	29.6%
Contract Manufacturing	11.8%	13.8%	13.1%	12.6%	13.0%
Total Co	16.1%	19.4%	26.9%	26.4%	23.4%

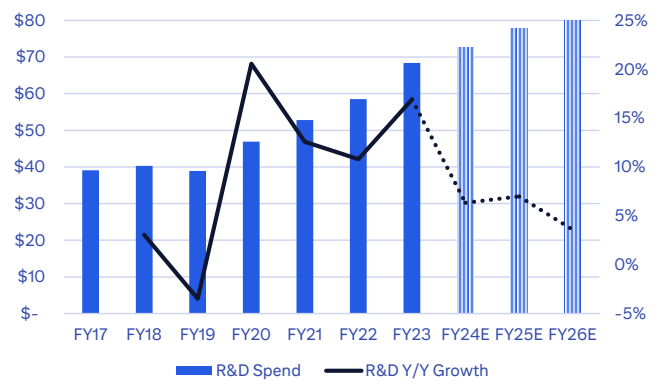
Source: Citi Research, Company Reports

Figure 23. R&D and SG&A as a % of Revenue



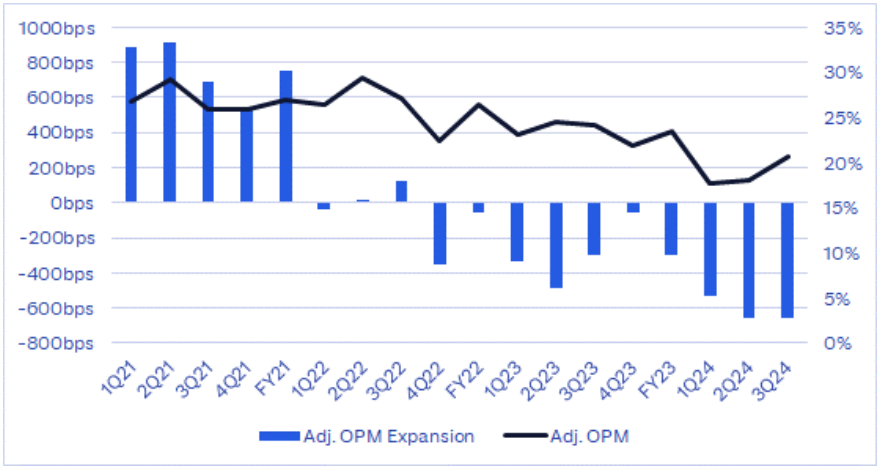
Source: Citi Research, Company Reports

Figure 24. R&D Growth (Consensus Estimates for FY24-26)



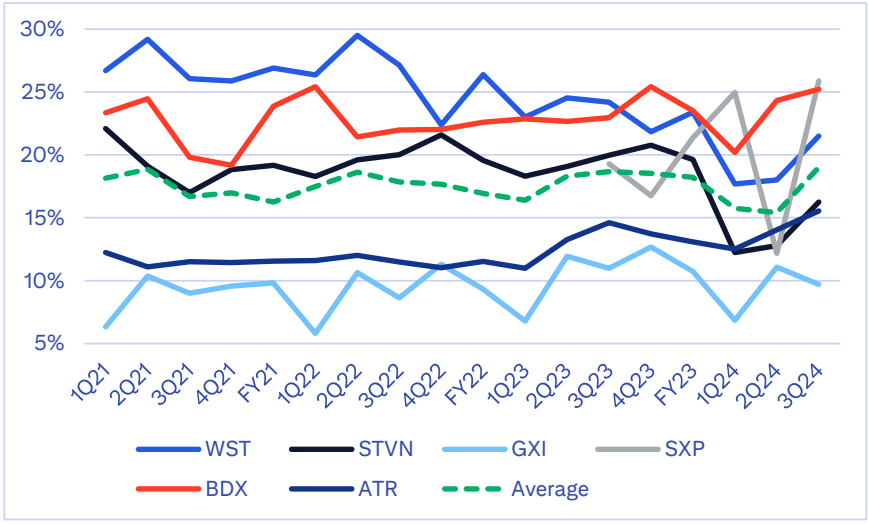
Source: Citi Research, Company Reports, FactSet

Figure 25. WST Operating Margin Trajectory



Source: Citi Research, Company Reports

Figure 26. Operating Margins vs. Packaging Peers



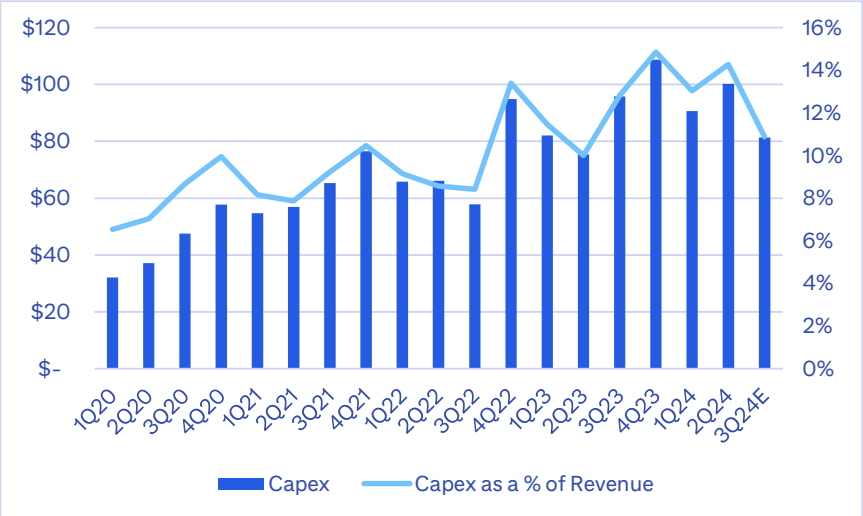
Source: Citi Research, Company Reports

Capital Expenditures

WST's capex strategy has typically consisted of ~MSD-HSD% of sales with the strategy of 50/50 between growth-oriented investments and maintenance/IT/infrastructure. Over 2020-2022, West invested ~$712mn on capital expenditures spurred by COVID, centered around HVP-oriented investments in the NovaPure portfolio (among others). In 2023, the company spent ~$350mn on capex with the majority (~70%) for growth-oriented investments – ie, expansion and enhancement. ~2/3 of this growth capex spend was in Proprietary Products, and ~1/3 was in Contract Manufacturing. Management has noted that its +7-9% topline organic growth framework would

likely require spending ~7-8% of sales on capex vs. ~12-13% currently, though the company has emphasized that capex spending in the NT has likely peaked (as seen in Figure 27).

Figure 27. Capex as a % of Revenue



Source: Citi Research, Company Reports

Where Facility Enhancements Stand

Starting in Proprietary Products, the expansion of elastomer manufacturing capacity (towards HVP) has been central to the post-COVID capex philosophy with sites in focus including Kinston, the Jersey Shore and Waterford. The newer Kinston facility, where HVP NovaPure / NovaChoice plungers are manufactured, is now fully operational (first became commercial in 2Q23). The site also has HVP processing enhancement / finishing capabilities. Next, the Jersey Shore expansion is ongoing and should be completed by the mid-end of 2025. In addition to HVPs, the facility will have some of these enhanced finishing capabilities similar to Kinston and Waterford, which is also in progress. In Singapore, the company recently added 18,000 sq meters to enhance an already existing facility for stoppers and closures, Westar and FluroTec laminated components, along with some medical devices. In Contract Manufacturing, there are two main ongoing ramps. The first is in Grand Rapids, Michigan which is primarily focused on auto injectors for GLP-1s. This facility will reach peak volumes towards the end of 2025 (management noted 3-5 quarters to ramp on the 3Q call). Next is Dublin, which is also auto injectors for GLP-1s, is expected to ramp over the next 12-18 months (as of November 2024). Management pointed to mid-2025 to when the facility can become commercial. Dublin will also have drug handling business capacity as well. Management has noted that drug handling does not equate to fill finish, but rather taking the drug which already filled by the pharma company and inserting that into the device that is manufactured at WST. Margins on the drug handling business are in the ~mid-30s% vs. typical CMG margins of mid-teens%. Given these ramps between each site are in different phases of completion / commercialization, we believe fixed cost leverage / higher initial depreciation will weigh on margins.

However, in our view, this is already well telegraphed from earnings and investor conferences where management has already shared updates.

The Phoenix facility has been repurposed for wearable manufacturing (ramp started in 3Q), so since this completion, the company has ~2x the capacity for wearables between Scottsdale and this site. The facility is geared towards the Smart Dose device (High Value Device) where the company has one large customer, whose combination device has FDA approval for a blockbuster drug. Management is adding a fully automated line (vs. semi-automated currently) to this facility, which should help improve margins over the next 6-12 months. For smart Dose devices broadly, the company has three main customers.

Figure 28. WST Capacity Expansion Update

Facility in Development	Location	Specialization	Latest Update
Kinston	North Carolina, USA	Proprietary Products (HVP Portfolio - Plungers, finishing)	Completed, final innings of ramp
Jersey Shore	New Jersey, USA	Proprietary Products (HVP Portfolio)	In-progress, estimated completion ~2H25
Waterford	Waterford, Ireland	Proprietary Products	In-progress
Grand Rapids	Michigan, USA	Contract Manufacturing (Injection Devices - Auto-injectors)	Completed, ramp throughout FY25 (greater impact later in the year)
Eschweiler	Germany	Proprietary Products	In-progress
Phoenix	Arizona, USA	Proprietary Products and Contract Manufacturing	Validation ramp in-progress, commercialization targeted for YE25
Dublin	Dublin, Ireland	Contract Manufacturing (Injectable Devices - Auto-injectors)	Completed, ~12-18 month validation ramp, start to contribute moving through FY25
Singapore	Jurong, Singapore	Proprietary Products	Completed

Source: Citi Research, Company Reports

Balance Sheet/Cash Flow

WST has one of the cleaner balance sheets under our coverage with only ~$203mn in total debt providing plenty of capacity for additional share buy backs, M&A, or other organic investments. Breaking down the $203mn of debt on the BS, $130mn is tied to the third amendment to the Credit Facility with a maturity date of July 2, 2027, at a 6.67% rate. Funds from this amendment were used to repay prior Term Loan of $79.9mn and Series B Senior Notes of $53mn. The remaining $73mn is related to Senior C notes due July 2027 at 4.02%. As of the end of 3Q, total borrowing capacity available under the $500mn revolving credit facility was $497.6mn when factoring $2.4mn letters of credit. As of the end of September, West has $490.9mn cash balance, having spent $506.5mn on share repurchases and capital expenditures. Over the past 4 years, the average FCF conversion to adj. net income stands ~67.2%, per our estimates. During this latest period of destocking and higher interest, customers have been focusing on managing their cash flow and reducing their working capital investments, which has led WST to be more diligent on their own working capital to optimize their own cash flow generation.

3Q Results

In 3Q, sales overall declined (0.5%). Proprietary Products organic sales declined (0.5%) and HVP contributed to ~75% of Proprietary Product Sales (still declined LSD%) offset by sales of drug delivery devices. By end market, management noted

that biologics declined (LSD) from lingering destocking effects, offset by strength in wearable self-injection devices, which should help drive sequential improvement in 4Q. We note the company did benefit from a $19mn fee related to smart dose (incentive on top of volumes delivered in the period); management does anticipate a similar fee in 4Q. Pharma grew +MSD% in the quarter, driven by NovaBrand products (NovaChoice falls into this category) as well as administrative systems. Generics declined (MSD), due to lower volumes of NovaBrand. Generics has fewer customers but much higher volumes vs. the other customer segments. Certain customers accelerated programs and asked to deliver ahead of schedule, though this was already contemplated in the FY guide.

GMs were 35.4%, vs. 38.6% in 3Q23, primarily driven by lower margin in Proprietary Products, which was down (420bps) Y/Y, driven by: 1) lower volumes of HVP components; and 2) mix shift to lower margin drug delivery devices. CMG margins increased +130bps Y/Y due to more production efficiencies. Cash balance at the end of the quarter was ~$490mn, which was $363mn lower due to capex ($272mn) and share repo ($506mn) offset by cash from operations. Capex guidance for the year remains at ~$375mn.

Looking ahead, management raised the revenue guidance by $5mn at the midpoint to reflect an increased FX tailwind. EPS was increased by $0.15 at the midpoint, with FX now ~$0.01 less of a headwind vs. FY guide given in 2Q and tax benefits from stock-based comp an incremental $0.04 vs. guide given in 2Q. The remaining ~$0.10 raise at the midpoint was due to better mix and cost management from the core.

Our Expectation for FY25

The company's normalized growth / margin algorithm is +7-9% growth with ~100bps of margin expansion. Given some destocking headwinds linger, we expect 2025 will be a below LRP year. For 2025 specifically, incentive comp / depreciation from ongoing factory ramps (Phoenix, Dublin among others) may weigh on margins as well, though we believe this is now well telegraphed given recent commentary from investor conferences.

Comparable Companies

The packaging/elastomer space is broad based in terms of product offering and end markets. The comps we look at are not exact overlaps from a product perspective (given the significant variety of puzzle pieces across the drug development supply chain); rather, they are more are imperfect overlaps across elastomers, glass, and delivery devices.

When it comes to elastomers in particular, the main competitors are Aptar and Datwyler. WST is the market leader here (more than twice as big share wise vs. the other two). According to our checks, these two competitors have been using price / improving general service offerings, which helps each company remain competitive in the market. Datwyler offers products and services for a broad range of industries such as industrial, food & beverage, and healthcare. Within Datwyler's Healthcare business, the product offering includes stopper and seal components for vials, plungers and needle caps for pre-filled syringes and cartridges, as well as different services such as coating, washing/sterilization, and packaging. Similar to Datwyler, Aptar's product and service offering goes beyond healthcare into areas such as beauty, food & beverage, and home care. Aptar's healthcare offering includes plungers and stoppers for vials/syringes and services such as coatings

and sterilizations. During COVID, when there were not enough stoppers for non-COVID products, Aptar and Datwyler gained share as WST prioritized COVID-related projects. As the market has generally increased since then, WST has not technically lost any share either. Impacts from the supply chain disruption lingered longer than most anticipated leading pharma and biotech companies to start diversifying their materials/components suppliers, which typically included West and either Datwyler or Aptar.

Within the glass containment market, WST has offerings through partnerships with Daikyo and Corning. Through the Daikyo partnership, WST offers glass vials and syringes as well as a non-glass option with their Crystal Zenith technology. The partnership with Corning combines Valor glass and Velocity's vials with WST's components and enhancements. Experts we have spoken with viewed Schott, Stevanato, and Gerresheimer as the leaders in this industry with Stevanato having a reputation for being more innovative, Schott having a solid reputation for its glass, and Gerresheimer for being most competitive on price. Products offered by STVN, Schott, and Gerresheimer include syringes, vials, cartridges and ampoules, but these players do not participate in the elastomer space (plungers, stoppers, etc) like WST, though the group does fall under the greater drug containment / packaging market with WST.

In terms of delivery devices (pens and auto injectors) and other on-body devices (high-value delivery devices within WST), STVN and Gerresheimer are the main competitors. Within their delivery device offering, West offers the SmartDose On-Body delivery system and SelfDose Patient-Controlled Injector on top of any custom contract manufacturing work. The SmartDose is used to inject a drug (up to 10mL) subcutaneously for a predetermined amount of time. The SelfDose was designed for smaller volume (1mL) drug delivery and allows the user to control the speed of injection. STVN has a proprietary auto-injector (Aidaptus) and pen injector (Alina) that would likely compete with WST's SmartDose. Stevanato also offers an on-body drug delivery system called Vertiva that has similar specifications and would be a direct competitor to the SmartDose offering. Gerresheimer has a slightly smaller offering in this space with an auto-injector (Gx Inbeneo) and on-body delivery system (Gx SensAir). Worth noting Gerresheimer's on-body product is able to deliver up to 20mL versus WST's and STVN's capacity of up to 10mL.

Valuation Framework

We believe it makes the most sense to value WST on an EV/EBITDA basis. Given the ongoing capacity expansions, we believe that using EBITDA gives more credit to the core revenue and margin trajectory of the core products and services, especially as: 1) demand normalizes in Biologics (NovaPure); and 2) more fixed cost leverage emerges from these factory ramps. Additionally, the degree to which the company is expanding capacity is temporary in terms of the LT trajectory of the business and that this is well understood by investors, in our view.

Looking at historical valuation, WST has traded at a premium to the group despite more so in line fundamentals. We believe this is due to the company's elevated returns profile along with the breadth of its premium product suite (which carries a significant moat) designed for a customer group that has historically prioritized ensuring product quality (smooth regulatory process/commercial launch), as well as its entrenched position within the industry. Additionally, we believe pricing is another lever the company can rely on. For WST, pricing typically contributes 2-3%

to sales growth vs. core Tools, where pricing generally contributes 1-2% in normalized environments (both were elevated during the pandemic era). When comparing WST to packaging peers, we view quality and reliability coming in before price when pharmaceutical companies choose vendors. This is because pharmas would rather ensure a smooth regulatory process and commercial launch (and therefore use premium products) given R&D dollars already spent to develop the drug. The company has also generated better ROIC on an TTM basis over the past 5 years (and beyond) vs. high quality Tools names (TMO/DHR) and packaging peers. We view this as another reason the company should trade at a premium to the group.

Figure 29. WST Comp Table

GXI, YPSEN-CH and ATR are not covered by Citi

Company	2025 Revenue ($mn)	2026 Revenue ($mn)	2025 EBITDA ($mn)	2026 EBITDA ($mn)	2025 EPS	2026 EPS	2025 EV/EBITDA	2026 EV/EBITDA
WST	3,056	3,319	832	949	7.52	8.78	29.9x	26.2x
STVN	1,206	1,357	306	365	0.56	0.72	21.8x	18.4x
GXI	2,326	2,572	504	579	5.52	6.85	7.0x	6.1x
SXP	1,029	1,156	280	335	1.05	1.30	13.3x	11.1x
YPSN-CH	807	971	293	365	12.07	15.54	16.7x	13.4x
BDX	21,998	23,106	6,574	7,012	14.41	15.71	12.9x	12.1x
ATR	3,813	4,024	835	894	6.01	6.80	13.5x	12.6x

Source: Citi Research, FactSet

Figure 30. Comp Set Sales Growth Consensus Estimates

GXI, YPSEN-CH, and ATR are not covered by Citi

	2025 Sales ($mn)	2026 Sales ($mn)	Y/Y Growth
WST	3,056	3,319	8.6%
STVN	1,223	1,376	12.5%
GXI	2,326	2,572	10.6%
SXP	1,033	1,169	13.2%
YPSN-CH	807	971	20.3%
BDX	21,998	23,106	5.0%
ATR	3,813	4,024	5.5%

Source: Citi Research, FactSet

Figure 31. Comp Set EBITDA $ Consensus Estimates

GXI, YPSEN-CH, and ATR are not covered by Citi

	2025 EBITDA ($mn)	2026 EBITDA ($mn)	Y/Y Growth
WST	832	949	14.0%
STVN	311	370	18.9%
GXI	504	579	14.7%
SXP	283	342	21.1%
YPSN-CH	293	365	24.5%
BDX	6574	7012	6.7%
ATR	835	894	7.0%

Source: Citi Research, FactSet

Figure 32. Comp Set Margin Expansion Consensus Estimates

GXI, YPSEN-CH, and ATR are not covered by Citi

	2025 EBITDA Margin	2026 EBITDA Margin	Y/Y Expansion (bps)
WST	27.2%	28.6%	135
STVN	25.4%	26.9%	145
GXI	21.7%	22.5%	82
SXP	27.4%	29.3%	193
YPSN-CH	36.3%	37.6%	128
BDX	29.9%	30.3%	46
ATR	21.9%	22.2%	31

Source: Citi Research, FactSet

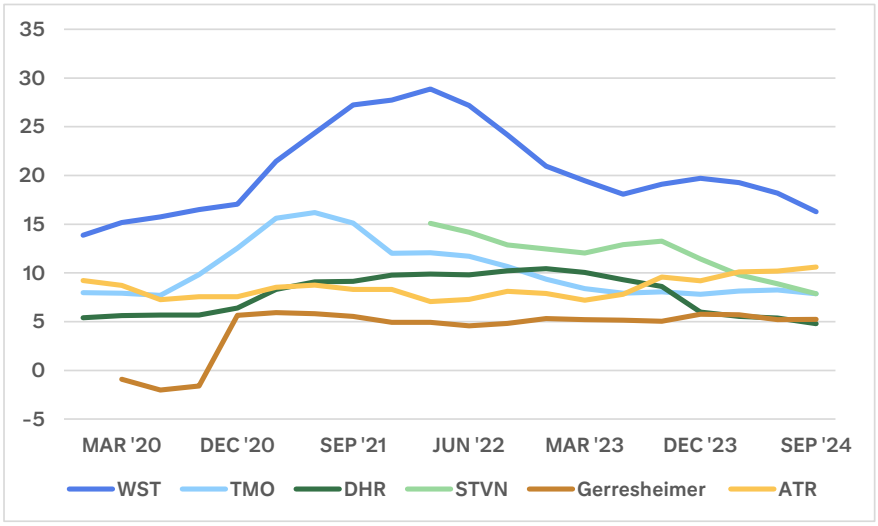
Figure 33. Comp Set EPS Growth Consensus Estimates

GXI, YPSEN-CH, and ATR are not covered by Citi

	2025 EPS	2026 EPS	Y/Y Growth
WST	7.52	8.78	16.9%
STVN	0.57	0.73	28.5%
GXI	5.52	6.85	24.2%
SXP	1.05	1.33	25.6%
YPSN-CH	12.07	15.54	28.7%
BDX	14.41	15.71	9.0%
ATR	6.01	6.80	13.1%

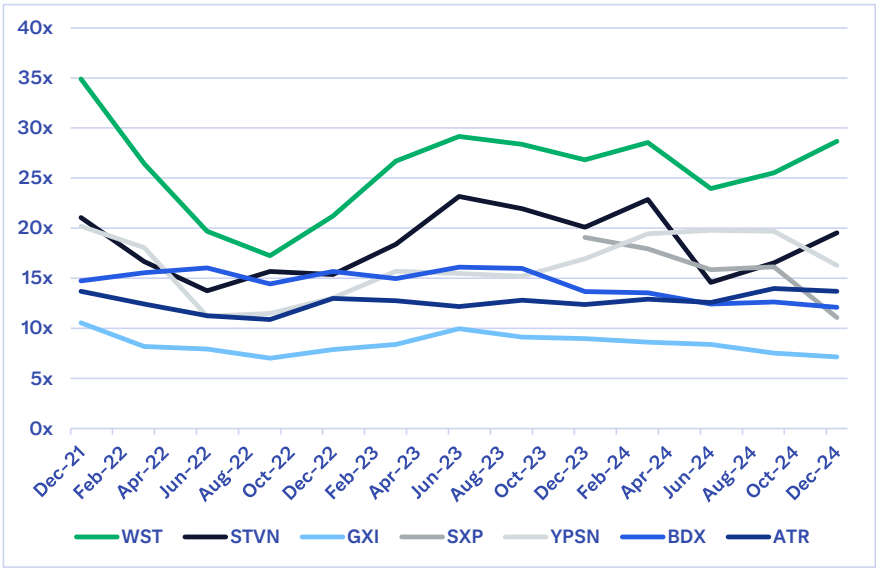
Source: Citi Research, FactSet

Figure 34. WST Comp Group ROIC % on LTM Basis



ATR is not covered by Citi.
Source: Citi Research, FactSet

Figure 35. Historical Valuation (FY2 EV/EBITDA) vs. Packaging Peers



GXI, YPSEN-CH, and ATR are not covered by Citi.
Source: Citi Research, FactSet

One piece of the WST story that we believe remains underappreciated is the degree to which the capacity expansion will unlock more volume (at a premium price) by late 2025/2026. For example, in 2021, the company manufactured 45bn components; this increased to 48bn in 2023 even with COVID coming out of the model. While the capacity expansion is happening both in Proprietary Products as well as manufacturing, mix will still be geared more towards higher-margin

proprietary products, which, in our view, can offset to a certain degree the mix headwinds emerging from the Dublin / Grand Rapids ramp. Additionally, we note that the Dublin facility will also have a drug handling component, which is inherently higher margins (because it encapsulates a services piece), so Contract Manufacturing margins at least for that facility should move to the mid-30s%. While drug handling build out is still ongoing, we are encouraged by management's shift to services (focus on improving margins) in a typically lower-margin segment. We also see potential margin expansion from Phoenix facility where automated lines are being put in for a drug that already has an embedded patient population, and the customer is expanding the delivery mechanism (IV to subcu). As this line scales (estimated to be commercial by YE25), management believes margins for high value delivery devices can expand from ~20-30% range to ~50%. Factory ramps will likely result in lower fixed cost leverage in the NT, we believe this is already known by investors as management has been transparent for some time. Given that we see a clear path to outsized margin expansion, which is not adequately priced in yet, we believe the company should trade at a premium to the group.

How We Get to Our Target Price

Our $400 target price implies a ~32.3x multiple on ~$899mn of Q5-Q8 EBITDA. We believe the company deserves to trade at a premium to the group given that price (proprietary products) and volume (capacity expansion) are uniquely working in WST's favor vs. the group, which in turn should lead to above-peer-average margin expansion.

Figure 36. Valuation Framework

Q5-Q8 EBITDA		$899mn
	X	
EV/EBITDA		32.3x
	=	
EV		$29.0bn
-Debt		$203mn
+Cash		$491mn
Market Cap		$29.3bn
Shares Outstanding		73.4
PT		**$400**
Current Price (as of 1/6 at Close)		$332.72
Implied Upside/(Downside)		20.1%

Source: Citi Research, Company Reports

Risks

- **Oral GLP-1s** – Management estimates that in the medium- to long-term, oral GLP-1s will likely comprise ~10-20% of the total GLP-1 market given the likely higher necessary dosage versus the injectable options.
- **Commodity Prices and Supply Chain Diversification** – The company requires a vast number of commodities to manufacture its products, and is particularly

exposed to the price of elastomers, various plastics, and aluminum. Most of WST's Proprietary Products are made from these synthetic elastomers, which are derived from petroleum refining processes. The company purchases elastomers through LT supply contracts, some of which do have surcharges to account for the fluctuation in crude prices. For reference, elastomers are a rubbery material essentially capable of recovering their original shape after being stretched (think of stoppers and seals, etc). Some of these supply agreements require WST to purchase inventory in bulk orders, which increases inventory levels but decreases the risk of supply interruptions. The company does rely on some single-source suppliers for critical raw materials and purchases some of these raw materials on the open market, so is therefore impacted by price fluctuations. For elastomers specifically, the company purchased ~995k barrels of crude oil in 2017 to mitigate exposure to oil-based surcharges (and in turn protecting operating cash flow). At the end of 2023, the company had outstanding contracts to purchase ~206k barrels of crude oil from December 2023 to June 2025 (with a weighted average strike prices of $88.78 per barrel).

- **Capacity Expansion** – Capacity expansions/enhancements could take longer than anticipated to become operational, which could be a lingering headwind to margins. Further, issues that may stem from any quality control measures impacting WST's reputation and position within the industry.

Management

- **Eric Green (CEO)** – Mr. Green joined WST in 2015 from Sigma-Aldrich Corporation, a chemicals and life sciences conglomerate acquired by Merck KGA in 2015 for $17bn. Mr. Green was at Sigma-Aldrich since 2013, where he served as EVP and President of the company's Research Markets business unit (~$1.4bn in annual revenue at the time).

- **Bernard Birkett (CFO)** – Mr. Birkett joined WST in 2018 from Merit Medical Systems, a manufacturer of disposable medical devices where we served as CFO and Treasurer. At Merit, Mr. Birkett served in various leadership rolls including Controller for EMEA and VP of International Finance. Mr. Birkett had also worked at other manufacturing and medical device companies, including Inamed Corporation, Strix Limited, and SPS Unbarko International. In 2022, West expanded Mr. Birkett's role within the company to a combined position of CFO and COO. In this expanded role, Mr. Birkett also leads global operations and supply chain management.

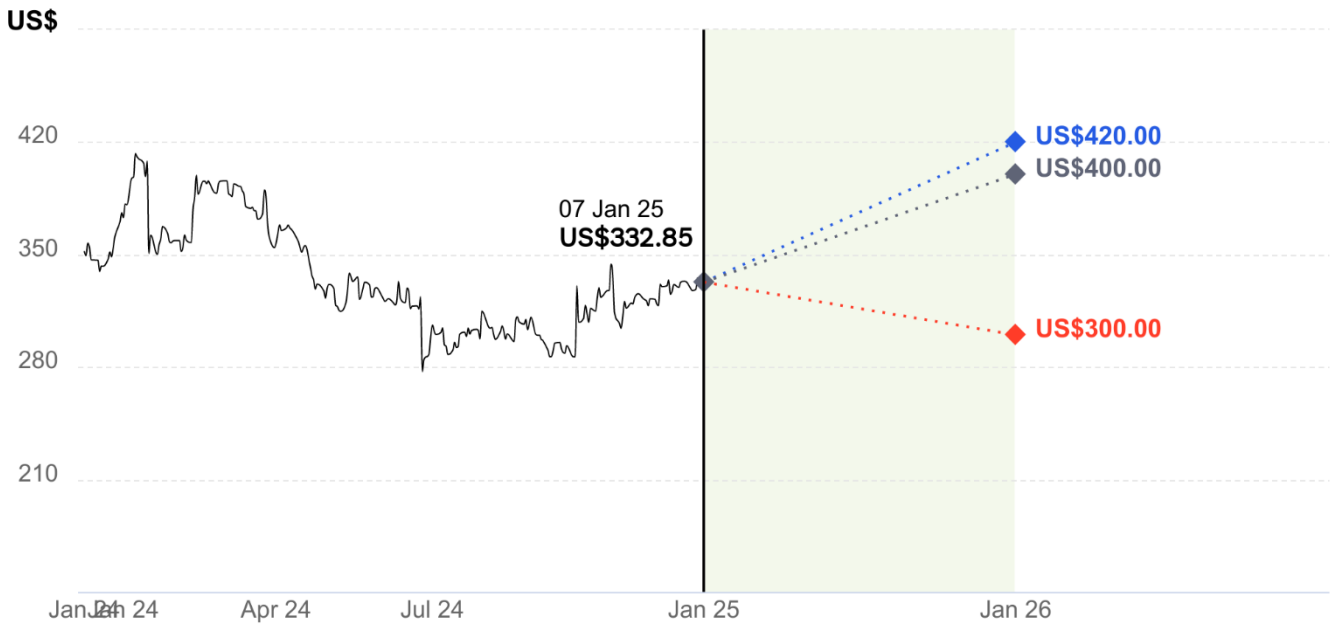
- **Cindy Reiss-Clark (CCO)** – Mrs. Reiss-Clark has served as CCO since 2022. She had already been at the company in a prior role leading Global Market and Commercial Solutions from 2019-2022. Prior to that, she was a VP / General Manager of the Biologics market.

Companies Mentioned:

Avantor (AVTR.N; US$21.92; 2; 06 Jan 25; 16:00) | Becton Dickinson and Company (BDX.N; US$230.7; 1; 06 Jan 25; 16:00) | Corning Incorporated (GLW.N; US$48.34; 1; 06 Jan 25; 16:00) | Danaher Corporation (DHR.N; US$238.2; 1; 06 Jan 25; 16:00) | Gerresheimer AG (GXIG.DE; €69.45; Not Rated; 07 Jan 25; 17:30) | SCHOTT Pharma AG & Co KgaA (1SXP.DE; €25.62; 1; 07 Jan 25; 17:30) | Stevanato Group (STVN.N; US$23.74; 1; 06 Jan 25; 16:00) | Thermo Fisher Scientific Inc. (TMO.N; US$537.19; 2; 06 Jan 25; 16:00)

Bull/Bear: West Pharmaceutical Services Inc (WST.N)

US$ 420.00 ▲26% Upside | US$ 400.00 ▲20% Upside | US$ 300.00 ▼9.9% Downside



Spread 36pp
Current Price and expected returns (upside/downside) as of 07 Jan 2025

BULL Assumptions

Growth of ~7-9% growth (LRP) for FY25

Factory utilization improves significantly with commercial ramps coming earlier than anticipated

BASE Assumptions

~6% Growth for FY25

Factory ramps steadily continue, with commercial benefits coming throughout the year (though 2H weighted)Generics

Destocking eases in 1Q25

BEAR Assumptions

Growth in the LSD% range for 2025

Destocking in Generics continues beyond 1H25

Commercial ramps significantly delayed

West Pharmaceutical Services Inc

Company description

West is a leading global manufacturer in the design and production of advanced, high-quality, integrated containment and delivery systems for injectable drugs and pharmaceutical products. Product offering includes a range of proprietary packaging, containment solutions, reconstitution, and transfer systems, and drug delivery systems, on top of contract manufacturing and services. Primary customers include biologic, generic, pharmaceutical, diagnostics,and medical device companies. West's long-term outlook consists of +7-9% organic revenue growth and ~100bps of margin expansion. Overall market cap is estimated to be ~$24bn.

Investment strategy

We assign West a Buy rating due to its compelling long-term setup from both a demand and profitability standpoint, which we think investors should view favorably. Given the breadth of West's offering and the significant position it holds within the elastomer/drug containment industry, it has recently been included in most therapeutic filings, solidifying an existing baseline of work (even more so due to the difficulty in switching components after approval) with more room to grow as new modalities and the general drug discovery pipelines continue to grow. Key drivers, in our view, include the wave of GLP-1 demand, shift towards Biologics, and the Annex1 regulatory updates. From a profitability standpoint, the transition to the High-Value Product portfolios is expected to be a consistent margin driver with any increased utilization rates as recent capex projects come online and any cost-out actions acting as upside.

Valuation

Our $400 target price applies a 32.3x EV/EBITDA multiple to our Q5-Q8 adj. EBITDA estimate of $899mn. We believe the premium WST carries over most of the Tools names under our coverage is warranted given that price and volume are uniquely working together to drive both topline growth and improved profitability as new capacity comes online.

Risks

Downside risks to our target price include: 1) slower-than-anticipated conversion onto the HVP product portfolio; 2) greater supply chain diversification results in lower baseline levels of business; 3) lower demand for the increased capacity from recent capex projects; and 4) WST being unable to return to the LRP.

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Appendix A-1

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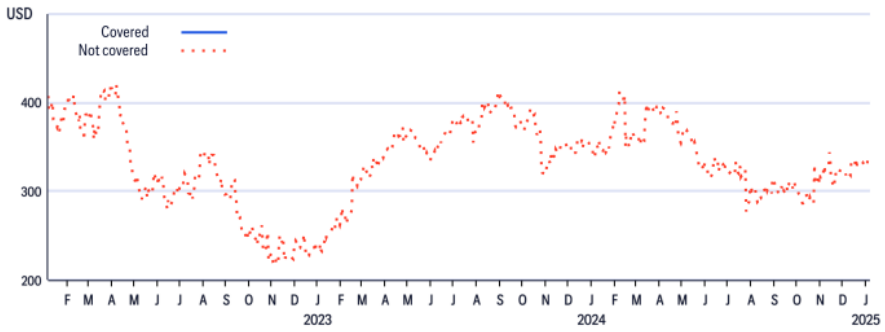
IMPORTANT DISCLOSURES

West Pharmaceutical Services Inc (WST)

Ratings and Target Price History
Fundamental Research



*Indicates Change

Rating/target price changes above reflect Eastern Time

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