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# West Pharmaceutical Services, Inc. (WST)

UBS Global Health Care Conference

## CORPORATE PARTICIPANTS

Eric Mark Green  
*Chief Executive Officer*

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## MANAGEMENT DISCUSSION SECTION

Eric Mark Green  
*Chief Executive Officer*

Good afternoon. My name is Eric Green, I'm the CEO of West Pharmaceutical Services, and it's my pleasure to be with you this afternoon at the UBS Global Health Care Conference. Before we get started, I just want to call your attention to the Safe Harbor statement, which indicates that management may provide forward-looking statements of this presentation and you can find this statement on our website at [westpharma.com](http://westpharma.com).

This afternoon, I'm going to share with you the West Pharmaceutical story, and we'll talk about where the business has evolved from, where we're going and more importantly, what are some of the strategic initiatives that will deliver the results that you expect from West Pharmaceuticals. This business has a very rich history of 90 years, that's been developed around components that are used and the drug delivery devices used on patients around the world, plus the innovation factor that West Pharmaceuticals has worked directly with customers to identify new delivery mechanisms and services required to develop new solutions, which has gotten to the point where we are, we're developing market-leading solutions throughout the world.

As you heard in last the last few weeks, I have joined West Pharmaceutical Services as the CEO of the company. I'd be remiss if I didn't acknowledge Don Morel of his 13 years as CEO and Chairman of this organization. He and the team have developed a very strong franchise that has been able to service customers around the world, and he will be with us for the balance – until the end of June as our Chairman and then resigning at that point. So on behalf of 7,000 colleagues and several customers around the world, just want to acknowledge the great work that Don Morel has brought to West Pharmaceuticals.

If you look at the history of the company, the transition, back in 2001 there was a really strategic drive to take a look, transform the organization to become a leading global supplier of value added pharmaceutical packaging systems and components. Through the initiatives, there were several organic and inorganic drivers for both in the Delivery Systems and the Packaging Systems.

Particularly in the Delivery Systems, the acquisitions of Tech Group and Medimop has given us the significant presence in the contract manufacturing capabilities, which is really servicing several of our clients globally. But also new technologies that are lending itself to – in new innovative delivery devices, such as SmartDose, that we see promising prospects in the future.

In the Packaging Systems, it really was around the quality initiative, and we'll talk more a little bit later about the high value product portfolio and how that's generating value for our customers and also our shareholders. But also the focus around geographic expansions, particularly in Europe and Asia with the investments in Singapore, China and India, which has really positioned us well to be a global player in this global market.

The impressive aspect about this business is that it's had a growth over 10% since 2001, and it's about \$1.42 billion as of last year. This is supported by several customers, as you'd note, all the pharmaceutical and biotech firms that we work with on a daily basis. We're also working with the generics in the biosimilar space and also medical device companies.

There isn't one customer that's greater than 7% of our sales today, and geographically speaking, approximately 40% of our revenues reside in the United States, so it makes us truly a global organization leading in this capacity.

The key drivers of this business are pretty telling about where we're going as a business. One is, the advanced biologic treatments for chronic diseases. This is an area of increased focus with our injectables, both in our packaging systems and also delivery systems. The globalization and consolidation is very important to be able to work with clients and demonstrate we have the capability of delivering products at the highest standard in all geographies around the world.

One of those strongest modes around our business that's enabled us to be very protective of our position, leadership position, in this marketplace is the stricter regulatory and compliance standards that we're able to meet, match on a daily basis, solve some pretty difficult problems for our customers. And we're looking at differentiate, as we look in the future, differentiated through delivery and these are the delivery solutions that we'll be talking about shortly.

Also when you look in the injectable therapies on the rise, there's really four key areas that West Pharmaceuticals plays and one is autoimmune, second is oncology, diabetes, and also in the vaccine marketplaces. These are all high growth areas in the biologics space and West is well positioned to take advantage. Historically, the growth has been robust and we continue to see that going into the future.

Particularly in the biologics space, a growing share of the medicine is being delivered on a global basis. You can see the rapid growth here. West is positioned well as the leader of all biologics touching the West or Daikyo components. And it was really driven by the monoclonal antibodies and also insulin growth and, again, we're positioned well to take advantage of this phenomenon.

The business, if you look at West, is broken up in two business units. 70% of the business is around Packaging Systems, about \$1 billion of business, primarily the packaging components for liquid and lyophilized drugs, and we have a very strong position in this particular area. Secondary packaging components such as needle shields, et cetera, is another area that West plays in for that \$1 billion revenue.

And the second business is around the Delivery Systems, about \$400 million in 2014. There's two components of that; one is 75% of the business is around contract manufacturing. These are products such as the EpiPen and several other diagnostics, medical/surgical products. The other 25%, which is growing slightly faster than contract manufacturing is the proprietary products. These are products around drug reconstitution and fluid transfer, needle safety and the product portfolio we talked that we talked about is Daikyo Crystal Zenith products, and also SmartDose, the drug administration devices. So this is an area of growth for our business.

Let me go in greater detail about the Packaging Systems. The business for the last five years has been growing about mid-single digits, about 6% through 2014, and there's two components to it. One of the areas that's driving growth is about 46% of the business, it's the high value products. It really constitutes the portfolio around Westar and FluroTec coating capabilities. And then recently launched last year, the NovaPure and also the acceleration of Envision inspection process. Again, creating differentiation from the standard packaging capabilities and lend itself to higher growth rates for our business.

The competitive advantage around this particular part of the business is, we're invited to the table early on as companies are looking at, launching a drug into the marketplace where in the design phase, when they talk about the primary packaging capabilities and are written into the DMF when filed with the local authorities.

We also have a very strong IP-based tremendous amount of manufacturing knowhow and technology capabilities, particularly in the high-value product portfolio, which is very difficult to duplicate. And our customers are global, looking for global capabilities. As mentioned earlier, we do have a global footprint and we're able to support our customers on a global basis.

The results are – we are a trusted partner with many customers. We are in the top 50 pharma and biotech companies with components from both West and Daikyo, which is a partnership we have with a Japanese firm. We're also in the top 35 injectable biologics that again rely on West and Daikyo components, so we're clearly able to support the top customers in both the small molecule and the biologics space.

When we look at the increasing challenges in the biologics, particularly in the mechanisms used to deliver the medicine, looking for new quality levels and new standards of manufacturing approach, such as flexibility, total cost of ownership and then the ultra clean components needed to be able to meet the stringent regulatory approvals. This is where West solutions provides value to our customers globally. We have already used containers and components. We have invested in clean room capabilities and we have the advancement with CZ and self-injection technologies, which is in several trials as we speak.

Really, this is a great way to take a look at the business how it's broken out today. As I mentioned earlier, the high value products are about 46% of the entire \$1 billion business within the Packaging Systems, and that is growing high-single, low-double digits for us.

Again, it's taking the standard packaging capabilities and adding the additional innovation that we brought for our customers around FluroTec, around Westar, and also now Envision and NovaPure, which allows us to have healthier margins, as you can see from the standard packaging, which is relatively the same size and slower growth for us. As biologics become more dominant in the marketplace, our position with the high value products will go along with those biologic growth rates that you'll see in the marketplace.

Turning our attention to the Delivery Systems, just to reiterate, it's about 30% of West and the growth in the last five years in this particular business, around 7%. It's broken up in two components, one, contract manufacturing and the second is the driver of this is the proprietary products, which is roughly around 20% growth over the past five years.

And it's really leveraging the partnership we have with Daikyo in regards to the Crystal Zenith, the vials and syringes that are currently in many test runs at this point, and also SmartDose, electronic wearable injector, which has the capability to infuse large molecules or biologics into a patient over a short period of time, which is less painful and more driven by the patient themselves. And also the Tech Group, which is the manufacturing – custom manufacturing side, which is really focused around the pharma and the med device sector.

Speaking a little further on contract manufacturing, the Tech Group is roughly about 75% of the Delivery Systems' business, this is a part of our business that's producing EpiPens, glucose monitoring systems, really for long-term relationships with our customers. These are products that we expect and have been working with our customers for quite a while to deliver their products on a global basis.

Competitive advantage that we have with delivery systems is looking at the contract manufacturing, the capability of our engineers, working with our customers to optimize the manufacturing process to really deliver a final

product that is usable and adopted in the marketplace, and also the tooling of our capabilities to able to manufacture pretty complex containments for delivery of drugs.

On the proprietary side, the strengths that we have is around the CC vial, we've discussed, and also drug reconstitution and administration. The growth on the Delivery Systems continues to be robust and we'll continue to see the growth of the proprietary products continue to grow faster, roughly it's about 20% what we've seen a five year CAGR in last five years. And again, the margins of proprietary is significantly higher than the contract manufacturing.

We believe that this shift will occur from 75-25 to be more 50-50 over the next several years, as adoption of products like CZ and SmartDose is adopted into the marketplace.

Our growth initiatives going forward with our Packaging Systems and Delivery Systems are very clear. And the Packaging Systems has continued to drive high-value products, and looking at continue to bring more innovative solutions to our customers as they work through the migration to more biologics, we will see an increase in the average selling price and also an increase in the margin of that portfolio as we move forward.

We'll continue to invest in geographic expansion, particularly in Asia. Right now, we're roughly – less than 10% of our business is in that part of the region for the entire West portfolio, and we intend to invest more heavily in those areas. We also will invest in high value packaging manufacturing expansion. We've talked about China-India, but we're also investing in Jersey Shore up in Pennsylvania and Kinston in North Carolina.

The global operating efficiencies looking at how do we harmonize and how we leverage the global operations so that we can drive margin and efficiencies for our customers. And, again, the zero defect in quality initiative which is critical that a customer can rely on the consistency of the West product, whether it's produced, manufactured in Asia, Europe or United States.

On the Delivery Systems, it's continued to build out the capabilities in the proprietary product portfolio, we have strong interest in the Daikyo Crystal Zenith and also drug administration aids, and we're also seeing an increasing interest around self-dosing devices and combination products.

As we look at the strategy long-term for the business, it's taking the components which we've historically been very strong. It's core competency of West and adding that to the elements of Delivery Systems, when you're looking at the SmartDose, CZ syringe and truly developing integrated delivery systems. And as you see, we've communicated about the SmartDose and CZ cartridge combination; that's the value. As we increase the value to West, we also increase the customer engagement as we design these particular solutions for our customers.

The progress we're making with the SmartDose is that we have eight active development projects in the Phase 3 clinical trials. We shipped in 2014 roughly over 800,000 cartridges and over 100,000 units. We continue to see a strong interest with the SmartDose technology.

And in Daikyo Crystal Zenith vials and syringes, we have over 30 products approved in the U.S., Europe and also in Japan. There's – we're doubling the number of formal stability trials, and we just received information about a 50 ml vial approved in the U.S. custom application, and also a 2 ml vial recommended for approval in the U.S. And so there – and there are several clinical studies underway with the 3.5 ml and the 2.5 ml cartridges. So we're making strong progress in these particular areas.

On the geographic expansion, last year, we completed the India metals manufacturing with the intent to make it a center of excellence to transfer some of our metals manufacturing capabilities out of Singapore and also Kinston, so that we can free up mostly out of Singapore, free up more of the facility to use for high value products.

We initiated Waterford, Ireland expansion. This is a great opportunity for us to build more presence in Europe, and construction will commence in later this quarter, in 2015. And we expanded our Kinston site to include high value processing, which is in validation at this point, which really allows us to work with customers have dual sourcing and allow for risk mitigation within our manufacturing capability. And this is an exciting area as we continue to broaden our footprint on a global perspective.

So, the key takeaways for West Pharmaceuticals really is a very diverse, strong customer base, geographically speaking, in all regions in the pharma, biotech and med device space. And the business is extremely sticky in regards to, there's a high barrier of entry, whether it's the manufacturing knowhow of the intellectual property, the global footprint required to build and support the customers on a global basis, and also the innovation in engineering capabilities that we have at West truly support our customers' endeavors.

The markets that we are playing in are higher growth, when the biologic spaces continue to grow faster, and we have components that fit real well with our customers' end products. We're also seeing in the high value products, driving margin and future growth, again driven by the biologics space, where we're positioned really well to continue to capture a significant share in those areas.

And to summarize our financial strength, the balance sheet is strong, the operating cash flow is strong and we have a very strong management team across the globe to continue forward with a strategy.

So, I'd like to invite you to Q&A session with Bill Federici, our Chief Financial Officer, and myself across the hall, appreciate your time and thank you for your attention.

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