

WEST PHARMACEUTICAL SERVICES INC
Form 10-Q
October 31, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-8036

WEST PHARMACEUTICAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania 23-1210010

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

530 Herman O. West Drive, Exton, PA 19341-0645

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 610-594-2900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No p

As of September 30, 2017, there were 74,252,923 shares of the Registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales	\$398.2	\$376.7	\$1,183.5	\$1,126.8
Cost of goods and services sold	273.2	255.6	799.4	749.1
Gross profit	125.0	121.1	384.1	377.7
Research and development	9.1	9.0	29.4	27.2
Selling, general and administrative expenses	61.5	58.3	183.7	178.9
Other (income) expense (Note 12)	(9.5) 2.5	3.1	29.1
Operating profit	63.9	51.3	167.9	142.5
Interest expense	1.3	2.2	5.7	6.7
Interest income	0.3	0.2	0.9	0.8
Income before income taxes	62.9	49.3	163.1	136.6
Income tax expense	14.0	14.4	19.1	38.3
Equity in net income of affiliated companies	2.1	2.7	6.7	6.2
Net income	\$51.0	\$37.6	\$150.7	\$104.5
Net income per share:				
Basic	\$0.69	\$0.51	\$2.04	\$1.43
Diluted	\$0.67	\$0.50	\$1.99	\$1.40
Weighted average shares outstanding:				
Basic	74.2	73.3	73.8	73.0
Diluted	75.9	75.0	75.8	74.7
Dividends declared per share	\$0.14	\$0.13	\$0.40	\$0.37

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$51.0	\$37.6	\$150.7	\$104.5
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	22.5	5.9	64.7	15.9
Defined benefit pension and other postretirement plan adjustments, net of tax of \$(0.3), \$0.3, \$(0.7) and \$0.9, respectively	(0.7)	0.6	(1.6)	2.2
Net loss on investment securities, net of tax of \$(2.9)	—	—	(5.1)	—
Net (loss) gain on derivatives, net of tax of \$(0.2), \$(0.1), \$(0.5) and \$0.4, respectively	(0.6)	—	(1.8)	0.7
Other comprehensive income, net of tax	21.2	6.5	56.2	18.8
Comprehensive income	\$72.2	\$44.1	\$206.9	\$123.3

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(In millions, except per share data)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 269.3	\$ 203.0
Accounts receivable, net	251.8	200.5
Inventories	215.8	199.3
Other current assets	40.0	39.1
Total current assets	776.9	641.9
Property, plant and equipment	1,701.2	1,554.7
Less: accumulated depreciation and amortization	865.8	776.4
Property, plant and equipment, net	835.4	778.3
Investments in affiliated companies	84.6	82.7
Goodwill	107.1	103.0
Deferred income taxes	87.2	66.2
Intangible assets, net	22.5	23.3
Other noncurrent assets	16.7	21.3
Total Assets	\$ 1,930.4	\$ 1,716.7
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and other current debt	\$ 33.2	\$ 2.4
Accounts payable	121.9	122.0
Pension and other postretirement benefits	2.3	2.2
Accrued salaries, wages and benefits	62.9	51.6
Income taxes payable	7.4	4.5
Other current liabilities	72.3	58.3
Total current liabilities	300.0	241.0
Long-term debt	196.6	226.2
Deferred income taxes	8.9	9.2
Pension and other postretirement benefits	62.0	75.6
Other long-term liabilities	46.0	47.2
Total Liabilities	613.5	599.2
Commitments and contingencies (Note 14)		
Equity:		
Preferred stock, 3.0 million shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.25 par value; 100.0 million shares authorized; issued: 75.1 million and 73.7 million; outstanding: 74.3 million and 73.1 million	18.7	18.4
Capital in excess of par value	302.9	260.4
Retained earnings	1,188.6	1,071.6
Accumulated other comprehensive loss	(130.6) (186.8
Treasury stock, at cost (0.8 million and 0.6 million shares)	(62.7) (46.1
Total Equity	1,316.9	1,117.5
Total Liabilities and Equity	\$ 1,930.4	\$ 1,716.7

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(In millions)

	Common Stock Share	Amount	Capital in Excess of Par Value	Treasury Stock	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance, December 31, 2016	73.7	\$ 18.4	\$260.4	\$(46.1)	\$1,071.6	\$ (186.8)	\$1,117.5
Effect of modified retrospective application of a new accounting standard (see Note 2)	—	—	—	—	(4.1)	—	(4.1)
Net income	—	—	—	—	150.7	—	150.7
Stock-based compensation	—	—	4.3	7.5	—	—	11.8
Shares issued under stock plans	1.4	0.3	33.9	6.2	—	—	40.4
Shares purchased under share repurchase program	—	—	—	(26.9)	—	—	(26.9)
Shares repurchased for employee tax withholdings	—	—	(0.4)	(3.4)	—	—	(3.8)
Dividends declared	—	—	—	—	(29.6)	—	(29.6)
Other adjustments to capital in excess of par value	—	—	4.7	—	—	—	4.7
Other comprehensive income, net of tax	—	—	—	—	—	56.2	56.2
Balance, 9/30/2017	75.1	\$ 18.7	\$302.9	\$(62.7)	\$1,188.6	\$ (130.6)	\$1,316.9

See accompanying notes to condensed consolidated financial statements.