

West Pharmaceutical Services - Capacity Before the Rebound?

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Decision scope: Phasing growth capacity and capital priorities

Case convention: This is a hypothetical management decision exercise. Company disclosures are historical; no board reconsideration or private deliberation is represented.

The decision

West Pharmaceutical Services had maintained its 2023 capital-spending guidance at \$350 million. That plan included incremental capacity expansions at existing high-value product (HVP) facilities. Through September, the company had spent \$253.3 million on capital expenditures. Its October 26 release reported slower restocking by large pharmaceutical and generic customers, lowered full-year sales guidance, and retained its capital-spending outlook. HVP sales and contract-manufactured products were still growing. [S1]

At 8:15 a.m., senior leaders are asked to prepare a recommendation for the next capital review:

How should West phase existing HVP expansions and any next capacity tranche while customer restocking normalizes? The leadership team may recommend continuing the disclosed plan, staging or deferring selected hypothetical investments, or changing the priority of future capital. Any reallocation in this exercise is a classroom proposal; West did not disclose a reopened budget, a discretionary pool, or a board decision to reallocate.

The timing problem is difficult. Waiting may reveal whether restocking and COVID-related sales have normalized, reducing the chance of building capacity ahead of demand. But construction, commissioning, validation and customer qualification take time. A delay could leave West unable to serve a customer launch or constrained product family when demand returns. The public information does not identify which facilities, products or projects face either risk.

The October 26 earnings call was scheduled for 9:00 a.m. EDT. Use only information available by 8:15 a.m. The release was public at 8:00 a.m.; the Q3 Form 10-Q was not accepted by the SEC until 4:26:21 p.m. The call, slides, 10-Q and later information are outside this case's information set.

What West sells

West supplies packaging components and delivery systems for injectable medicines and other healthcare products. Its proprietary products segment includes HVP components, standard packaging and delivery devices. A second segment contract manufactures drug-injection devices and healthcare-diagnostic components. West describes its competitive basis as product design and performance, quality, regulatory compliance, scientific expertise and total cost, supported by integrated systems and global manufacturing. [S2]

In the third quarter of 2023, proprietary products generated \$602.5 million of West's \$747.4 million in net sales. The segment reported 3.2% organic growth, while HVP sales were more than 75% of segment sales and grew at a mid-single-digit organic rate. Contract-manufactured products generated \$144.9 million in sales and 17.4% organic growth. Management attributed growth in that segment to drug-injection-device and diagnostic components. Organic growth excludes currency translation and a recent plant divestiture; it is not a volume or utilization measure. [S1]

West's 2022 filing reported that HVP components represented 55% of consolidated sales, delivery devices 5%, standard packaging 23%, and contract-manufactured products 17%. Those historical company-wide categories have different denominators from the 2023 HVP share within proprietary products. West also reported that its ten largest customers accounted for 45.6% of 2022 sales, with no one customer above 10%. These figures establish exposure to important customer relationships, but do not show which customers are restocking, launching products or tied to a specific capacity project. [S2]

A mixed demand signal

West's chief executive described slower restocking by large Pharma and Generic customers. For the fourth quarter, management expected double-digit base organic growth excluding COVID-related sales, driven by HVP components in certain customers and therapeutic categories. These are management's characterization and forecast, not independently verified end demand. [S1]

The full-year outlook moved in different directions. West lowered its 2023 net-sales guidance from \$2.970-\$2.995 billion to \$2.950-\$2.960 billion, and its organic-growth outlook from 3-4% to 2-3%. It raised adjusted diluted EPS guidance from \$7.65-\$7.80 to \$7.95-\$8.00. The release does not provide a bridge sufficient to attribute the divergence to price, mix, currency, costs, taxes or another factor. [S1]

Exhibit 1. Q3 2023 performance and management outlook

USD millions except growth, EPS and guidance; company-reported.

Measure	Q3 2023 / latest guidance	Context
Consolidated net sales	\$747.4	Reported growth 8.8%; organic growth 5.7%
Proprietary Products sales	\$602.5	Organic growth 3.2%; HVP was over 75% of segment sales and grew mid-single digits organically
Contract-Manufactured Products sales	\$144.9	Organic growth 17.4%
FY2023 net-sales guidance	\$2,950-\$2,960	Prior: \$2,970-\$2,995
FY2023 organic-growth guidance	2-3%	Prior: 3-4%
FY2023 adjusted diluted EPS guidance	\$7.95-\$8.00	Prior: \$7.65-\$7.80
FY2023 capital-spending guidance	\$350	Includes incremental spending for expansions at existing HVP facilities

Source: [S1]. Organic growth and adjusted EPS are company-defined non-GAAP measures; see release definitions. Growth rates and segment sales do not disclose project utilization, unit volumes, customer orders or returns.

Capital, cash and the limits of the snapshot

For the first nine months of 2023, West reported \$537.4 million of operating cash flow, \$253.3 million of capital expenditures, and \$284.1 million of company-defined free cash flow (operating cash flow less capital expenditures). Free cash flow was down 6.4% year over year. The company repurchased \$261.3 million of shares during the same period. [S1]

The \$350 million annual capital-spending outlook less the \$253.3 million already spent equals \$96.7 million. This is arithmetic, not evidence that the amount remained uncommitted, cancellable or available for a new use. The release does not separate maintenance from growth capital or identify HVP project amounts, sunk costs, cancellation rights, stage gates or expected returns. Repurchases and capital projects may also differ in timing, approvals and constraints; the figures do not prove that one dollar can be shifted directly to the other.

Exhibit 2. Nine-month cash and capital spending

USD millions; nine months ended 30 September 2023.

Measure	Amount
Operating cash flow	\$537.4
Capital expenditures	\$253.3
Company-defined free cash flow	\$284.1
Share repurchases	\$261.3
FY2023 capital-spending guidance	\$350.0
Guidance less nine-month capex	\$96.7

Source: [S1]. The final line is a subtraction only; it is not a forecast of remaining cash or discretionary spend.

Competitive context

AptarGroup, another supplier with a pharma business, reported Q3 2023 Pharma sales growth of 13% and core growth of 8%; it described double-digit growth in proprietary drug-delivery systems and modest growth in injectables as capacity came online. Aptar's products, segment definition and mix differ from West's. Its results suggest that capacity was also a live industry issue, but they do not establish comparable demand, profitability or West's project economics. [S3]

The alternatives

The executive team must recommend a direction and state what evidence would change it:

1. **Continue the disclosed plan.** Complete currently planned HVP expansions and preserve the \$350 million full-year capital-spending outlook. Explain why protecting qualification-sensitive supply and expected growth outweighs the risk of excess capacity.
2. **Stage the next tranche.** Continue work already under way while making later, hypothetical commitments conditional on customer milestones, demand evidence, utilization or other project-specific gates. Explain how to avoid losing too much time if demand returns.
3. **Defer lower-confidence capacity.** Protect only projects judged most strategically important and postpone or reduce selected hypothetical expansions. State how the team would identify the projects and manage customer, qualification and restart risks.
4. **Change future capital priorities.** Recommend another use for future or genuinely uncommitted capital, such as other operating needs or shareholder returns. Identify the approvals and project-level facts needed; the public record does not establish that capex is freely transferable.

Options 2-4 are hypothetical policy choices, not actions West announced. The alternatives can be combined only if the recommendation makes the sequence, scope and decision rights clear. No facility-level project list or forecast is provided; students should not invent one.

Assignment

Prepare a short recommendation for West's next capital review. Choose a direction for existing HVP expansions and any next tranche. Address:

- What demand evidence should support each irreversible commitment?
- How should customer qualification, construction lead time and the cost of delay affect the timing decision?
- Which indicators would prompt acceleration, staging or deferral?
- What project-level information should management obtain before making the decision?

Do not treat the \$96.7 million arithmetic remainder as a discretionary budget. Do not infer utilization, customer commitments, capacity bottlenecks or project returns from sales growth. Use only the pre-8:15 a.m. October 26 information set.

Discussion questions

1. What are the strongest demand and capacity signals in the public information? Which are facts, and which are management interpretations or forecasts?
2. How might customer restocking normalization and long qualification or construction lead times point toward different decisions?
3. Which of the four alternatives best manages the downside of excess capacity and the downside of delayed supply? What is the strongest argument against your choice?
4. What project- and customer-level information would make staging operationally meaningful? How could the team design gates without making a delayed decision irreversible?
5. What evidence and decision date should trigger a change in course? How would West distinguish end demand from temporary restocking, COVID-related sales or product mix?

Sources and conventions

S1. West Pharmaceutical Services, [Q3 2023 earnings release](#), published 26 October 2023 at 8:00 a.m. EDT. Release summary, segment discussion, cash flow/capital-spending guidance, full-year guidance and non-GAAP definitions. SEC-filed [release exhibit](#).

S2. West Pharmaceutical Services, [2022 Form 10-K](#), filed 21 February 2023. Item 1, business, competition, customers and risks, printed pp. 5-7 and 13-17; product mix, printed p. 52.

S3. AptarGroup, [Q3 2023 results release](#), 25 October 2023. Pharma segment sales and narrative. Aptar's product and segment mix differs from West's.

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