Corrected Transcript

01-Aug-2018

Univar, Inc. (UNVR)

Q2 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Univar's Second Quarter 2018 Earnings Conference Call. My name is Carol, 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
Vice President - Corporate Development and Investor Relations, Univar, Inc.

Thank you and good morning. Welcome to Univar's second quarter 2018 conference call and webcast. Joining our call today are David Jukes, President and Chief Executive Officer; and Carl Lukach, Executive Vice President and Chief Financial Officer.

This morning, we released our financial results for the quarter ended June 30, 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.

David C. Jukes

President, Chief Executive Officer & Director, Univar, Inc.

Thank you, David, and good morning everyone. I'm pleased to report second quarter 2018 earnings. They were at upper end of our prior outlook. More importantly, these strong results demonstrate that our hard work is paying off, as we continue to transform our company into one that consistently exceeds our customers' and suppliers' expectations and deliver sustainable double-digit earnings growth for our shareholders.

During the quarter, Univar earned adjusted earnings per share of $0.47, an increase of nearly 18% from a year ago. Our adjusted EBITDA increased over 9% during the quarter to $173 million on a consolidated basis. And our leverage ratio improved from 4.2 times in the first quarter to 4 times at quarter end, as a result of strong EBITDA growth, cash generation and debt pay down.

This performance is a testament to the strength of our strategy, the improving execution by our team and a changing culture that prioritize these profitable growth and value creation. Our performance through the first half of the year combined with our improving balance sheet positions as well for continued growth in 2018 and beyond.

We are driving commercial greatness, operational excellence on our One Univar culture, while continuing to invest in our business to enhance our long-term growth trajectory. We remain in an economic environment that is broadly supportive with strength in the industrial economy and a positive environment for chemical prices. That said, we are seeing inflationary cost pressures, particularly in global freight that we are successfully managing through. And, we continue to feel tremendously excited about our global opportunities.

We're a self-help story, and an exciting one. One of the biggest components of our transformation remains improving our execution and commercial initiatives across our USA business. We are still in the early stages and we're encouraged by signs of improvements in our USA sales force execution. While we remained focused on driving profitable share growth, we understand the volume growth is a metric that's important to many of you, and I'm delighted to report the first quarter a profitable volume growth in the USA, since 2014, an indication that our strategy is working.

As a reminder, last year we reorganized into four dedicated go-to-market lines of business, Focused Industries, Local Chemical Distribution, Bulk Chemical Distribution and Services. And this new structure is resonating well with our customer and supplier partners. This differentiated approach focuses our sellers and technical product experts on discrete end markets and customers, so they can provide market insights and drive deeper customer engagements.

Let me give you a recent example from our personal care business unit. While reviewing trends and marketing analysis with a customer, one of our dedicated personal care sellers uncovered a need for a prestige skincare formulation. The product needed specific hydrating benefits to differentiate it in next season skincare product range. Because of the depth and knowledge and understanding our seller had through their own experience, and by tapping into our global network of technical and application expertise, we were able to provide the customer with unique insights into the ingredients they needed to launch a cost effective products and win in the marketplace.

To support this dedicated application development's approach, during the quarter, we opened another technical innovation center, this time being Milan, Italy that focuses exclusively on personal care naturals and color cosmetics to importance in growing consumer markets. This is the latest addition to our portfolio of more than a dozen application labs and development kitchens across the globe, where our growing team of industry experts are dedicated to helping small and medium size customers solve their formulation challenges. These facilities also give us an opportunity to formulate finished products that showcase the differentiated features of our supplier partners' ingredients. Those supplier partners understand and value this approach.

In June, I attended the American Chemistry Council Conference and met with a number of them, who told me how excited they were about our strategy, and in particular our improving sales force execution. Our supplier partners are increasingly looking to us to be the channel partner to drive value and growth in the marketplace.

During the quarter, we continued to announce a number of new distribution agreements, including with Colonial Chemical, Castrol oil and Purdy Professional amongst others. These supplier partners demonstrate a shared mindset of dedication to their customers and desire for growth and the opportunities excite us.

Our sales force execution is improving, but it's still far from what we wanted it to be. The good news is that after turning over nearly 40% of our USA sales force in 2017, our seller churn in 2018 is now at more normalized levels. That tells us, we're attracting and hiring the right kind of talents, hungry sellers with a growth mindset who can advance their careers at Univar.

As we have consistently said, a new sales hire typically takes 12 months to 18 months to become highly productive, so we expect our sales force productivity to continue to improve as we head into 2019.

Our win/loss ratios are improving in all regions and we're encouraged by our progress to-date, especially in the U.S., which is showing signs of consistently turning positive. We look at our leading indicators, including number of customer visits and contact time, close rates and opportunity pipelines amongst others, and they're all improving.

We're instilling a disciplined growth-orientated sales culture and process and see more pockets of strong execution throughout our USA organization, but we still need to engrain it into our DNA, so that we execute consistently across our network. We're also in advancing our digitization initiatives with investments that deliver digital solutions to enhance and differentiate the Univar customer experience.

Our omni-channel platform allows us to present information to customers online regardless of the originating sales channel. We continue to see increasing adoption and usage of MyUnivar.com and have expanded our capability to include over 30 types of documents, including safety data sheets and proof of delivery. Our digital offerings not only provide convenience to our customers, but also free our sellers to make additional consultative sales calls to customers and prospects, so they can drive value and growth.

Later this week, we're hosting our first [ph] Digi-Day at (09:32) our new digital development center in the Chicago suburbs, where customers and suppliers will be able to see firsthand the benefits to them of our range of digital tools, including our most recent investments in AI and [ph] SmartAsset (09:47) technology. And beyond this, we're developing a suite of analytical tools to help drive demand as well as connect supplier partners 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 will become increasingly important as we continue to transform our company into the most valued chemicals and ingredients distributor in the world and the first choice for both, customers and the best, suppliers.

Lastly, our M&A program remains active and we're continuing to have a very solid pipeline of opportunities. In late May, we closed on the acquisition of Earthoil, a subsidiary of Treatt based in the United Kingdom. The company strengthens our brand and position as a leader in the natural beauty and personal care market. The acquisition also supports our strategy to acquire assets that can be leveraged across our global network.

To sum up, our plans are working and our execution is improving. We have abundance opportunities to reinvest in our business to increase our efficiency and drive growth and our teams are energized by our improving performance. 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 second quarter results.

Carl J. Lukach

Executive Vice President and Chief Financial Officer, Univar, Inc.

Thanks, David and good morning, everyone. I'll begin on slide number 3. As David highlighted, we are pleased with our performance in the second quarter. Our results show progress against a number of proof points that our strategy is working and that our execution is improving such as our continued trend of higher margins and higher conversion ratios driven by margin management, more disciplined execution and a rising win/loss ratio from our global sales force.

Our GAAP earnings per share increased 82% from $0.22 in 2017 to $0.40 in 2018 from higher EBITDA and lower one-time costs. Adjusted earnings per share, which excludes the one-time costs grew 18% from $0.40 to $0.47. And adjusted EBITDA increased to 9.2% to $173 million from $159 million last year or 7.3% on a currency neutral basis.

As we've communicated to you since last May, when we presented our long-term growth plan and financial targets, we are not focused on volume growth for volume growth sake. We see a $250 billion-plus global chemical distribution market and we aim to own a much larger portion of that value in the low-single-digit share we have today.

We are globally focused on driving profitable growth. Our actions to enrich our product market and customer mix to reduce value [ph] leakage (13:06) and to improve our sales force effectiveness are delivering results. Our delivered gross profits per pound continued to increase in the second quarter as we continue to improve our mix.

We had strong operating leverage with 75% of our incremental delivered gross profit dollar growth flowing through to adjusted EBITDA. Adjusted operating cash flow with a net cash inflow of $201 million for the quarter, that's adjusted less change in net working capital, less CapEx, reflecting our higher EBITDA and a reversal of the adverse impact at the end of the first quarter of the timing of the Easter holidays.

Turning then to slide 4, net debt at quarter end was $2.5 billion, a decrease of nearly $150 million from June of 2017, and a decrease of roughly $50 million from the first quarter of 2018. Our leverage ratio at quarter end on a reported basis was 4 times, and it was just under 4 times for our important debt covenant calculation. As a result and as agreed with our lenders, the spread over LIBOR on our $1.7 billion outstanding Term Loan will decrease by 25 basis points for the third quarter.

We continue to earn a superior return on investment. Our return on assets deployed increased 340 basis points to 24.4% from 21% a year ago. All other return on capital metrics like ROIC, CROCI, and our internal Univar value-added metric, show similar increases from a year ago as our EBITDA increases.

Turning to our consolidated results on slide 5, gross profit dollars increased 7% over last year to $500 million, driven by sales force actions to win profitable business, steady demand in our end markets and an inflationary chemical pricing environment.

Our execution is improving as our sales force matures and uncovers areas, where we can add more value for our customers and solve their problems. Disciplined targeted cost control generated good operating leverage to the bottom line in the second quarter, as our adjusted EBITDA margin increased to 20 basis points. We also continued to roll out high return investments to drive long-term growth as we execute our strategic plan.

Let me now take you through each of our segments beginning with the USA on slide 6. USA adjusted EBITDA grew 6% to $97 million, our sixth consecutive quarter of the EBITDA growth. Our performance in the quarter reflects an improving win/loss ratio, and the strong operating leverage in our USA business. 95% of our incremental growth in delivered gross profit dollars flowed through to adjusted EBITDA during the quarter. And, while we remain focused on profitable shared growth, we are pleased to report as David mentioned that volumes in the USA grew 2.6%, marking the first quarter of volume growth since 2014. That ends 13 consecutive quarters of year-on-year volume decline in the U.S., reflecting our pull back from the upstream fracking market and our margin management actions.

Going forward with rising win/loss ratios from our sellers, and more new supplier partner authorizations in the pipeline, we will increase our share of the value of the fragmented USA chemical distribution market.

Strong industrial market demand in the second quarter increased the proportion of USA sales coming from our Bulk Chemical line of business compared to last year's second quarter. This shift in product mix resulted in our USA margins being slightly below last year.

In terms of headwinds in the second quarter, tightness in the transportation market was a challenge for us. We implemented additional transportation surcharges in early May, and made changes to improve our execution to ensure that we are fully capturing the higher costs in the marketplace. Since then, we have seen market acceptance of the inflation that we are seeing and our execution is improving.

Turning to our results in Canada on slide 7, adjusted EBITDA for the segment [ph] spell (18:00) 5%. In the industrial markets, our Eastern Canada business was strong, with double-digit growth in gross profit and higher margins, and continued volume and gross profit growth in the Western Canadian business. These gains, however, were more than offset by weaker than expected demand from the agriculture market in the Central Plains. The record drought last year, coupled with minimal precipitation this summer, has produced large ag carryover inventory of crop protection products across the entire value chain.

Farmers also held back on purchasing fungicides due to the low moisture levels. What we thought three months ago would be a compressed ag season is turning out to be a softer season and we now expect our ag sales to be less than last year. Despite the significant weather-related challenges in our Canadian ag business, our total Canadian gross margins and adjusted EBITDA margins increased, due to mix enrichment, strength in key growth markets such as coatings and personal care and improving sales force execution, leading to double-digit growth for our Industrial Chemicals business.

We are gaining momentum with our customers, and our relationship with our supplier partners remain strong and our pipeline of new opportunities in Canada is robust.

In our Europe, Middle East and Africa segment on slide 8, adjusted EBITDA grew 17% as a result of double-digit growth in our Focused Industries, favorable mix, improved sales force execution as well as a tailwind in FX rates. Excluding the impact of the favorable FX, adjusted EBITDA grew 11%, gross profit, delivered gross profit and EBITDA margins, all expanded as did our conversion ratio. We continue to see strong acceptance of our go-to-market strategy and are building on our momentum with new supplier authorizations and extensions.

On the M&A front, we closed on the acquisition of Earthoil in May and have now fully integrated the Kemetyl acquisition we completed in January of this year.

Moving then to our Rest of the World segment on slide 9, we had strong performance in the quarter as adjusted EBITDA nearly doubled to $9 million, driven by higher margins in Mexico and Brazil, improving sales force execution and some help from movements in currency. Despite the May truck driver strike our Brazilian business increased during the quarter and EBITDA nearly doubled, driven by strong demand for specialty personal care products, higher prices in certain products and contributions from our Tagma acquisition. We also saw improved profitability in Mexico as a result of productivity gains and margin management actions.

Moving now to cash flow on Slide 10, change in net working capital was a cash inflow in the second quarter of $57 million. Net working capital as a percentage of sales decreased, sequentially, from 14.2% in the first quarter to 13.1%, but is still elevated by normal seasonality in industrial markets and by higher Canadian Ag net working capital. We continue to expect a $50 million to $100 million investment in working capital for the full year, and our CapEx guidance of roughly $115 million remains unchanged

Moving on to taxes, we continue to track towards $60 million in cash taxes for the year. Our effective tax rate for adjusted EPS in the quarter of 31% was higher than last year, largely due to change in the geographic mix of pre-tax income. Higher tax rate was a headwind of $0.08 per share in the quarter. For the full year, we now expect our effective tax rate for adjusted to be near 30%.

Let's turn then to our outlook for 2018 on slide 11, we're pleased with the progress we're making on our transformation plan. Our initiatives are working and our execution is improving. For the full year, we remain on track to deliver low double-digit adjusted EBITDA growth, and adjusted earnings per share of $1.65 to $1.85 per share as we absorb the softer-than-expected ag in Canada. And, if current FX rates carry through the second half what we expect will be negative foreign exchange variances compared to last year. For the third quarter, we expect low-double-digit adjusted EBITDA growth.

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

David C. Jukes

President, Chief Executive Officer & Director, Univar, Inc.

Thanks, Carl. Our second quarter results, the seventh consecutive quarter of growth, continue the positive momentum we created and further strengthens our confidence in successfully executing our multi-year transformation plan. We have an exciting and unique opportunity to grow both, the profitability and the size of

Univar in a market that is large and growing and an industry that is fundamentally strong. We're still in the early innings of our transformation plan with much work ahead of us.

Outside the weather-related impacts in our Canadian ag business, our segments outside the U.S. are performing really well, and we're seeing demonstrable signs of improvements in the U.S. We're showing accelerating growth in many metrics in KPIs and our supply relationships are better than they've been in a very long time, and we're building momentum. We're excited about the opportunity in front of us and energized to capitalize on it.

Before we open the call up to questions, let me address a couple of topics I know were at the forefront of your minds. There is currently a lot of talk in the marketplace about tariffs. Let me remind you, the vast majority of the products we distribute are produced in their respective local geographies, which we have long seen as a competitive advantage for us. In the U.S. specifically, only around 1% of the products we distribute are imported from China, and we do not anticipate any meaningful impacts on our business.

Finally, we are seeing some inflationary pressures in our business. We're hiring better people and paying them well. Fuel and transportation costs are elevated and chemical prices are pushing higher. Whilst our own improvement productivity could mitigate some of this, prices and costs are increasing. Customers don't like it, but they understand and they're not hearing it just from us.

We are well-positioned in the marketplace. And in the U.S., we handle over half of our freight with our internal fleet, which gives us a clear cost and service advantage and we continue to invest in ways to increase our productivity. We are and fully intend to continue taking the steps we need to protect and grow our margins and improve our execution in the current environment while delivering unrivaled value to our customers and supplier partners.

Thanks for your attention. And with that, we'll open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question today comes from Bob Koort from Goldman Sachs. Please go ahead.

Dylan Campbell
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning. This is Dylan Campbell on for Bob. A couple of clarification questions on guidance provided in the slide deck. The 3Q growth profile and the full year guidance seemed to imply a fourth quarter EBITDA growth guidance of kind of the mid- to high-single digits level. Just want to confirm that's correct. And separately, just to confirm that this growth is off lower restated EBITDA, correct?

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.

A

You're right, Dylan. That's correct. I think you have it sized right in terms of the sequence of the quarters.

Dylan Campbell
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks. And then, you talked about higher mix exposure for the USA segment to Bulk Chemicals, which may have impacted margins for the quarter. Can you talk a little bit about how your volume growth was specifically for specialty chemicals and how that trended year-over-year?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Sure. Let me try and help you a little bit on that. I mean, I think that what we're really are focusing on is our sales force execution, having a better organized sales force, having people who – there are hungry sellers looking to grow their business and their careers with Univar. And we've churned a large number of our sellers last year. Their churn rate is much more normalized now. So people are building experience and building relationships with their customers. It's natural then that what they're going to do is sell them more fungible products first, because they are quicker and easier to sell than the more specialized products and the more differentiated chemistries, which are about formulating them into a new products for next season – whenever next season may come.

So, we are seeing growth across all our segments, but our improving sales force execution is really driving growth in the fungible products much more quickly right now than in the differentiated chemistries. But that's, that's a, that's a function of the effectiveness of the sales organization and its growing maturity. You'll see that balance out over the coming months.

Dylan Campbell
Analyst, Goldman Sachs & Co. LLC

Q

Interesting. Thank you.

Operator: Our next question comes from Allison Poliniak from Wells Fargo. Please go ahead.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities

Q

Hi, guys. Good morning.

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.

A

Good morning.

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Good morning, Allison.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities

Q

Can we talk a little bit about the authorizations? You know, you've had a number of successes there. Obviously, you know it's not like sort of a light switch is turned on, but how – I mean, we can't probably can't quantify it, but how can we expect the benefits to start to flow through? Is this more of a 2019 event that we're going to start to see more of a benefit from these authorizations? Could you walk us through how that works?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Sure, Allison. And I apology, I'm a big croaky this morning. So if I break up it's not I'm in tears I'm just struggling with my voice this morning.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities

Q

Okay.

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Yeah. I mean the authorizations, they are really important to drive future growth often when we are selected someone else is deselected or a number of someone elses are deselected. Generally, we're finding it's some regionals who are being deselected and we're being chosen as a national player or a, or a country player in Europe, who's been deselected as we move to be more of a pan-European player.

So we have to do a couple of things, we have to let the notice period of work through. We have to have an effective transition and turnover and we have to let the supply chain empty as well. So, there's normally a 6-, 9-, even 12-month lag between being assigned a new authorization. And then releasing it come through in the numbers. So we'll start to be selling and growing some of these products immediately, but it will be 2019 before you really see the impact and the benefits of this come true.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities

Q

Great. That's helpful. And then on gross profit pull-through, very high this quarter just even given some of your cost challenges. How should we think of a sustainable rate there just given that you are reinvesting back into the business now?

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.
A

I think what you're also seeing in there, Allison, is results of productivity initiatives that we've been driving for a number of quarters really over the last five quarters and there were improvements despite the rate increases in transportation. Our warehouse efficiency is improving, our indirect spend has been improving as well.\

And so, that's in the mix along with increased spending in digital. That's a prime focus for us and we have increased our spending there in our OpEx. But as you call out, we had very strong operating leverage to the bottom line, especially in the U.S. at 95% of the growth in delivered gross profit dollars to the bottom line, 70% overall for the company. And I think you can expect to see that same sort of visible high operating leverage as we move forward.

Allison A. Poliniak-Cusic
Analyst, Wells Fargo Securities
Q

Great. Thank you.

Operator: Our next question comes from Steve Byrne from Bank of America. Please go ahead.

Stephen Byrne
Analyst, Bank of America Merrill Lynch
Q

Yeah. Thank you. So you got EBTIDA margins are now creeping up above 7%. Do you think they can get into the double-digit range at some point and what would give you that conviction? For example are there particular products or [ph] paths (31:31) to market, such as your digital platform that inherently have a much higher margin structure than what is in the average?

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.
A

Steve, this is Carl. Thanks for that question. I'll start it off and give David a chance here. But, what you're seeing is very much the same track that we just explained a year ago in our inaugural Investor Day. We do see that as the outcome of our growth plans. The five-year plan that we have underway and the output of that plan lands us in double-digit territory in EBITDA. The drivers of that are about two-thirds of the increase from the 7-point-something rate to the double-digit. Two-thirds of that comes from the GP line by better selling, eliminating the leakage in price that we had over the years and mixed enrichment by targeting those markets, where we can capture more value in our sales effort.

About one-third of that uplift in margin coming from the productivity side and the five different avenues of cost productivity initiatives that were driving through our warehouses, the routing of our trucks, including digital. And I'd say that since a year ago the efforts in digital are increasing in momentum and focus.

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.
A

Yeah. Steve, I think that's – Carl is absolutely right. So, we do see double-digit territory as entirely achievable. It's not our hope. It's plan. So, it's consistent with the plans that we laid out last year. We do think it's [indiscernible] (33:09) more efficient company, part of that efficiency is driven from our digital initiatives. Also value creation is driven by digital initiatives, which will help our GP line, but also help us grow our total GP. So I think it is about becoming a much more effective efficient company all around. And then the net outcome of that Texas double-digit territory, as I said it's not a hope. It's a plan, it's consistent with the plans that we laid out last year.

Stephen Byrne
Analyst, Bank of America Merrill Lynch

Q

And just to follow up on your comments, Carl, about the Canadian operations. You mentioned, high channel inventory levels of crop chemicals. Is that a headwind going into next year? And just a follow-up on those digital comments, are you seeing any risks of being dis-intermediated in Ag from the online distributor FPN?

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.

A

Okay. On the first question, Steve, what we are saying and it's not universal across the Plains is farmer behavior that is investing less in – this year's crop because of the low moisture levels, after the drought last year, the heavy late spring and now that the dry, dry conditions in many of the areas, but not all. So, overall we see a build-up of the inventory and it could carry into the next season. We'll see how the remaining month – weeks of the season go here and how buyer receptivity develops. But, hard to make the call right now, but right now the farmers are investing less in this year's crop in those particular areas in Canada that we sell into.

As for digital, it's an evolving science, we're certainly very focused on digitizing our operations more both, on the customer front and the supplier front, and as well as in our own back shop and lowering the transaction costs. So, hard to make that call.

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Yeah. I mean I don't see any – so the [ph] FPN (35:17) is an interesting market place, it's interesting concept. It's not a new or unique one. We don't see any impacts on our business from that at the moment. I think it's a tangential or complementary business models the one we have. But, we are investing in our own digital assets, and I think that's really going to help us transform our business overall.

My Univar are launched in Canada today, and that's significant, because now we've taken that platform, made it multi-lingual, multi-currency. And so it can roll right across the world, we can re-leverage that investment to bring digital leadership throughout all our businesses and operations. And then I think some of the other investments we're making in AI and in [ph] smart asset (35:55) technology just to name just a couple are going to really help us transform our operations. And I think we're going to bring unrivaled value to customers and suppliers long into the future.

Stephen Byrne
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Operator: Our next question comes from Jim Sheehan from SunTrust. Please go ahead.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Good morning. You talked about increasing your market share of the $250 billion market. Do you have a target market share in mind?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.
A

I'm not sure we have, Jim in particular. I think, our aim, our vision is to be the most valued chemicals and ingredients distributors on the planet through the commercial greatness, operational excellence and One Univar. Value, it is an important word. It means valued by our customers, valued by our suppliers, valued by our people and valued by our shareholders. That's our ambition. We want to improve, both, the size and the profitability of our business in a large and growing marketplace. So, I don't have a number in mind. I just want to see us be the most valued chemical and ingredient distributor on the planet. That's what the drive is, that's what the focus is.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Yeah.

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.
A

At low-single-digit share of that market. I mean, if you looked at our strategic plans the way we look at it, we break it down by segment and then by end-user market. And our plans there comprehend our participation in those market spaces and how we can increase it. If you add it all up, I guess we could get to our number, but we disaggregate that down to the actual end markets.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Great. And can you talk about what factors have driven your increase in supplier authorization? So far this year it looks like this is really accelerating. What has changed from, let's say a year ago?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.
A

Well, I think what we did was reorganized our business a year ago into those four lines of business, so Focused Industries, the Local Chemical business, the Bulk business and then the Services business. That merit, the model that we moved to in Europe, I don't know five years ago, four, five years ago.

What that moves us from is kind of this one-size-fits-all conglomerate if you like to a very, very focused company. So, we have people who wake up every morning, all they worry about, all they think about is how to be the best food ingredient distributor in North America or in Europe or in Brazil. We have another group of people who wake up every day and worry about how you'd be the best personal care distributor. You have another group of people who wake up and worry about how do we win in Milwaukee, and there's a very tight focus, which means that we can really differentiate our offering in the marketplace and execute consistently over multiple geographies. That's not something many people can do.

And so that degree of focus, our commitment to digital, to using data to share with suppliers, to give them visibility into marketplace, not only of usage, but of trends and that commitment to partnership with our chosen supplier partners is something that we're finding is resonating very well with both, customers and supplier promise.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Operator: Our next question comes from Laurence Alexander from Jefferies. Please go ahead.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Good morning. It's Dan Rizzo on for Laurence. How are you?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Good morning. We're good.

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.

A

Good morning.

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Croaky, but good.

Daniel Rizzo
Analyst, Jefferies LLC

Q

You mentioned, I think you said something about being completely out of upstream fracking. Is that where you tend to stay? I mean, given the fluctuations in energy prices or as they potentially trend higher, is it an area that could be profitable at a different – I guess just a different price level? How we should think about it?

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.

A

Let me clarify. What I said was our – I was commenting on the decline – a 13 quarters of decline in volume in the U.S., which was reflective of our pullback from upstream fracking and you could argue that really the [indiscernible] (40:03) pulled back, but the market demand drastically decreased as did our business.

We're not out of that market space. In fact it's growing quite nicely now, but in a much more selective end market uses and customer base versus our past, we're very conscious of the investments that we made in the past there and we're getting increased utilization of that. So, we look at it as – we're not out of the market. I want to make sure that we're clear on that and we're just very careful about how we deploy our resources and have our efforts into that space compared to all the other market opportunities.

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Yeah. I think that's absolutely true. I mean, look, we are interested in profitable share growth. If we can find ways to compete in a certain marketplace that give us profitable share growth and give us a good return on capital, then we're going to go into those markets. We're going to invest in those market, but we're not going to rush in and invest in markets, where we don't get a good return on capital or we don't make money on the product. We're not really in the selling chemicals for volumes sake. We're in the making money business. And so to the degree that we can sell and build relationships with our customers in any of the chosen markets that we have, where we can share profitable growth together and bring value to them, then I'm happy to do it.

Daniel Rizzo
Analyst, Jefferies LLC

Q

With that in mind, is the bottom slicing done? Are, are you done shedding like say when volumes were up in quarter as you said. Have we jettisoned the business we wanted to and now we're kind of focused on moving from here? Have we reached an inflection point I guess is this point?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Yeah. I mean, if Mr. Newlin was here, he'd tell you that you're never done pruning and he'd be right. And so you're never done pruning. You're always – the beauty of averages is it's always going up. And so, the way I described it a few weeks ago to someone is, don't think of pruning what we did last year was deforestation. The deforestation is finished. The pruning will continue as we look to improve the quality of our business overall, but we are absolutely laser-focused on profitable share growth.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. Thank you very much.

Operator: Our next question comes from Kevin McCarthy from Vertical Research Partners. Please go ahead.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. Question on your USA segment margins on slide 6, you referenced a product mix impact. And, obviously, given the inflation in freight cost you've talked also about implementing the surcharges there. I imagine the latter could have an effect on your margins as well. Can you speak to those two things, the freight cost pass-through and the mix, and what impact do you think each of those had on the segment margins?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Sure. Let me take a stab at it and I'll let Carl dive in. So, so you're right to reflect the two things. Let's look at the product mix firstly as I said to an earlier question. If you think about our improving sales force effectiveness and we've been talking about that now for over a year and changing at that sales organization having a relatively immature and sales organization building its pipeline of opportunities, building its relationship with customers.

It is understandable that the more fungible products are going to be ones that they are able to sell quickly. The customers were able to transfer quickly rather the more differentiated products, that need and formulating into to either next season's soup or next season skincare or whatever it may be.

So you're seeing a piece of that of that mix. You're seeing a piece of that, you're seeing our sales force really picking up more share in fungible products that really we maybe haven't had in the last 12, 18 months, two years, three years even. So that's affecting the mix and that's just kind of does depress the margin slightly.

On freight, freight is a headwind, we did move in May. We then pushed through price increase in June. And if I look at our numbers towards the end of the quarter, they are much better than they are in the start of the quarter in terms of pushing the freight through. So I think we probably were maybe a month late to the party, but we're now well on board, we have freight well under control. We're successfully managing both, the costs and the service elements. So our service to our customers is now, way up in the high 90%, where we wanted to be. And so I think we now have that managed, and we're thinking about freight in a very different way, much more as a product than as a cost center.

And so we are preparing ourselves, if the trends continue to push freight further in the autumn or the fall, depending on where you're listening to this. And so, we think we're really on top of that now. And have that well, well under control.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay. And then, second question if I may on your ROW segment. What was the impact of the strike in Brazil, if any? And more broadly, you've done very well there. Especially on a year-over-year basis, you talked about the acquisitions, some personal care comments, et cetera. But I guess, my simple question will be, is this sort of EBITDA run rate sustainable in your view in the high-single-digit range?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Well, I think our business in Brazil in particular has been a consistently good performer. We have a great team down there. They have a very clear value proposition. They understand the differentiated chemistries incredibly well and have continued to grow that business down there successfully whatever the market condition. So I think we have a great team with a great knowledge of the customer base, a great feel for the marketplace, and some fabulous technical development assets, we got a really good labs down there, so we've got things that people don't have down there to be able to sell differentiated chemistries in a way that few of our rivals can compete with. And I think that's really showing in the numbers that they deliver. The strike was a pain, it was nationwide, it was everybody and it lasted a week, but we managed our way through that very, very successfully. Our customers weren't hurt. So, our team down there did a fantastic job, I have every confidence, every confidence in our business in Latin America.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Thank you, David.

Carl J. Lukach
Executive Vice President and Chief Financial Officer, Univar, Inc.

A

In Mexico, we also had a lot of positive news there that contributed to the good results this quarter. Improvements in margin management, very specific actions that we took with certain product lines and continued productivity initiatives around our warehousing, so great news out of Mexico as well. They both came together in the quarter and gave us a great result. In terms of continuous run rate, we have high expectations for continued growth and success in both markets Mexico and Brazil.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Thanks very much.

Operator: [Operator Instructions] Our next question comes from Duffy Fischer from Barclays. Please go ahead. Duffy, please check your phone for mute.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yes. Can you hear me now? Great. Okay. So, question around the 40% that's the new part of your sales force. I know you said, it's takes 12 months to 18 months to kind of get to a base level. But when you look across your average sales person, how long does it take for them to get to a peak level. And then, what's the delta between that base level and peak level in that? Does that 40% [indiscernible] (48:02) significantly the 60% that's already there and established over the next two years or three years?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.

A

Gosh, that's a granular question. Duffy, let me think about that one for a second. I mean, we've been very clear it takes 12 to 18 months for our sellers to really – they need to learn two things, they need to learn our company and they need to learn their customer base. And then, it takes a while to build a pipeline and to close on that. And that's the kind of 12 months to 18 months.

Once they have that, once they build credibility with their customers, once they build the really successful closure of their pipeline opportunities and continue to bring value that business will continue to grow. When it grows to a certain size, and that may take two years, three years, then typically we'll split the territories and they'll start again. And so seeing the sales force developments, seeing the sales force grow, there isn't a magic number that you can move and [indiscernible] (49:01) turn into a some stay sellers, some go into sales management, some progress their careers through Univar. We're just bringing in some great talents in at the moment, we're bringing some absolutely super talent and they are delivering for us learning quickly, building relationships you know bringing energy to the organization. You know, it is a company now with a spring in its step, and getting a bit of swagger back which is – which is great to see.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

But I guess, can you guys analyze on a granular basis; say the 2.8% volume you talked about in the U.S. How much of that came from the 60% that was established and how much of that is from kind of the new 40% sales folks that were churned over [indiscernible] (49:50). Do you have that kind of granularity that you can monitor that?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.
A

So, of course we do. We have the granularity down by individual, seller, by an individual inside, seller, by customer service reps. So, we have that absolute granularity, they have as well, because they see in the commission check, they see in [ph] their SIP (50:07) performance and they see how they're performing against all their peers as well. So yes, on a sales management basis, we know exactly how every individual is performing. That's how we performance management our people and develop and through our organization.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

So again, so the question -I mean are those progressing at the rates you would have assumed a year ago the new folks versus the old folks?

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.
A

I think about the more established than the old folks being an old folk myself.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Fair enough.

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.
A

Look I think that we, I'm really pleased with the quality of the people that we have. I'm really pleased with how they're progressing. I'm pleased to see our churn rate has reduced significantly, which means we are hiring good people. We're always going to upgrade our talent and we're going to continue to upgrade our talent, that's part of performance management. But I'm really pleased with the quality and the energy that those new sellers are bringing into the organization and I'm pleased to see an organized -- sales organization back with a spring in its step, [indiscernible] (51:10) to win in the marketplace, and really having – getting its swagger back in a way that that this performance deserves to do.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Great...

David C. Jukes
President, Chief Executive Officer & Director, Univar, Inc.
A

We're getting great response from our customers. Our customers are really starting to recognize Univar is back, starting to recognize the value that we're bringing. So, I couldn't be more excited about the opportunities that lie in front of us.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Terrific. Thanks, guys.

Operator: We have no further questions in queue at this time. This does conclude our conference call. [indiscernible] (51:49) disconnect. Thank you very much.