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Company Name: Univar
Company Ticker: UNVR US
Date: 2018-05-10
Event Description: Q1 2018 Earnings Call

Market Cap: 3,754.37
Current PX: 26.57
YTD Change($): -4.39
YTD Change(%): -14.180

Bloomberg Estimates - EPS
Current Quarter: 0.480
Current Year: 1.700
Bloomberg Estimates - Sales
Current Quarter: 2384.800
Current Year: 8666.286

Q1 2018 Earnings Call

Company Participants

- David Lim
- David C. Jukes
- Carl J. Lukach

Other Participants

- Allison A. Poliniak-Cusic
- Dylan Campbell
- Stephen Byrne
- Matthew DeYoe
- Michael Leithead
- James Sheehan
- Karen K. Lau
- Nicholas Cecero

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the Univar's First Quarter 2018 Earnings Conference Call. My name is Jacqueline, and I will be your host operator on this call. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time. [Operator Instructions]

I will now turn the meeting over to your host for today's call, David Lim, Vice President of Corporate Development and Investor Relations at Univar. David, please go ahead.

David Lim

Thank you and good morning. Welcome to Univar's first quarter 2018 conference call and webcast. Joining our call today are David Jukes, Chief Executive Officer; and Carl Lukach, Executive Vice President and Chief Financial Officer. This morning, we released our financial results for the quarter ended March 31, 2018, along with a supplemental slide presentation. The slide presentation should be viewed along with the earnings release, both of which have been posted on our website at univar.com.

During this call, we will refer to certain non-GAAP financial measures, for which you can find the reconciliation to the comparable GAAP financial measures in our earnings release and the supplemental slide presentation. As referenced on slide 2, we may make statements about our estimates, projections, outlook, forecast or expectations for the future. All such statements are forward-looking, and while they reflect our current estimates, they involve risks and uncertainties and are not guarantees of future performance. Please see our SEC filings for a more complete listing of the risks and uncertainties inherent in our business and our expectations for the future.

With that, I'll now turn the call over to David for his opening remarks.

Bloomberg Transcript

Bloomberg

David C. Jukes

Thank you, David, and welcome to Univar's first quarter 2018 earnings call and my first as CEO. Let me start today's call by saying it truly is an honor to be leading Univar at this exciting time, as we transform our company into one that consistently exceeds our customers' and suppliers' expectations and delivers sustainable double-digit probability growth for our shareholders. We have an energized and focused leadership team, an incredible landscape of growth opportunities and a clear plan to create shareholder value.

I'm pleased to report a strong start to the year. During the quarter, Univar earned adjusted earnings per share of $0.42, an increase of 45% from a year ago. Our adjusted EBITDA increased double-digits in all our regions and increased 19% to $166 million on a consolidated basis. We're in an economic environment that is broadly supportive with strength in the industrial economy and a positive environment for chemical prices. The team is laser-focused on driving profitable growth and our execution is improving. Our margins are expanding as evidenced by higher adjusted EBITDA and conversion margins in all our regions, and we're winning new business.

For almost two years now, we've been working to change our culture and improve our commercial and operational execution. We're becoming a high performing innovative growth company that can generate superior earnings in any economic environment. Across our organization, we've implemented new processes to drive accountability and rigor and reset expectations for profitability. We're taking the steps we need to become a company that consistently delivers exceptional value for our customers, supplier partners and our shareholders.

However, there is still much, much more hard work in front of us, and there is plenty we still need to do. There are abundant opportunities to make our company better on several fronts and in every region. However, our USA business, which represents approximately 60% of our global business, is where we see the greatest opportunity for improvements.

Last year, we reorganized the business to be more customer-focused moving from a one size fits all model to the creation of four dedicated go-to-market lines of business, Focused Industries, Local Chemical Distribution, Bulk Chemical Distribution and Services. This differentiated approach better meets the needs of our customers and supplier partners by focusing sellers and technical product experts on discrete end markets and customers. It provides those customers with the industry expertise and market insights, which they truly value and trust. This drives deeper customer engagement and improves our mix of differentiated products and ingredients, allowing us to deliver and capture more value.

Our supplier partners are extremely positive about the focus our dedicated go-to-market strategy is bringing and our improving execution. They understand and appreciate the value of having a specialized approach in different market segments. Our momentum is building. A pipeline of potential new supplier authorizations remains robust. And we've recently received two new product extensions, which moves business out to a supplier's direct channel into distribution, demonstrating the impact that our improving execution can have on shaping and accelerating the outsourcing trend.

During the quarter, we took several steps to improve our sales force execution. In addition to our Sales Academy and Counselor Sales Programs, we held sales manager workshops, providing almost 200 of our sales leaders across all lines of business and geographies with the coaching and tools they need so they can better develop and manage their teams. Our sales leaders were schooled on how to manage their teams and to sell high, wide and deep, all with the goal of achieving sustainable, consistent double-digit growth.

We're advancing our efforts to find and develop the right sales talent to drive future growth. During the quarter, we continued to hire and increase the size of our sales force, but most pleasingly, have significantly reduced the churn rate of sellers leaving the company. While it typically takes 12 to 18 months for new hires to become highly productive, we're excited about the talent we're attracting; sellers who are hungry to grow and advance their careers at Univar.

In March, we held our first ever Champions Club for our top 25 sellers worldwide to reward and celebrate their superior performance. Me personally, it was great fun to be among salespeople again where I started my career some too many years ago. To get to talk to them about what they did to earn the right to be inducted into this elite group and

what I and the leadership can do to help them continue to be successful was simply energizing. The event was a huge success. An invitation into the Champions Club is fast becoming an aspirational goal for our sellers and a positive way that we're changing our culture to make Univar a place where the best people want to work.

Our win/loss ratios are improving in all regions and we're encouraged by our progress to date. However in the U.S., it is still not where we want or needed to be. We're instilling a disciplined, growth-orientated sales culture. And although we see it in pockets throughout our USA organization, it will take time to ingrain it into our DNA such that it becomes a way of life. The good news is that we know we have the right plan, as well as many of the great players we need in place to execute on our transformation.

Empowered with our efforts to build commercial greatness, we're advancing our operational excellence initiatives. We're improving our branches site by site through hands-on engagement to our operations leadership. We've closed branches in certain locations, and we'll be realizing additional savings by running a more efficient hub-and-spoke network in 2018.

We're managing through an incredibly tight carrier market, with driver shortages and rising fuel costs. We have open positions we're looking to fill and we continue to work on finding the right balance between our private fleet, dedicated carriers and common carriers. We see opportunities to realize indirect procurement efficiencies as you bring more categories under management and leverage our size. Our operations and commercial teams are collaborating to ensure we appropriately price our offering for the value we are creating in the market. All of these actions are being taken to combat an environment of rising labor, regulator and carrier costs.

We continue to advance our digitization initiatives with investments that deliver digital solutions to enhance and differentiate the Univar customer experience. These include our e-commerce platform MyUnivar.com, which provides customers our full product catalog and features instant access to documents such as order and shipment tracking, safety data sheets and 24/7 access from any device. This also allows customers to search, source and self-serve through the site and to interact with us wherever, whenever and however they want. And we're seeing an increasing number of orders placed outside of standard operating hours, with nearly half of all MyUnivar.com customers using the two-click reorder feature, demonstrating the platform's ease of use and potential for repeat business.

But beyond this, we're developing a suite of digital tools to help drive demand as well as connect suppliers to the data we capture from the marketplace, data like usage and demand patterns. The application of the data we have throughout our extensive worldwide network become increasingly important as we continue to transform our company into the most valued chemicals and ingredient distributor in the world, and the first choice for both customers and suppliers.

Our M&A program is active and we have a good pipeline of opportunities. In January, we closed on the acquisition of Kemetyl Industrial Chemicals in the Nordic region. The company generates roughly $30 million in sales and strengthens our position in Norway and Sweden, as well as the pharmaceutical and water treatment markets. Earlier this week, we announced the acquisition of Earthoil, a subsidiary of Treatt based in the United Kingdom. The company generates roughly $11 million in sales and strengthens our brand and position as a leader in the European natural beauty and personal care market. The agreement supports our strategy to acquire assets that can be leveraged across our global network. We expect the acquisition to close at the end of this month.

Our plan is working and our execution's improving. We have abundant opportunities to reinvest in our business to improve our efficiency and drive growth. Our teams are energized by the early success they are seeing and we are well on our way to become a good company that consistently delivers double-digit growth.

Now let me turn the call over to our CFO, Carl Lukach, who will walk you through our first quarter results.

Carl J. Lukach

Good morning. We've made a strong start to the year and I have a lot of news to share with you in this quarter's performance report. I'll begin on slide 3. In the first quarter, all of our measurements of profitability grew double-digits from solid core business performance in all segments, particularly outside the USA. Good cost control enabled strong

operating leverage to the bottom line. GAAP earnings per share nearly tripled to $0.46 from $0.16. Adjusted earnings per share grew 45% from $0.29 to $0.42, and adjusted EBITDA increased 19% to $166 million from $140 million last year, or 14% excluding the impact of favorable foreign exchange.

Our adjusted operating cash flow was a net cash outflow of $98 million in the quarter, that's adjusted EBITDA less change in net working capital, less CapEx, and this reflects our higher EBITDA and lower CapEx as well as our typical seasonal increase in net working capital, amplified by the higher sales and higher net working capital in our Canadian Ag business.

Our return on assets in the quarter increased 400 basis points to 23.8% from 19.8% a year ago. All other return on capital metrics like ROIC, CROCI, and our internal Univar value-added metric showed substantial improvement from a year ago.

Turning to our consolidated results on slide 4, gross profit dollars increased 11% over last year as our initiatives to win new profitable business resulted in top line growth and margin expansion from favorable product and end market mix, as well as favorable currency. Our win/loss ratios are improving, in particular outside the U.S., and our execution is improving. Revenues during the quarter grew 8%, or 4% adjusted for currency, and our margins expanded as we focused our resources on growing in areas where we can add and capture more value. Higher average selling prices this quarter resulted from focused initiatives to improve our sales force effectiveness, favorable change in product and market mix, and chemical price inflation.

Operating expenses, which includes outbound delivery costs, warehouse, selling and administrative expenses, declined 20 basis points as a percentage of sales, which generated good operating leverage to the bottom line.

Our adjusted EBITDA margin increased 70 basis points in the quarter to 7.7%, and our conversion ratio increased 240 basis points to 34.2%. We made good progress with our operational productivity initiatives, and we will reinvest some of these Q1 savings back into our sales force, digital tools, and employee training to strengthen our business.

Let me now take you through each of our segments beginning with the USA on slide 5. USA adjusted EBITDA grew 12% to $91 million, reflecting higher average selling prices, good cost control, and help from some miscellaneous one-off items. Adjusted EBITDA margin increased 50 basis points to 7.6%, reflecting higher gross margin and operating leverage.

We continue see pressure on our freight expense from increased fuel costs, driver shortages and higher rates from carriers. Our freight cost per pound were up 8% in the USA compared to last year, which our supply chain teams are managing through. As David mentioned earlier, we have open positions we plan to fill in our sales force within our operations teams and to enable key digital initiatives, and we plan to prudently meter in these additional investments as the year continues.

USA sales increased 5% in the quarter, our second consecutive quarter of sales growth after three years of decline. Our volumes were down just under 1% reflecting actions taken last year to improve profitability. Gross profit grew $16 million, or 6%, reflecting improved sales force execution, mix enrichment and a net benefit from miscellaneous operating items, partially offset by higher inbound freight costs. Excluding the net benefit, gross profit increased about 3.5%. USA conversion ratio increased 180 basis points in the quarter as a result of strong operating expense management.

Turning then to results in Canada on slide 6, adjusted EBITDA grew 20% as a result of strong performance in our Industrial Chemicals business, strength in Western Canada, tight operating expense management and favorable FX. Excluding the impact of currency, adjusted EBITDA grew 15%. Gross profit in Canada grew 12% and gross margin increased 170 basis points, reflecting improvements in our Industrial Chemicals and Ag Services business.

Adjusted EBITDA margin increased 140 basis points and our conversion ratio increased 320 basis points as a result of the strong operating expense management. During the quarter and compared to last year, our Canadian business benefited from the unusually long, cold winter which resulted in strong sales into the natural gas pipelines in Western Canada. However, a cold April has resulted in a slow start to the ag season, which is impacting our second quarter.

In our Europe, Middle East and Africa segment on slide 7, adjusted EBITDA grew 33% as a result of double-digit growth in our Focused Industries, solid growth in our Local Chemical Distribution line of business as well as favorable FX rates. During the quarter, our EMEA business benefited from a cold winter which resulted in higher than expected sales of de-icing products in our LCD business. Gross margin declined 20 basis points largely due to a slight change in product mix versus last year. Adjusted EBITDA margin increased 60 basis points to 8.3% and our conversion ratio improved 290 basis points to 36% as a result of strong cost management.

Moving to slide 8 and our Rest of the World segment, we had strong growth in the quarter. Adjusted EBITDA grew 16% to $8 million, driven by growth in our Brazil business and increasing profitability in our small Asia Pacific operations. Our conversion ratio increased 120 basis points to 37% as a result of strong cost management and margin management actions taken, especially in Mexico. Adjusted EBITDA in our Mexico business was essentially unchanged from last year. The impact of lower volumes was offset by an improvement in our product and market mix. Our Brazil business grew strong double-digits, benefiting from a rising win/loss ratio and strong demand for specialty personal care products along with early ag season contributions from our acquisition of Tagma in September 2017.

Moving now to cash flow on slide 9. As I mentioned in the highlights, change in net working capital was a cash outflow in the first quarter of $232 million. This reflects our typical seasonal uptick in the first quarter and also a strong finish in sales in March, but also the timing of the Easter holiday which impacted the timing of customer collections, and lower prepayments from customers in our Canadian Ag business. Our 13-month average net working capital as a percentage of sales was 12.5%. By year end we expect most of this Q1 build in working capital to revert to normal levels and we project our full year investment in working capital to continue to be $50 million to $100 million to support growth.

CapEx was $16 million in the quarter, lower than the $21 million we spent last year, and lower than we planned due to the timing of certain projects. We will invest at a higher rate as the year progresses and expect to spend roughly $115 million in capital expenditures this year. Pension contributions in the quarter were $9 million compared to $7 million last year, and cash taxes in the quarter were $14 million compared to $12 million last year. Our effective tax rate for the quarter used to compute adjusted earnings per share was 25% compared to 14% last year. And this represented a $0.07 per share headwind.

Slide 10 details our debt profile. Net debt at quarter end was $2.6 billion, a decrease of $146 million from March of 2017. Our leverage ratio decreased almost three-quarters of a turn from 4.9 times to 4.2 times and our total liquidity remained strong at $817 million. Cash interest coverage of 4.8 times trailing 12-month cash interest improved significantly from 3.8 times a year ago.

Let me now address the outlook for 2018 in the second quarter on slide 11. We've made a strong start to the year, which gives us more momentum and also headroom to make targeted investments in our people, our sales force, operations and specific digital initiatives. Our win/loss ratios are improving, particularly outside the U.S. and top line revenue growth is returning and at higher margins.

In the second quarter, like the first quarter, we expect continued success at executing against our strategic priorities and we expect solid business performance in each of our segments. We are, however, seeing delayed demand from our Canadian Ag customers in the second quarter compared to last year. And we will continue to be challenged by higher freight costs. In aggregate, we expect high single-digit adjusted EBITDA growth in the second quarter.

For the full year, we remain on track to deliver low double-digit adjusted EBITDA growth. And we're raising our adjusted earnings per share outlook to a range of $1.65 to $1.85 as we successfully execute against our strategic initiatives and meter in prudent investments to drive growth and efficiency gains.

With that, I'll turn it back to you, David.

David C. Jukes

Thank you, Carl. Our first quarter results continue the positive growth momentum we created and further strengthen our confidence in successfully executing on our multi-year transformation plan. We have an exciting and unique opportunity to growth, both the profitability and size of Univar. We're in a large and growing market, and an industry that is fundamentally strong. Historically, our own execution has held us back, but we're making the changes needed to drive sustainable double-digit profitability growth.

We're transforming into a growth company, developing the infrastructure, culture, and execution skills to deliver superior growth for years to come. We see it most emphatically right now in our segments outside the U.S., but we're getting to win new business from both our suppliers and customers here as well. That said, our USA transformation is still in its early phase and we've got plenty of work still to do to support our growth over the next five years.

Through our shift to a one Univar culture, we truly are going from a collection of individuals making independent decisions to a collaborative, cohesive organization with a culture that holds people accountable and recognizes and rewards exceptional performance. This is the basis for strong execution and how we drive consistent double-digit profitability growth.

And you've heard Steve say this before but culture change is difficult. We did this in Europe and we're doing it now in the U.S. It takes time, experience, perseverance and thought. And although we're making some strong progress, there normally are and will be some bumps along the way. We're moving quickly but thoughtfully, and we are making the changes needed to build a foundation that delivers consistent sustainable earnings growth.

In closing, let me just add this. I've been in chemical distribution and at this company for a very long time, but it truly is a great time to be at Univar. Our future couldn't be brighter. We're showing accelerating growth in many metrics and KPIs, our supplier relationships are better than they've been in a really long time and we're building momentum, but there's a lot of work to do.

I'm often asked by investors what's going to change now that I have taken over as CEO. Well, not much. Steve and I worked hand-in-hand to develop our strategy and transformation plan. It's a strategy that was built with and is supported by our management team and sanctioned by our board. It's one that I believe is the absolute right one for our company. He and I both come from strong commercial backgrounds with a track record of success and we both understand how to drive commercial greatness and growth. That and a shared philosophy of integrity and respect for all our stakeholders is why we worked so well together and why it was such a pleasure for me.

However, there is one thing I would like to change. I want it to go faster. I'm impatient for success and wanted to truly capitalize on our potential and the huge growth opportunity that lays before us. That impatience and sense of urgency will never leave me. You should expect our leverage ratio to continue to come down and for our execution to continue to improve further. I could not be more excited to be leading Univar at this time.

Thank you for your attention. And with that, we'll open it up to your questions.

Q&A

Operator

Thank you. [Operator Instructions] Your first question comes from Allison Poliniak from Wells Fargo. Your line is open.

<Q - Allison A. Poliniak-Cusic>: Hi, guys. Good morning.

<A - David C. Jukes>: Good morning.

<A - Carl J. Lukach>: Good morning, Allison.

<Q - Allison A. Poliniak-Cusic>: We talked to the weather headwinds in Q2, is there any way to frame or quantify what that impact is, if we were – I guess relative to what a normal environment would have been for Q2?

<A - Carl J. Lukach>: The overall weather, well, gee, it was different in each region.

<Q - Allison A. Poliniak-Cusic>: Well, I meant more for Q2, like in your guidance, you're talking about holding back a little bit on adjusted EBITDA growth. If we would have been in a normal headwind, is it like a point headwind or is it less than that, how should we think about that?

<A - Carl J. Lukach>: I think that the big news there, Allison, is the ag impact in Canada. We think we're just now starting what will be a compressed season, but certainly April was a sub-par month, we had very low sales into that market in Canada. We believe they're going to be picking up here in May. So trying to give you a feel for it, we already lost April in that space. And so, that's why we tempered our growth expectations for the second quarter with regard to ag.

<Q - Allison A. Poliniak-Cusic>: Okay. And then I just want to touch on freight. Obviously, the challenges don't sound like they're going to go away anytime soon, the driver shortages and fuel. Can you walk through maybe how you guys are thinking about that, adjusting for can you pass that through to the customer ultimately? Any thoughts there?

<A - David C. Jukes>: Hey, Allison. This is David. Let me try and address that one for you. So, I mean freight is a challenge, freight is a challenge in a couple of areas. One, as it impacts the products coming into us, we're finding the lead times of the products coming in to us are not as dependable as they once were, and that's having an effect on our working capital, because we're having to hold a little more stock than we would normally do.

And then secondly, it impacts us on [ph] our performance (00:30:31) to customers. Our teams are working hand-in-hand, our commercial teams and our operational teams are working hand-in-hand, first and foremost, to make sure that we maintain that 95%-plus on-time delivery performance that we've worked so hard to get. We are out in the market recruiting more drivers at the moment and we'll continue to balance between our internal carriers and external carriers. And this freight issue actually is not just a U.S. thing we see it in Europe as well. And we see the pressures both from the freight suppliers, from diesel prices, and then also on our inputs from our suppliers, who are putting freight surcharges on. And we just have to work through this.

I mean, it's typical to push all these things to customers, but we are working through it, customers understand the situation. But it's a [ph] bite. It's a banic crawl (00:31:29) to make sure that we get this. We explain it through, we drive it through to customers and we maintain our margins. Customers have said they understand, it's not just us, this is a global phenomenon, so they understand, but there are inflationary pressures in the marketplace. Now the good news is this is the sort of thing as a distributor we have to deal with every day, so it's not new to us. It's just a little bit more accentuated at this point in time.

<Q - Allison A. Poliniak-Cusic>: Great. Thanks. That's helpful.

Operator

Your next question comes from Bob Koort from Goldman Sachs. Your line is open.

<Q - Dylan Campbell>: Hey. Good morning, this is Dylan Campbell on for Bob.

<A - David C. Jukes>: Dylan, good morning.

<Q - Dylan Campbell>: Good morning. So previously you've noted that sellers who, I guess, undergo formalized training deliver 20% more gross profit dollars than those who haven't. Can you dive deeper into the specifics into what is driving that gross margin uplift? Then I guess, subsequently, how long does this transformation generally take?

<A - David C. Jukes>: Sure. So I mean I think if you look at our EMEA business, we're seeing great success in EMEA. We're seeing double-digit growth across our Focused Industries, we're seeing consistent quarter-after-quarter-after-quarter performance. That business is really flying. Our Canadian business similarly; our Brazilian business similarly.

If you think about EMEA business and transformation we went through in EMEA, that's probably three to four years ahead of where we started in the U.S. So we started in the U.S. probably about a year ago. We say it takes 12 to 18 months to have a seller to be proficient. And we also – culture change is difficult and we need to keep on driving that culture change, that culture change to have people who are hunters and can explain value and can articulate value and bring value to customers rather than just farmers. And that change of culture takes some time and takes some perseverance. Now the good thing about the change of the leadership of Univar is Steve and I both have exactly the same approach on that, so there's no hiccup in that, there's no interruption, the momentum continues.

So if you look out, I mean, the EMEA business is a couple of years ahead of where the U.S. business is, so that can give you a kind of a sighter, if you like, for what you should expect two, three years down the road. I mean again, I think the good news is, I would sight that we had a pretty high churn rate for sellers last year, that was very deliberate. Some people didn't want to work the way we wanted to work, some people we didn't want to work the way we wanted to work, so it was a very deliberate series of choices.

Now our seller churn rate is down into mid-single-digits and that means we're actually now have people who are trained, who are starting to build relationships, who are starting to build pipeline of opportunities. We see that opportunity pipeline, we talk about our KPIs, improving KPIs. That's one of the KPIs we look at, how much the pipeline is increasing, how many opportunities we see. Then we look at how fast they close them, and how successful we are in closing them. So I think there's a good degree of encouragement we can see in that.

<Q - Dylan Campbell>: Got it. That makes sense. And I guess – and during the Investor Day last year, you noted targeting $50 million of operational improvements. Can you update us on the progress of those and whether you've been able to implement any of these optimization plans thus far?

<A - David C. Jukes>: So we have, some of those have been delivered, that was a multi-year program that we're on. We closed some sites last year. We have our supply chain optimization program going on, continuing in the U.S. We have that program now kicking off into Mexico as well. So we're on track with that.

<Q - Dylan Campbell>: Got it.

<A - Carl J. Lukach>: Just to add to that, Dylan. The transportation element of that's very important to us. The routing of trucks, that seems to be going very well. We keep learning more from the new systems we've put in place there. The indirect spend is just getting going. We've got high hopes there that we're going to find even more opportunities to reduce costs in that area. So on track multi-year plan.

<Q - Dylan Campbell>: Yeah. Hope's not a strategy, not high hopes, its big plans.

<A - Carl J. Lukach>: [indiscernible] (00:35:58).

<Q - Dylan Campbell>: Great. Thank you.

Operator

Your next question comes from Steve Byrne from Bank of America. Your line is open.

<Q - Stephen Byrne>: Yes. Thank you. Carl, you mentioned U.S. volumes down 1% year-over-year, but have they inflected positively? And if so, is that – is winning more than losing or are you also gaining on some new product authorizations?

<A - Carl J. Lukach>: Hey, Steve. Thanks for that. Yes – let me just repeat, your voice was kind of muffled there. But yes, first quarter volumes in the U.S. were down just less than 1%, which was the smallest decrease we've had in the last number of quarters. Looking forward, we're encouraged by what we see in the second quarter. It's still early but we are expecting that inflection as we lap the active margin management initiatives we took last year. So stay tuned, very much in our sights and we think we're getting very close to that.

<A - David C. Jukes>: Steve, this is David. I mean you know that for us, volume's a four-letter word and really we're laser-focused on profitable growth. And so the growth that we're getting, the supplier authorizations we're getting, the new business that we're winning really is a better quality of business than the business that we shed or left us last year.

<Q - Stephen Byrne>: And David, one follow-up for you. Are you using, say, higher fuel costs, but you also got also higher oil, we've got higher wage, we have just a generally inflationary environment, are you finding your customers more receptive to your price initiatives because of this inflationary environment?

<A - David C. Jukes>: Well, no one's ever embraced me when I walk in and give them a price increase, Steve. But I mean at least we're not a lone voice crying in the wilderness, I mean they're hearing it from everybody, so people understand, people absolutely understand what's going on. Now, we work hard to find you know ways to mitigate the cost impact for them by looking at how we can deploy our digital solutions to maybe improve the throughput or improve their working capital flow, or give them better visibility. But people understand, I mean they don't like it, but they're hearing it from everybody, so they understand.

<Q - Stephen Byrne>: Thank you.

Operator

Your next question comes from Kevin McCarthy from Vertical Research Partners. Your line is open.

<Q - Matthew DeYoe>: Good morning. It's actually Matt on for Kevin. Apologize if it's already been discussed, we're jumping around between a few calls this morning. As it relates to Canada, on the slide deck, you mentioned that the company benefited from longer and colder winter, was that in relation to higher methanol sales to the pipeline?

<A - Carl J. Lukach>: Yeah, exactly.

<A - David C. Jukes>: Yes, exactly. It's exactly that, Matt. So that helped us in the first quarter out in that region. The other side of that coin is when we come in to quarter two, to echo what Carl said earlier on, it delayed the ag growing season...

<Q - Matthew DeYoe>: Yeah.

<A - David C. Jukes>: ...so that's kind of other side of the coin.

<Q - Matthew DeYoe>: And I was just trying to ask I guess, if I can rationalize then 1Q with what looked like some pretty strong margins in Canada. I mean I would just think more methanol, less ag would be a net margin dilutive mix, but it seems like that wasn't necessarily the case. Can you just talk around the margin performance for the quarter in that market?

<A - David C. Jukes>: Well, I think the margin performance – I think if you look at the top line, it's driven by the balance and by methanol and particularly by the growth in the west. But if you look at overall the business in Canada, we're getting better sales force execution and we're growing the core business and that business is a more profitable business. So the team in Canada are actually doing a great job of building what I think of as core Chemical Distribution business, improving their win/loss ratio, improving their sales force effectiveness. They're doing everything that we could possibly ask of them.

<Q - Matthew DeYoe>: Okay. That's great. Thank you.

Operator

Your next question comes from Duffy Fischer from Barclays. Your line is open.

<Q - Michael Leithead>: Hey guys it's Mike Leithead on for Duffy this morning. I guess first on the guide, if I run the $0.05 EPS raise up the PAL, I think it works out to like $8 million or $9 million of EBITDA. Is that the right math or

are there other tailwinds below the EBITDA line that drives the higher EPS guide?

<**A - Carl J. Lukach**>: Oh, yeah, I'd say it's more about below the EBITDA line. We've got a little lower depreciation and amortization expected than we started out the year. We had that pension adjustment that we talked about last quarter. That's moved a little bit. So it's more – Mike, it's more below the EBITDA line. I mean, we're calling the year the same guidance on EBITDA, low double-digit growth for the full year. But we do want to share with you that revised estimates around the EPS.

<**Q - Michael Leithead**>: Got it. Okay. And then, on the freight side, can you just help us size your distribution split maybe between your own fleet versus third-party carriers in the U.S.? Are you seeing any advantage in the market today from having your own fleet versus maybe some of your competitors who might rely heavier on the third-party carriers?

<**A - David C. Jukes**>: Sure. I mean, I think in terms of having our own fleet, I think I said earlier on, we're looking to recruit more drivers. And that says that we believe that having our own fleet gives us some advantage. And so, yeah, having our own fleet means we have some control, I mean, probably a greater degree of control than people who rely more heavily on third-party carriers. For our core LCD business, it's pretty much all our own fleet delivering on those milk runs around the sites.

We want to see how we can extend the hours of those trucks. We can start to work the trucks harder without having to work the drivers harder or fall foul of any working regulations. So I think having our own fleets in the U.S. and I think having our own fleet in parts of EMEA has certainly been an advantage as transportations become tighter.

<**Q - Michael Leithead**>: Great. Thanks, guys.

Operator

Your next question comes from Jim Sheehan from SunTrust. Your line is open.

<**Q - James Sheehan**>: Thanks. So we had a working capital outflow in the first quarter. And you mentioned that this is going to revert to normal level. Could you give us a sense for the timing around inventory and receivables and whether that reversal to the inflow would occur in the second quarter here or later?

<**A - Carl J. Lukach**>: Okay. Sure. Hey, Jim. Thanks for that. On the receivables, let's take that one first. We did have some difficulty with the timing at the end of the first quarter, as I mentioned in the call. That we've seen reverse already in April. I mean, we had a nice rebound of what were at March 31 late payments that came right back into us in early April. So, there's a little bit more going on receivables, but a good amount of that will rebound in the second quarter.

The inventory is a little trickier. I mean you've got the ag situation going on where we've got excess inventories there. It depends. It depends on how compressed the ag season becomes up there in Canada this year and how much of that inventory we'll be able to move. We also have a little bit more inventory than our normal levels to help compensate for the driver shortages and disruptions and impact on our customer delivery times. So, I think that one will take a little longer throughout the rest of the year to spin out.

<**Q - James Sheehan**>: Terrific. And can you also talk about how much of a currency tailwind are you assuming in your 2018 guidance?

<**A - Carl J. Lukach**>: Did you say FX, Jim?

<**A - David C. Jukes**>: FX.

<**A - Carl J. Lukach**>: FX. Okay.

<**Q - James Sheehan**>: FX. Yeah.

<**A - Carl J. Lukach**>: First, I have to say it's wonderful to have a tailwind after three years of headwind, and we did have a bit of a tailwind in the first. Our procedure, Jim, we take the quarter end spot rates and dial that into our guidance. So, where the rates were at the end of March 31, I mean, everyone's got a forecast and we look at about 100 of them, but that's what we've embedded into our guidance.

<**Q - James Sheehan**>: Thank you.

<**A - Carl J. Lukach**>: Sure.

Operator

Your next question comes from Karen Lau from Deutsche Bank. Your line is open.

<**Q - Karen K. Lau**>: Hey. Good morning, everyone.

<**A - Carl J. Lukach**>: Hey, Karen.

<**A - David C. Jukes**>: Good morning.

<**Q - Karen K. Lau**>: Starting out with U.S., so it's very encouraging that you said volumes down less than 1%, so I think that would imply price/mix maybe in the mid single-digit zone which strike me as a little low, given that you did like double-digit, I think, in the fourth quarter of last year. And then you also mentioned freight cost is up 8%, and I think that you factor that or adjust that in your product pricing. So can you talk a little bit about that? I mean is there some sort of a lagging issue? Were you able to recover all the freight costs in the quarter? And like is there any just one-off comparison issue that maybe is impacting the pricing comparison this quarter?

<**A - Carl J. Lukach**>: Okay. That's a lot of questions there. 5.5% average sales price increase in the USA in Q1, good quarter. I think the first point is that you're starting to see us lap the comparison periods from last year. So I think that, that might be that the primary influence to how you triangulated the numbers there.

With regard to the freight pressure, as David said, it's a challenge, it doesn't go through just automatically, and we've got to work for it. And so that I think helps you understand the dynamics of that. Our margins were up, not a lot, but up in the first quarter in the USA and continuing that trend. So some other one-offs in there, small ones, the puts and takes, but I think that not distorting the answer that you came to there.

<**Q - Karen K. Lau**>: Okay. So, should we expect the freight component, in terms of benefit to that top line to kind of accelerate for the rest of the year, as you sort of catch up with the pricing for the freight increases?

<**A - Carl J. Lukach**>: Well, it's a general inflationary environment. That's for sure.

<**A - David C. Jukes**>: Yeah. Yeah. I think it's a general inflationary environment.

<**Q - Karen K. Lau**>: Okay.

<**A - David C. Jukes**>: And so, we don't have enough margin to be behind game on freight. Our sellers are measured and compensated, our businesses are measured and compensated on delivered gross profit. So, there's nothing in it for them to eat the freight. So, it is about this [ph] banic crawl (00:47:28) of making sure you go through it and get it through. We can't afford to be behind the game and we won't be.

<**Q - Karen K. Lau**>: Okay, sounds great. And then just maybe going back to the point of like anniversarying some of the benefit from the business pruning. I think last year on the U.S. GP side, you had like very significant price/cost – or price/mix benefit kind of in the like 10%, 12% range. So, we should expect that to sort of normalize. But what would be – what do you think would be kind of normalized price/mix benefit to GP going forward?

<**A - David C. Jukes**>: You've got the calculators going here with that one.

<A - Carl J. Lukach>: It's really hard to decipher out. You know our general five-year plan is a steady, continuous increase in GP margin through better sales force execution and market mix enhancement. So, it's really – I can't pinpoint a number on that just for the USA, but the general trend and the results of our efforts over executing this plan will be up.

<A - David C. Jukes>: I think what I would say to you is, the kind of product portfolio we had two years ago is different from the product portfolio we have today in the U.S. We're very focused today on profitable growth. We're very focused today on creating value on the differentiated chemistries that we're adding into the portfolio. Yes, we still sell a lot of the undifferentiated chemistries, but we look to sell them as part of a value sell, not just pounding railcars out of the door.

And I think I've said before that we lost business in railcars and picked it up in skids, because we're changing the kind of business that we're looking at, changing the profile of the business we're looking at. So we are really, really focused on profitable growth and we're focused on continuing to improve that win/loss ratio and continue to have profitable growth. And the product ranges that we're bringing in, in the differentiated chemistries all help that mix.

Operator

Your next question comes from Laurence Alexander from Jefferies. Your line is open.

<Q - Nicholas Cecero>: Yes. Hi. This is Nick Cecero on for Laurence. So you obviously called out a slower start to the ag season, but I guess as you look across all your different end markets, where are you seeing acceleration or maybe deceleration, any other areas?

<A - David C. Jukes>: Sure. I mean ag is – it's clearly it's a big one and we look out of the window every day to see what the sales are going to be. It's such a weather-dependent one. Fortunately, most of our other business isn't that weather-dependent. I pointed earlier, I said earlier on, in our Focused Industries in Europe we're consistently hitting now double-digit growth, and that food, personal care, coatings, we're seeing good growth in those food ingredient business is growing well on both sides of the Atlantic.

Our personal care business is a strong business, we'll continue to add to that. And the acquisition or the announcement of the acquisition of Earthoil earlier on this week will really add in to that portfolio. That's going to be a great opportunity for us to take that portfolio that the company has and take it globally across our personal care network and really leverage the growing demand for natural products. So I mean it's those kind of consumer-driven end markets which we're seeing real good consistent growth. And we're very focused on that and a differentiated approach in those markets and a very dedicated approach to bringing value in those markets.

Operator

There are no further questions at this time. I'll turn the call back over to the presenters.

David Lim

Great. Thank you, ladies and gentlemen, for your interest in Univar. This does conclude today's call. If you have any follow-up questions, please reach out to the Investor Relations team. Have a great day.

Operator

This concludes today's conference call. You may now disconnect.

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