

13-Feb-2020

West Pharmaceutical Services, Inc. (WST)

Q4 2019 Earnings Call

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Analyst, CJS Securities, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Q4 2019 West Pharmaceutical Services Earnings Conference Call. At this time, all participant lines are in a listen-only mode. After the speaker's 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. Thank you. Please go ahead, sir.

Quintin John Lai

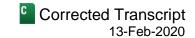
Vice President-Corporate Development, Strategy & Investor Relations, West Pharmaceutical Services, Inc.

Thank you, Gigi. Good morning and welcome to West fourth quarter and full-year 2019 conference call. We issued our financial results this morning and the release has been posted in the Investors section on the company's website located at www.westpharma.com. This morning, CEO, Eric Green; and CFO, Bernard Birkett, will review our results, provide an update on our business and present our financial outlook for the full-year 2020.

There's 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 the Safe Harbor statement. Statements made by the 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

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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 to everyone. Thank you for joining us today. I'm pleased to report that we had a strong finish to 2019, and we're entering 2020 with good momentum, thanks to the solid execution of our market-led strategy.

Overall, our 2019 performance demonstrated the favorable market conditions and durability of our business. The commitment and focus of our One West Team is delivering superior value to customers through our high-quality products and solutions, is what differentiates West as the global leader for containment and delivery of injectable medicines.

We ended the year with 13% organic sales growth in the fourth quarter, and 10% for the full year. We expanded gross and operating profit margins largely through strong high-value product sales growth, and great results from our global operations initiatives. This resulted in double-digit growth in adjusted EPS for the fourth quarter and full-year 2019, and we generated strong year-over-year growth in operating cash flow.

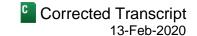
As we enter 2020, we're building on the positive momentum we've generated in 2019. We are introducing full-year 2020 financial guidance that assumes organic sales growth of 7% to 8%, which is at the upper end of our usual 6% to 8% range. We are also forecasting double-digit earnings growth adjusted for tax benefits from stock-based compensation. Bernard will go into greater detail on our 2020 guidance shortly.

Slide 4 shows a detailed summary of the sales performance in 2019. Proprietary Products sales grew organically by 14.7% in the quarter. High-value products which make up more than 60% of Proprietary Products sales grew double-digits and had solid momentum across all market units throughout the year.

Let's take a look at the performance of the market units for the quarter, starting with Biologics. This market unit delivered strong double-digit growth. Our Biologic customers from emerging biotech to large biopharma continue to come to West and our partner, Daikyo, as the preferred choice for high-value product offerings. This is reinforced by the very high participation rate we continue to experience with all new biologic and biosimilar approvals in 2019.

The Generics market unit finished the year on a solid note with double-digit growth in the fourth quarter, led by sales of Westar components and products from our self-injection delivery platforms. As we have discussed on past calls, our self-injection delivery platforms are being adopted by not only Biologic customers but also by small molecule Generic customers looking to differentiate their drugs with our devices.

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Our Pharma market unit saw double-digit growth in the fourth quarter. Strong high-value product sales growth was a driver combined with a favorable year-over-year comparison due to the impact from the previously reported voluntary recall of our Vial2Bag product. And Contract Manufacturing ended the year with high-single-digit organic sales growth for the fourth quarter, led once again by sales of healthcare-related injection and diagnostic devices.

On slide 5, we had several exciting product launches that positions the company for continued growth, such as NovaPure 3 mL Cartridge components that satisfy an unmet market need with the increase in sensitive biologic products being developed in dosages larger than 1mL. We expanded our self-injection platform with SmartDose Gen. II injector, with a patient experience in mind, enabling subcu delivery of high viscosity drugs at dosages up to 10mLs.

We also introduced an advanced elastomer formulation which enhances performance and reliability featuring Westar Select quality and low particulate levels, while mitigating risk for our customers. And we launched AccelTRA Select, our line of products that provides Generic customers with high-quality, ready-to-use components with market-leading delivery times.

Turning to slide 6, we outline our One West global operations strategy and management system. Operating with the excellence and efficiency that is inherent in our One West system has enabled our success and growth in 2018 and will do so for the foreseeable future. Our global operations team had another excellent year. The team has focused on continuous improvements related to service, quality, and safety, while at the same time driving the efficiency gains.

Over the past year, we've completed the restructuring program that was announced in early 2018 and reduced our global manufacturing footprint to 25 sites. We are improving productivity, making more informed choices in capital investments and have set the stage for the next phase of improvements through automation and advanced manufacturing systems. The efficiencies we have gained by employing this new global operating system has meant we have additional cash available to reinvest in the business.

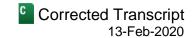
Highlighted on slide 7 are investments we completed in 2019 that will drive growth going forward. The acquisition of our Korean distributor creates a direct presence for West in a market seeing strong growth, especially in biologic drug manufacturing. We also increased our minority stake to 49% in Daikyo Seiko of Japan. After more than 40 years of partnership, we know that our two companies share a unique, committed to science, quality and technical expertise that continues to prove valuable to the customers and patients we serve together.

In addition, in 2019, we enhanced our global digital capabilities with the opening of our Digital Technology Center in India. The DTC serves as a center of excellence for a global digital and transformation team supporting many areas of our business, including digital marketing, data analytics, and supporting the future of digital manufacturing and automation capabilities.

Driving sustainable business practices has been a longstanding imperative at West, as shown on slide 8. In 2019, we received several accolades for our efforts across the six pillars of our corporate responsibility program. At West, we are committed to nurturing a culture of diversity and inclusion, along with supporting the communities in which our team members live and work. Through both philanthropy and sustainable business practices, we made great strides in both areas in 2018.

Now, I'll turn it over to our CFO, Bernard Birkett, who'll provide more detail on our financial performance, 2020 guidance, and our long-term outlook. Bernard?

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Bernard J. Birkett

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

Thank you, Eric, and good morning, everybody. Let's review the numbers in more detail. We'll first look at Q4 2019 revenues and profits where we saw strong sales and EPS growth led by strong revenue performance in all four market units. I will take you through the margin growth we saw in the quarter, as well as some year-end balance sheet takeaways. And finally, we'll review guidance for 2020.

First up, Q4, our financial results are summarized on slide 9, and the reconciliation of non-US GAAP measures are described in slides 15 to 20.

We recorded net sales of \$470.6 million, representing organic sales growth of 12.7%, and 30 basis points of inorganic growth. We also saw double-digit organic sales growth in our three Proprietary Product market units and high-single-digit organic sales growth in Contract Manufacturing. For the full year, we recorded net sales of \$1.84 billion, representing organic sales growth of 10%, and 10 basis points of inorganic growth.

We continue to see improvement in gross profit. We recorded \$153.2 million in gross profit, \$20 million or 15% above Q4 of last year. And our gross profit margin of 32.5% was a 100-basis-point expansion from the same period last year. Gross profit margin for the full year of 32.9% was a 110-basis-point expansion from the previous year. We saw improvement in adjusted operating profit with \$73.1 million recorded this quarter, compared to \$67.1 million in the same period last year, bringing 9% increase. Our adjusted operating profit margin of 15.5% was a 40-basis-point reduction from the same period last year.

As mentioned on our Q3 call, SG&A expenses for Q4 2018 were low due to the release of bonuses primarily as a result of the Vial2Bag recall. Adjusting for this, we would have seen adjusted operating profit margin expand by approximately 100 basis points. Adjusted operating profit margin of 16.1% for the year was 160 basis points increase from 2018. Finally, adjusted diluted EPS grew 12% for the quarter and approximately 15% for the year. Excluding stock tax benefit, EPS grew by approximately 13% for the quarter and 18% for the full year.

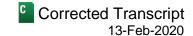
So what's driving the growth in both revenue and profit? On slide 10, we show the contributions to sales growth in the quarter. Volume and mix contributed \$51.7 million or 12.2 percentage points of growth. Sales price increase has contributed \$3.3 million or 0.8 percentage points of growth. And changes in foreign currency exchange rates reduced sales by \$6.9 million or a reduction of 1.6 percentage point.

Looking at margin performance, slight 11 shows our consolidated gross profit margin of 32.5% for Q4 2019, up from 31.5% in Q4 2018. Proprietary Products fourth quarter gross profit margin of 38% was 100 basis points above the margin achieved in the fourth quarter of 2018. Proprietary Products full-year gross profit of 38.6% was 150 basis points above the margin achieved in 2018.

The key drivers for the continued improvement in Proprietary Products gross profit margin for the fourth quarter were favorable mix of products sold, production efficiencies, and sales price increases, partially offset by increased overhead costs.

Our high-value products represented 63% of Q4 Proprietary Products sales and generated double-digit organic sales growth. Contract Manufacturing fourth quarter gross profit margin of 16.4% was flat compared to the prior year quarter. However, we saw Contract Manufacturing margin show sequential quarter-over-quarter improvement.

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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 12, we have listed some key cash flow metrics. Operating cash flow was \$367.2 million for the full-year 2019, an increase of \$78.6 million compared to the full-year 2018, and a 27% increase.

Our 2019 capital spending was \$126.4 million, \$21.7 million higher than a year ago, but in line with guidance. Working capital of \$717.1 million at December 31, 2019, was \$106.4 million higher than at December 31, 2018, primarily due to an increase in our cash and cash equivalents. Our cash balance at December 31 of \$439.1 million was \$101.7 million more than our December 2018 balance, primarily due to improved operating results.

Turning to guidance. Slide 13 provides a high-level summary. We expect our full-year 2020 net sales guidance to be in a range of between \$1.95 billion and \$1.97 billion, including an estimated headwind of \$15 million based on current foreign exchange rates. We expect organic sales growth to be in a range of 7% to 8%. We expect our full-year 2020 reported diluted EPS guidance to be in a range of \$3.45 to \$3.55, and capital expenditures will be in a range of \$130 million to \$140 million.

There are some key elements I want to bring your attention to as you review our EPS guidance. Estimated FX headwind has an impact of approximately \$0.04 based on current foreign currency exchange rates, and it also includes – it also excludes future tax benefits from stock-based compensation.

To summarize the key takeaways for the year, 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 full-year 2019 operating and free cash flow. Our sales and EPS projections for 2020 and performance are in line with our long-term construct of continued organic sales growth and operating margin and EPS expansion.

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

Eric Mark Green

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

Thank you, Bernard. Our execution in 2019 has positioned us well for the year ahead. We're making significant progress on many fronts. Our market-led strategy is delivering unique value propositions to our customers. Our global operations team is delivering the efficiencies and improvements in service and quality and we're reinvesting in our business with digital technology, automation across our operations, and strategic partnerships to fuel our future growth.

Our mission to improve patient lives propels us each and every day. We do not take this for granted. We realize that our products are used by millions of patients across the globe on a daily basis, which is why we're so dedicated to continuously improving our capabilities. As we look to the future and the new drugs that are being launched by our customers, we know that West will play an integral part in bringing those medicines to market. We are committed in the growth strategy. We're excited about the opportunities ahead of us and we look forward to a successful 2020.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Please stand by while we compile the Q&A roster. And our first question comes from the line of Paul Knight from Janney Montgomery. Your line is now open.

Paul Richard Knight Analyst, Janney Montgomery Scott LLC

Hi, guys. Congratulations on the quarter. Could you talk to, Eric, where – what your – what capacity expansions you are targeting? Is it more space in Waterford, et cetera? And then, I guess, the first question really should be where do you think you are with your Six Sigma program that you've implemented. Was last year your first full year of it or was it your first year you really thought it was gaining traction? Could you talk about kind of where you are with that program in your mind? And then the question on where the CapEx is going?

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

Okay. Well, first of all, thank you, Paul, and good morning. Absolutely, I think we're early in the stages of Lean implementations across the globe. I've had the chance to travel the number of our sites, as you know, across the globe and I'm continuously impressed on the momentum, the focus, the energy, and the capabilities of launching this One West Lean improvement system.

So, I'd say we are in early stages, but we're seeing some excellent traction as we go forward, and I expect that this is not just a onetime impact, but this is an annual benefit that we'll see going forward and just puts us in a much better position as we think about future investments for West. In regards to capacity expansions, what we're looking at and what we're investing towards is more expansion of capacity on current existing platforms.

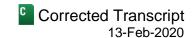
To give you an example, we're investing in additional growth capacity in Crystal Zenith over 1 mL insert needle pre-filled syringe out of Scottsdale. We're also investing in further expansions in the self-injection devices of SelfDose and SmartDose based on current demand that we have committed by customers. So, these type of investments will continue to go into our high-valued products like Kinston, Waterford and other locations around the globe. But this – it's less than land and buildings. It's more about technology, automation, and more modular self-manufacturing.

self-manufacturing.	
Paul Richard Knight Analyst, Janney Montgomery Scott LLC	Q
Thank you very much.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
Thank you, Paul.	

Operator: Thank you. Our next question comes from the line of David Windley from Jefferies. Your line is now

open.

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David Howard Windley

Analyst, Jefferies LLC

Hi. Thanks. Congratulations on a really strong year. Appreciate you taking my questions and one of those is a follow-up to Paul. Coming at this CapEx spending a little bit different, you've talked really from the time Bernard joined, the CapEx budget has come down, pretty dramatically hit, maybe a lower point than we expected in 2018, up a little bit in 2019. I think your 7% target means it goes up another \$15 million or \$17 million in 2020. Can you talk maybe about the additional context of what is – not only where that – those dollars are going as you just answered, but what's driving the re-increase of those dollars?

Bernard J. Birkett

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

Yeah. Good morning, Dave. It's pretty much – the spend is pretty much in line as the percentage of revenues between 2019 to 2020 were pretty close. And when we look at the opportunities that are in front of us, more than half of that CapEx budget is going to be focused on growth opportunities which tie back to the ones Eric had just spoken about. So, it's driven by customer demand and customer interest. But we typically spend between \$40 million to \$50 million on maintenance CapEx. And on IT, we're looking at about \$10 million to \$15 million. So, the balance is really on all of our growth opportunities. And again, it's an on-expanding capacity primarily through introducing new spend on equipment.

David Howard Windley

Analyst, Jefferies LLC

Got it. And then kind of related to that, the digital roll-out, I think automation kind of just would become part of that definition. We in a trip saw that Kinston is kind of a base case for that. I wondered if you could talk about what you see as the timeframe for rolling out some automated manufacturing through some of your other key sites, and then what – like margin benefit, what kind of efficiency power that has for the business as you do that?

Eric Mark Green

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

Yeah, David, we implemented, as you know, the automated...

David Howard Windley

Analyst, Jefferies LLC

Excuse me.

Eric Mark Green

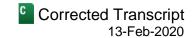
President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.

...work cell in Kinston last year, and we had it as a pilot and validated with customers. We're actually in 2020, we're expanding that capability. And we're looking at three additional locations in Ireland, Germany, and also in Singapore to allow us to have more reach to certain products and certain customers across the globe.

So, we're actually quite encouraged by the initial success we've had in 2019 and we'll be expanding that as we go forward. What's really also important is that the digital aspect of that with the team that we built in India, they're able to actually start capturing the data and making that much more effective and efficient as we go forward.

So, Bernie, you want to talk a bit about the...

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Bernard J. Birkett

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

Yeah, so Dave, it's a multi-year process, and we have developed automation for some of our product lines and we will continue to develop – further develop that over the next number of years, and it'll be rolled out on a phased basis. And the objective of doing that is, obviously, to create more efficiencies and supports, the long-term construct that we have of driving 100 basis points improvement year-over-year, and so it's to facilitate that and also to keep up with the demand that we're seeing from our customers, and also to drive higher quality. So, automation brings us a number of benefits, and again though it is a multi-year process.

also to keep up with the demand that we're seeing from our customers, and also to drive higher quality. So, automation brings us a number of benefits, and again though it is a multi-year process.	
David Howard Windley Analyst, Jefferies LLC	Q
Got it. Last quick question, could you quantify and maybe you did and I mis benefit to EPS in 2019 from stock comp that would be equivalent to kind of way to ask it, but	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
Yeah.	
David Howard Windley Analyst, Jefferies LLC	Q
the benefit from stock comp that you're not including in 2020 guidance?	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
For the year, it was \$0.14 in 2019.	
David Howard Windley Analyst, Jefferies LLC	Q
Okay. Great. Thank you.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A
Thank you, Dave.	
Operator : Thank you. Our next question comes from the line of Larry Sol now open.	ow from CJS Securities. Your line is
Larry S. Solow Analyst, CJS Securities, Inc.	Q
Great. Just real quick follow-up, the \$0.14 for the year for the stock comp to Q4?	penefit, what was it in the quarter, in
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	A

West Pharmaceutical Services, Inc. (WST) Corrected Transcript Q4 2019 Earnings Call 13-Feb-2020 Yeah, \$0.02. Larry S. Solow Analyst, CJS Securities, Inc. \$0.02. Okay. Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc. Yeah. Larry S. Solow Analyst, CJS Securities, Inc. Great. Okay. Great. So, just take a step back. So, really a great quarter, great – obviously in outlook, just looking on the Proprietary segment, a little bit surprise up in the Generics side that high-single-digits for full year and double-digit growth in the quarter. Do you see that continuing and what is driving that? And the second part of the question, can you give us a little update on AccelTRA and how that's progressing? Is that still sort of in the early stages? Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc. Yes. So, Larry, thank you for that. We are seeing a couple of key drivers in the Generics space. We do believe we think long-term, we always talk about mid- to high-single-digit growth in the Generics space, and what we're seeing is very strong high-value product which is being led by a couple of areas. One is, as you pointed out, the transition, the work we have around AccelTRA and moving customers from standard to high-value product portfolio. The second area we're seeing an uptake in the demand are around self-injection, the platform, and particularly when you start thinking about SmartDose and SelfDose. So, there is an uptake demand that we see right now that we were pretty confident. As we go forward, we'll continue to see that growth. So, I'm pleased with the success of Generics. But for the full year of 2019, we saw the growth not just with the large Generic clients but also the mid to small customers also, which is very encouraging that we're increasing penetration. Larry S. Solow Analyst, CJS Securities, Inc.

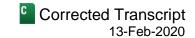
Great. And you mentioned SmartDose obviously accelerating a lot of – a lot more trials, I guess, getting underway. Last quarter, you spoke about some pretty good momentum in CZ. I think to date through Q3 at five approvals. Can you maybe just give us a little update on how CZ is going and outlook into 2020?

Eric Mark Green

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

Yeah. That's one of the areas we're investing in, actually in manufacturing and expansion, as we speak, because demand is pushing our limits on capacity. So, we are currently in process of expanding capacity in our facilities, and we're very encouraged with the number of – not just products that's just been approved and launched, but also what's in the pipeline. So, it does go back to – unfortunately, it goes back a few years ago, we talked about once you get one or two clients comfortable when you commercialize, there's been a wave of interest, and

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especially with this sensitivity of new biologics coming to the market where Crystal Zenith is the really – the true configuration that they're looking for long-term.

Larry S. Solow

Analyst, CJS Securities, Inc.

Okay. Great. And then just on the margin expansion, obviously, you had, I think, 160 bps you mentioned for the year, a little more than 100 bps on the gross side. As we look out – and with the restructuring, do you see in 2020 – and I assume you're still sort of targeting that 100 bps plus overall margin expansion, do you see it favoring the gross profit line more than operating expense fine or any color on that?

Eric Mark Green

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

Yes. So, we – again, a lot of it is driven by mix and high-value products, and then that supports us with improvements in efficiencies. So, we would look at probably 70% to 80% of the growth coming from the gross margin line, and then the balance coming from leveraging OpEx.

Larry S. Solow

Analyst, CJS Securities, Inc.

Okay. And then, in the years past, SG&A has been a little bit backend loaded. It was not – this prior year is a little bit more – a little more flat. Can you maybe just give us any color you have on sort of cadence of the year for that?

Eric Mark Green

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

Yeah, we – the way we're managing SG&A is to keep it pretty consistent quarter-over-quarter. We shouldn't have very large spikes. And if there are any spikes going to come up, we will attempt to call them out before they actually happen to give you visibility on that. But you could see that the way it was managed and throughout 2019, it was pretty consistent quarter-over-quarter.

Larry S. Solow

Analyst, CJS Securities, Inc.

Okay, and then just this last question on the high-value products, where I think that you said over 60% of revenue dollars. Can you tell us what was in terms of volume in Proprietary Products or as a whole company, one or the other?

Eric Mark Green

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

Yeah, when you – with that type of growth that we're experiencing strong double-digits, it's over a – little over 100 basis points increase from prior year.

Larry S. Solow

Analyst, CJS Securities, Inc.

Got it. Great. Thanks, Eric, I appreciate it.

Eric Mark Green

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

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Yeah.

Operator: Thank you. Our next question comes from the line of Juan Avendano from Bank of America. Your line is now open.

Juan E. Avendano

Analyst, BofA Securities, Inc.

Hey, guys, congrats on the quarter and guidance as well in 2020. I had a few questions. I guess, you ended 2019 pretty strong, I guess, now I think that it would be appropriate or if you could please give us an update on the market penetration levels for high-value products overall, and across some of [ph] your images (00:28:58) including Westar, FluroTec, Envision and NovaPure, and to what level do you see that going to?

Eric Mark Green

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

Yeah, Juan, thank you for the – for participating. And I think when we look at the high-value product portfolio and where the penetration is, you're absolute correct. If you look at, majority of the revenues are more of the products we introduced several years ago, and you think about NovaPure which has been launched, but the uptake is significant. In fact, that's the other area of capacity expansion we have going on both in the US and Europe to keep up with demand.

So, while the percentages, let's say, it's smaller, like i.e., less than 10% of the high-value product portfolio, it's going to be much more meaningful over the next few years to come. So, we're really confident of the runway we have ahead of us and the penetration of we go from Envision all the way to NovaPure through what we see in the pipeline will only increase. And that's really all I can say at this point in time. We believe it's double-digit growth portfolio, driven by the high-value products on the NovaPure, higher-end products of that portfolio. And it's going to be about a 100-plus-basis-point volume expansion every year just to keep up with that demand.

Juan E. Avendano

Analyst, BofA Securities, Inc.

Okay. Good. And I guess we'll see this when you file your 10-K, but can you give us an idea of how your backlog of committed orders in Proprietary Products ending 2019 compares to 2018?

Bernard J. Birkett

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

Yeah. We continue to see that grow. We're seeing a lot of strong demand. And again, it's across particularly in the Biologics space and based on a number of the products that Eric has spoken about. So – and that – when we talk about confidence, that's where we're getting a lot of our confidence from is the growth in that order book.

Juan E. Avendano

Analyst, BofA Securities, Inc.

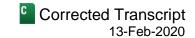
Okay. And regarding the Vial2Bag recall, how's the resolution of this matter going and have you included any Vial2Bag revenue in your 2020 guidance?

Bernard J. Birkett

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



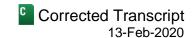
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We have not included anything in our 2020 guidance and it's primarily based on the approval process and the regulatory process of getting back into the market. Some of that is outside of our control. So, we just took a conservative approach on that just to step back and say when we get regulatory approval, then we'll have it in our guidance. Again, we don't want to be making excuses after the fact.

Juan E. Avendano Analyst, BofA Securities, Inc.	Q
Okay. And I might have missed this, but how many basis points of operating margin expansion a realize in 2020? What's embedded in your guidance?	re you looking to
Bernard J. Birkett Senior Vice President & Chief Financial Officer, West Pharmaceutical Services, Inc.	А
In the guidance, there's an implied range between 90 basis points to 120 basis points.	
Juan E. Avendano Analyst, BofA Securities, Inc.	Q
90 basis points to 120 basis points. And my last one, I'm sorry, but given the strength that you're Zenith and the fact that you're spending CapEx to build capacity there, I guess if you could tell us what is the revenue of Proprietary delivery devices, I guess, that you had in 4Q? And how do you 2020?	s what was –
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	А
Hey, Juan. We don't break it down to that level. But what we can say is that Proprietary devices double-digits.	grew in strong
Juan E. Avendano Analyst, BofA Securities, Inc.	Q
Okay. The last update I got was about \$40 million a quarter was the run rate a couple of years agmean are you significantly above that now?	go, and so, I
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc.	А
Well, that part of the business has been growing really strong double-digits. So, yes, we're signift than that.	icantly higher
Juan E. Avendano Analyst, BofA Securities, Inc.	Q
Okay. Thank you.	
Eric Mark Green President, Chief Executive Officer & Director, West Pharmaceutical Services, Inc. Theoples	А
Thanks.	

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Operator: Thank you. Our next question comes from the line of Courtney Owens from William Blair. Your line is now open.

Courtney Owens

Analyst, William Blair & Co. LLC

Hi, guys. Good morning.

Eric Mark Green

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

Good morning, Courtney.

Courtney Owens

Analyst, William Blair & Co. LLC

So, in the first – good morning, in the press release, you guys mentioned as well acquisition contribution. Can you expand on what that actually was this quarter? [ph] I don't guess like what the acquisition was – not part of the contribution but yes (00:32:45)?

Eric Mark Green

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

Right. So, we had two – well, actually one investment from an acquisition point of view, small, that was done in Q2 of – earlier of 2018. We just called out the contribution that this had on the quarters following the close of that acquisition. It's GIS Korea which is our entry strategy into the Korean marketplace. So, now we have a direct presence that we're going directly to the biopharma manufacturers in that region.

Courtney Owens

Analyst, William Blair & Co. LLC

Got it. Okay. And then just if you could maybe just talk about any M&A opportunities or priorities that you guys are kind of considering or looking towards over the next 12 months? That'd be great as well. Thanks.

Eric Mark Green

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

[ph] Well, taking comment (00:33:33) there is that we'll continuously look at the landscape and see what assets, if available, would make sense to be part of West that enables us to provide a more comprehensive solution to our customers. So, I can't comment any further about any specific targets, but we are constantly looking at the horizon saying what would be the right fit with West.

Courtney Owens

Analyst, William Blair & Co. LLC

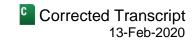
Okay, thanks. And then my last question, the Contract Manufacturing segment came in a little bit stronger than we were expecting this quarter. I know you kind of talked about, I guess, the dynamics on the Proprietary business that drove that gross margin expansion. Can you talk a little bit about kind of what were the drivers behind the sequential expansion in the Contract Manufacturing business?

Bernard J. Birkett

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



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It's purely an accelerated customer demand coming from specific customers, and the really positive thing also, West was able to respond quickly to that customer demand and supply it when it was needed. And so, it's – again it's just purely demand in that market, and it was a little bit stronger than we would have expected it to be. But again, positive thing is we were able to respond to that.

Courtney Owens

Analyst, William Blair & Co. LLC

Okay, great. Thanks, guys.

Eric Mark Green

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

Thank you.

Operator: Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to Quintin Lai for closing remarks.

Ouintin John Lai

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

Thanks, Gigi, 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 in the Investors section. Additionally, you can access a replay through Thursday, February 20, by dialing the numbers and conference ID at the end of today's earnings release. So that concludes this call. Have a nice day.

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

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