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CORPORATE PARTICIPANTS

David C. Jukes *Univar Solutions Inc. - President, CEO & Director*

Heather Anne Kos *Univar Solutions Inc. - VP of IR*

Nicholas William Alexos *Univar Solutions Inc. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

James Michael Sheehan *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Kevin William McCarthy *Vertical Research Partners, LLC - Partner*

Laurence Alexander *Jefferies LLC, Research Division - VP & Equity Research Analyst*

Laurent Guy Favre *Exane BNP Paribas, Research Division - Research Analyst*

Michael Lawrence McGinn *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Patrick Duffy Fischer *Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst*

Robert Andrew Koort *Goldman Sachs Group Inc., Research Division - MD*

Steve Byrne *BofA Merrill Lynch, Research Division - Director of Equity Research*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Univar Solutions' First Quarter 2020 Earnings Conference Call. My name is [Bakam], and I will be your host operator on this call. (Operator Instructions)

I will now turn the meeting over to your host for today's call, Heather Kos, Vice President of Investor Relations at Univar Solutions. Heather, please go ahead.

Heather Anne Kos - *Univar Solutions Inc. - VP of IR*

Thank you and good morning. Welcome to Univar Solutions' First Quarter 2020 Earnings Call and Webcast. Joining our call today are David Jukes, President and Chief Executive Officer; and Nick Alexos, Executive Vice President and Chief Financial Officer.

This morning, we released our financial results for the first quarter and full year that ended March 31, 2020, and posted to our corporate website a supplemental slide presentation to go with today's call. The slide presentation should be viewed along with the earnings release, both of which have been posted on our website at univarsolutions.com.

During this call, as summarized on Slide 2, we will refer to certain non-GAAP financial measures for which you can find the reconciliations from the comparable GAAP financial measures in our earnings release and the supplemental slide presentation. As referenced on Slide 2, we will make statements about our estimates, projections, outlook, forecasts and/or expectations for the future. All 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 these risks and uncertainties inherent in our business and our expectations for the future.

On Slide 3, you will see the agenda for the call. David will start with how we are dealing with COVID-19 and an update on our Nexeo integration. Nick will walk through our financial update. And then, David will close with the progress on our business strategy. Following that, we will take your questions.

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

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Thank you, Heather, and good morning, good afternoon and good evening to everyone. I hope you and your families are all well. Now I know you're going to want to hear about our first quarter performance, our liquidity position, how integration and sales force execution is progressing and how we see the market right now, and we will get to that. Before that, I'd like to spend a few minutes updating you on how the current COVID-19 situation is affecting us and how our organization has responded to it.

Just over a year ago, when we launched Univar Solutions as a new company, we intentionally established a purpose-driven, value-based organization that is serious about safety. It's a place where people matter, where we do what we say. We're valuable to others. So together, we win. As the COVID-19 pandemic has unfolded, this purpose and these values have been brought to the fore and served us well.

In early March, we activated a focused global cross-functional response team tasked with closely monitoring the situation and swiftly implementing the measures needed to keep our people safe, connected to our customers and secure continuity of supply. Thanks to our quick and decisive actions as well as a fantastic cooperation of our teams, we have all our distribution centers right across the world, operational. We adjusted our work practices to conform with guidance provided by both WHO and the CDC. This is including everything, from different cleaning routines to different site configurations and different shift rotations. Thankfully, as of this week, we've had just 17 of our 10,000-plus colleagues worldwide with confirmed cases of COVID-19, of which 15 have now recovered. Roughly 2/3 of our total workforce is successfully working remotely, and our sales teams have been able to pivot from external to internal sales smoothly with new processes and rhythms developed to ensure we maintain momentum, and our valued in-field teams are executing at our warehouses and making deliveries.

On a daily basis, we monitor customer and supplier closures, including partial closures in each region, which in May, could represent approximately 10% to 14% of our delivered gross profit. Our strong relationships with suppliers such as Dow, Eastman, Exxon Mobil, INEOS and Shell have served as well. And we truly value and thank them for their partnership. Thanks to depth of that partnership, we've been able to keep supplies of central products like isopropyl alcohol and ethanol flowing in a time of high demand and tight supply, supporting customers old and new. And we work with our partners to facilitate their humanitarian efforts, with INEOS, for instance, provide the hand sanitizer for the U.K. National Health Service, or here in the U.S. with Exxon Mobil to supply the TSA with surface industrial cleaners. Our strong supplier partnership remain a bedrock for our business and a source of competitive advantage, especially in times like these.

Now as the stay-at-home orders have been relaxed globally, we're shifting our attention to return to office planning as we work to accommodate a new normal. As with our initial response to this crisis, this phase will be well-orchestrated and thoughtfully executed, whilst leveraging the opportunity to become a leaner, stronger company.

For a variety of reasons, short-term customer demand has become trickier to predict, as I said earlier, weaker approximately 10% to 14% of our delivered gross profit impacted by customer and supplier closures or partial closures.

To help give you and our investors some sense of the near-term COVID-19 impact on our business, we've combined the 14 end markets referenced in our 2019 10-K to 5 macro categories and show the potential magnitude impact on each. Our end markets are showing a complex and diverse range of demand patterns. Not only does this categorization to help give you a sense of what we are seeing and how it might impact our business, it helps us plan our resource allocation, investments and cost-cutting strategies.

In particular, I want to highlight the upper 2 categories and sanitization.

Both Consumer Solutions as well as the industrial specialties markets continue to benefit from opportunities developed by our solution centers around the world, which, too, remain operational. More challenged markets include personal care; where we see the drop in cosmetics; energy; and certain general and industrial commodity sectors. But our diverse portfolio and strategic efforts are abating some of the recessionary impacts.

Moving on to our integration process. Despite the COVID-19 obstacles, we successfully delivered on several significant integration milestones, realizing $17 million of net synergies during the quarter. I'd like to highlight a few of those milestones now.

We successfully completed the second wave of our ERP implementation, and we'll continue to successfully service our customers while optimizing our processes. Our site consolidation plan continued, closing a branch in the quarter, bringing total closures to 13. We finalized a set of 2 further sites with cash proceeds of approximately $6 million.

Our U.S. sales force is now on one CRM system, making the selling and management process much more efficient. However, due to extended travel restrictions and an abundance of caution, our planning assumptions on the time line for the remainder of the SAP rollout have changed. Rather than completing in 3 large ways, we will now shift to 6 smaller, more agile waves, adopting an approach that will include much more remote training and support. This will extend the U.S.A. time line for completion from Q4 2020 to Q2 2021, and our Canada and Mexico rollouts will move to the second half of 2021. We expect the overall integration costs remain within the current estimates as travel savings will offset any additional costs due to the extended time line. And if air travel becomes widely available in the fall, we plan to increase the scope of the wave to speed up the time line. This SAP rebalancing has required us to rework our 2020 site closure plans, yet we now expect up to 15 closures in the year, at the upper end of our target. We're in the early stages of realizing the full benefits of optimizing our scale. We'll remain true to our strategy of having a strong local presence for our customers.

Now let me turn the call over to our CFO, Nick. He will walk you through the first quarter results and provide some 2020 quality color. Then I'll close with a comment on our business strategies.

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

Thank you, David. Hello, and good morning to all on the call. Univar Solutions delivered solid performance in the quarter, slightly ahead of our original Q1 EBITDA guidance. The Nexeo acquisition was an important contributor to the results, along with realized net synergies, improving sales force execution and good product and end market performance, benefiting from our diversity.

Reported constant currency net sales were up 3.6% and gross profit, exclusive of depreciation, grew 7.3% to $532.6 million or 8.6% on a constant currency basis.

Our gross margin expanded by 110 basis points to 24.1%, driven by the favorable product and end market mix. When adding legacy Nexeo results to last year's financials and excluding results of Environmental Sciences, we estimate gross profit, exclusive of depreciation, was down 1.6% on a constant currency basis, with the offsets being lower global demand conditions, energy and price deflation affecting certain product margins.

First quarter adjusted EBITDA of $161.6 million grew 0.9% and was 2.6% on a constant currency basis. Adjusted EBITDA was favorably impacted by the contribution from Nexeo, realization of net synergies and product mix. This was partially offset by declines in energy and price deflation affecting certain products, generally in line with the guidance we provided last quarter.

On an estimated basis, adding legacy Nexeo to last year's results and excluding the results of the Environmental Sciences business, adjusted EBITDA was approximately 4% lower on a constant currency basis.

During the first quarter, as David mentioned, we captured net cost synergies related to the Nexeo integration of $17 million, and we are on track to achieve a $120 million annual run rate in early 2022. We did see higher warehouse selling and administrative costs in the quarter and hence, a lower conversion ratio, which I will cover in more detail by segment.

Q1 net income is $55.9 million or $0.33 per share compared to a net loss of $63.9 million or a $0.43 per share loss in the prior year quarter. The increase in EPS was primarily due to lower acquisition and integration related expenses, the absence of the saccharin legal settlement, lower employee severance costs and a gain on the fair value adjustment on the warrants in connection with the Nexeo acquisition. These were partially offset by lower tax benefits.

Adjusted earnings per share for the quarter was $0.31 compared to $0.33 in the prior year. This decline in adjusted EPS is attributed to higher depreciation and amortization expense and full year share count, both due to the Nexeo acquisition and offset partially by lower interest expense. Tax rate changes were not meaningful to adjusted EPS in the quarter.

Our primary use of cash in the quarter was working capital, driven by the sequential growth in quarterly sales. Our net cash used by operating activities was better than last year, driven by the higher net income, partially offset by changes in the timing of prepaid expenses. Capital expenditures for the quarter were $24.1 million and integration-related expenses were $17 million.

Our ROIC was 9.8% for the quarter, flat with last year. We expect this figure to improve as we continue to capture the synergies from integration. As we noted last quarter, management plans to change the adjusted ROIC to include goodwill and intangibles of acquired businesses. This will be finalized in Q2. We ended the quarter at a 3.7x leverage ratio, down from 3.9x the previous year.

On Slide 9, we have aggregated the key metrics across our 4 segments and provided the detail in the appendix.

The U.S.A. reported results benefiting from an incremental 2 months of Nexeo, strong demand for products in the essential end markets and gross margin management. Although we continue to see volume and price declines in basic industrial markets and energy, consistent with our guidance, overall, the segments delivered gross margin improved 50 basis points, driven by product mix.

During the quarter, we had additional increases in environmental remediation charges, certain expenses in our services businesses and inflation adjustments to salaries made last year in Q2. Although EMEA reported a constant currency sales decline, the quarterly trend line has been improving versus Q4 2019, benefiting from good demand for products in essential end markets. Delivered gross margins improved by 100 basis points based on mix, while EBITDA was negatively impacted by the anticipated declines in pharmaceutical finished goods and an increase in bad debt reserves. Canada and LATAM markets continued to perform very well across all metrics, with both benefiting from better agricultural markets and end market demand in many sectors. Canada's sales growth did benefit from Nexeo but were partially offset by weakness in some end markets.

We ended the quarter with cash on hand of $379.7 million and availability of $455.1 million under our asset-based credit facilities for a total liquidity of $834.8 million in excess of our guidance. This is net of our long-term debt paydown of approximately $170 million of proceeds from the Environmental Sciences divestiture and Q1 working capital. We have provided details of our net working capital in the appendix.

Overall, we are quite pleased with the quality of our net working capital and its improvement as a percentage of quarterly net sales annualized as compared to the same period last year.

We believe our capital structure and liquidity are in good shape, and our debt structure remains advantageous with 77% fixed and 23% floating rates, which, inclusive of interest rate swaps, has an average cost of funds of 3.7%. Our credit ratings remain stable, and we have no significant maturities until 2024 and no concerns with regards to any covenants.

We have spent a considerable time modeling various scenarios by quarter, looking at trends by country, end markets and customers as well as views from a variety of external sources. Based on this modeling and given the near-term uncertainties, we have immediately implemented over $40 million of cost reductions to partially offset expected profit declines, and we've identified further cost reductions should demand conditions deteriorate further. These are incremental to the $35 million of net synergies we expect to realize from Nexeo integration this year. Some of these incremental cost reductions are elimination of merit increases for salary-based employees, salaried position eliminations, temporary furloughs and reduction in travel and entertainment expenses. Although we can't control the demand environment, we are closely tracking our costs with a focus on margin and expect to evidence a resilience comparable to prior economic downturns.

We have been diligently managing our net working capital and expect it to be within 13% to 14% of annualized net sales by quarter. As I mentioned earlier, in the appendix of the presentation, you will find a reconciliation of net working capital at each quarter end in 2019 and Q1 of 2020 as a percentage of the quarterly net sales annualized. We consider this to be a more helpful measure rather than on a last 12-month basis. Our changes in working capital speaks to the countercyclical nature of our cash flow. We have reduced our CapEx to a range of $95 million to $115 million from our guidance of $120 million to $130 million while still increasing our investment in digital projects and IT. Nexeo integration costs are projected to now be $70 million versus the $85 million in our original guidance. Our estimate of integration costs still remains at approximately $225 million, thus leaving us $55 million in 2021. Although our ERP migration has been pushed out slightly, the travel and entertainment savings in 2020 roughly offset the costs associated with the extended time line. For the year, we also expect to have approximately $60 million to $90 million of use of cash in other operating expenses, changes in our accruals and prepaid expenses, of which $30 million have already occurred in Q1. These amounts are exclusive of the timing of our agricultural prepayments.

As we previously highlighted, we expect these types of cash flow impacts to be reduced materially beyond 2020 and we continue to target free cash flow expectations in a more normalized operating environment of $325 million to $375 million. We target liquidity to be in the range of $750 million to $800 million in the second quarter, which is net of a normal seasonal build in agricultural receivables and expect liquidity to increase somewhat by year-end. We also expect to end the year with approximately flat to better net debt as compared to 2019 year-end. We continue to look for opportunities to execute on our strategic initiatives and divest noncore businesses in addition to accelerating our property sales from Nexeo. Neither of these are reflected in the figures I just mentioned.

Overall, I've been very impressed by how our company has operated in all respects during this challenging period, while still keeping track with our integration and strategic plans. The Nexeo acquisition and integration have been a clear success, which is furthering our ability to grow market share as we focus on creating long-term value for all our stakeholders.

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

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Thank you, Nick. I know there's always interest in how our sales force effectiveness is improving after the changes in investment we've made in both people and process. I'm pleased to say that thanks to that investment, our sale activity, from external to internal sales seamlessly and are now operating with the new processes and rhythms that shift required. Our U.S. sales force, now on a single CRM, has improved discipline and our average customer contacts were up 69% from quarter 4, with this trend continuing in April. And although we're still early in the process, this disciplined approach, coupled with our ability to serve our digital infrastructure and strong supplier relationships, has allowed us to welcome hundreds of new and returning customers in the quarter, defined as customers with no activity in the past 12 months.

Key growth leaders have been established for every region, and hard and trend metrics applied and communicated to ensure a consistent and single adoption throughout the business. The metrics focus on pipeline growth, transactional activity, customer retention, margin management and effective activity levels at a local business level. Even with the obstacles of COVID-19, we've maintained momentum and continue to see progress.

Our investments in our digital footprint continue to deliver results, presenting another source of competitive advantage for us. Customers continue to adopt and use our digital solutions, search, select, source and self-serve in growing numbers. We've now made it easier for them to search our full product portfolio with new language and region options, and are adding additional new product content to our website. Our leads and request for quotes on univarsolutions.com continues to grow.

During the first quarter, we expanded our marketing automation to 17 countries, including the U.S., Canada and countries in EMEA and Latin America. Our ability to quickly deploy meaningful content to our customers, too, is generating results. From new product availability to COVID-19 and reengaging with customers who haven't purchased recently, our marketing automation capabilities create value. As customer behavior changes through these COVID-19 times, we're expanding our existing successful chempoint.com model to cover more end markets, particularly in consumer solutions and industrial specialties. ChemPoint has long been recognized as a leader in generating business through digital demand, lead execution, data capture and account management for differentiated and specialty chemicals and ingredients. We're also launching a new no-frills retail channel targeted specifically for solvents market in the U.S. and reviving an old name in the industry. Chemcentral.com will be a public site, utilizing search engine marketing for those transactional customers who don't require the high-touch service available through more regular Univar Solutions channels. It will have discrete, simple business rules that will enable an easy-to-do business channel with standardized packaging, delivery time, credit terms and pricing. Altogether, our digital foundation and committed sales force strategy is aimed to continue to maximize the effectiveness and scale of our operations as well as make it easier for customers and suppliers to do business with us. We're confident that we're investing in the right tools and process automation to streamline the supply chain for chemicals and ingredients through these COVID-19 times, and as markets recover, accelerate our growth.

Before we come to your questions, to summarize. We've organizationally responded quickly and decisively to COVID-19. We have all our facilities operating all around the world. We delivered at the upper end of our EBITDA commitment for quarter 1. We had $834.8 million of liquidity at March quarter end. We've reduced CapEx for the year by 20%. We're maintaining firm control of our working capital despite the seasonal buildup in agriculture and expect to have $750 million to $800 million of liquidity at the end of quarter 2.

We maintained momentum in our Nexeo integration program and expect to deliver $35 million in net synergies this year. We've executed on a further $40 million of anticipated in-year cost savings reflecting current and expected softness in demand in certain end markets. We've scoped and are committed to executing on further cost reductions as may be required to protect our operating margin. And we're investing in furthering our digital advantage.

We've operated in these types of constrained tight markets before, but we believe the diversity of the end markets we service, as referenced in Slide 5, our asset-light model and digital advantage helps us fare better than many others. We will remain commercially and operationally agile to adapt to changing demand patterns as the impact of COVID-19 continues to develop and we start returning to the workplace.

Thank you for your attention. Please stay healthy and safe. And with that, we'll open up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Bob Koort of Goldman Sachs.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

Thanks for all the additional data in your slide deck, it's helpful. I had a couple of quick questions, if I might. Trying to reconcile the transportation and logistics costs in light of fuel. Fuel rates are down about 20% year-to-date. It looks like spot freight rates are maybe down 10% year-to-date, but your delivery and outbound freight was up quite a bit. Can you give us some help on figuring that out?

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

Yes. I don't want to get into too much detail, Bob. It's Nick speaking here. But as we look at it, the year-over-year outbound freight clearly reflected the impact of Nexeo in the results. As we've analyzed it, the net impact actually on a ton basis is actually slightly better. And it's just really a question of mix. So we don't really view the outbound freight as a material variance. I can certainly follow-up with you with some more detail. But that's not a big variance for us year-over-year.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

The working capital data you provided was helpful. To what extent was 2019 a typical year in terms of the cadence of that seasonality of builds and draws?

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

And Bob, again, obviously, a lot of detail to all that, and we're glad to have provided you guys information on working capital. Unfortunately, 2019 can't be called typical because it reflected the timing of the Nexeo acquisition in the middle of Q1 of 2019 and then the Environmental Sciences divestiture in Q4. I believe our guidance to all of you of a 13% to 14% metric of annualized quarterly sales is the right metric to use going forward. And we certainly intend to continue to manage working capital well, which we feel we did as well in Q1. But last year had those pieces that created some variability, but the 13% to 14% guardrails will work quite well for this year.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

And then my last one, David, I love to give you a hard time about some granularity on your sales force efforts, so I appreciate the touch points comment. It seems pretty remarkable, a 70% increase. Is that just because all your sales guys and customers were stuck at home in front of their computers? Can you give us some sense of the type of touch points or what might be different? And then, what that should ultimately how you measure what the outcome of that increased touch point may be?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Thank you, Bob. I'd be disappointed if you didn't give me a hard time on the sales, so I appreciate that. Look, I think we saw us put some programs in place, which we spoke to in Q4, to get some structure and some discipline into the sales organization. A single sales organization relaunched in 2020. And sequentially, we saw that sales organization perform better and better and better with more and more customer touch points. And that core, we measure the quality of those touch points. We measure the quality of the calls. By the pipeline and the closes, and we've seen those increase as well. And we've seen a number of returning customers increase also. Now clearly, as we get into late March and into April, everybody's captive behind their computer screens. But I'm really proud of the way the teams have been able to maintain the momentum and increase the touch points, the creation of the podcast, the webinars, the video conferences, all the things that we've done to stay engaged with our customers. So that's continued through April.

Operator

Our next question comes from the line of Steve Byrne of Bank of America.

Steve Byrne - *BofA Merrill Lynch, Research Division - Director of Equity Research*

I'd like to continue drilling into the sales force here for a minute. How large is the sales force now versus what was it prior to the Nexeo application? And that sales force has undergone quite a few changes, a lot of new blood in there, new regions, new products, new specialties, et cetera. How would you, David, characterize the overall level of productivity of that sales force now versus where you would like it to be?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Sure. Thanks for the question, Steve. I mean, you're talking about the U.S. sales force here because the sales force size really in EMEA has only increased as we expanded our geographical footprint into more markets like Germany and wider into Central and Eastern Europe. And in Canada, it hasn't changed dramatically. In the U.S., as you know, we made the acquisition of Nexeo about a year ago, and we didn't take any of the salespeople out at all. We built in about 20%, 25% spare capacity in the sales organization, which is one of the things that's driven that increased number of touch points that we've seen in the first quarter of this year. The new blood in there came in -- most of that came in a couple of years ago. It has been through our sales training programs. You'll note that our sales training programs are now online as well so we can maintain the momentum with there -- with those. So I think our sales force today is performing pretty well. I mean, I would give it a 7 out of 10. It's going to struggle to ever get a 10 for me. But there's always room we can improve. But I think it's probably a 7 out of 10. I think that really, 2019 was a year for us to stabilize. We talk about that. 2020 now is where we optimize and we build and grow from there. So I'm encouraged, really encouraged by the commitment, the quality of our sales organization, of our sales management and their agility to quickly switch to a mostly teleselling or videoconferencing or webinar approach through late margin into April. It's behind a very, very impressive group.

Steve Byrne - *BofA Merrill Lynch, Research Division - Director of Equity Research*

And then just a question on the competitive landscape right now. As things have slowed, would you say the -- any aggressive pricing that you've seen out there from competition in search for more volume? And how would you characterize your overall volumes? Are they down because of lower demand? Or are you still losing out to competitors from either suppliers or customers? Or are you beyond that now?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Well, as I think I referenced in my prepared remarks, we welcomed back several hundred new and returning customers. So we are winning customers, I think, particularly in terms of the market tightness, and there has been market tightness in certain products. Then people turn to people like us because of the diversity of our supply lines, the diversity of our asset base means that we have products where many others don't. And so I think we've been able to service customers incredibly well. Over the last few months, I'm very proud of our frontline teams for what they've been doing, keeping -- going, keeping delivering, making sure our facilities are operational. And as far as the suppliers are concerned, I don't think we've seen anything different in their behavior. Some great collaboration with our suppliers over the recent months, some new, really first-class collaboration. So I mean, I think at the moment, you have a demand side recession, and there's no point drop in prices to customers that were closed. So I think we're seeing some normal kind of competitive behavior in the marketplace. I don't believe that we're losing out to anybody. I believe we're gaining against them.

Operator

Your next question comes from the line of Laurence Alexander of Jefferies.

Laurence Alexander - *Jefferies LLC, Research Division - VP & Equity Research Analyst*

Could you give some extra clarity around -- or detail around where you think we are on the bad debt cycle? How you've managed it, how it compares to what data you have in terms of how Univar performed in prior downturns?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Sure. So we're very early in the cycle. I mean, we manage cash like a hawk. I think we did make comments of an extra provision in Europe with some bad debts. Actually, we recovered those in April. So we probably -- we're erring on the side of prudence there. I mean, it's clear that when customers are closed temporarily, they've got a good excuse not to pay you. So we do manage that incredibly carefully. We manage our credit risk very, very carefully and we've got very experienced teams doing that. And so cash is the lifeblood of any business for a distributor. It certainly is for us. And we're seeing nothing out of the ordinary from what we would expect to see in times like these.

Operator

(Operator Instructions) Our next question comes from the line of Jim Sheehan of SunTrust.

James Michael Sheehan - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Can you comment on what's happening with price over raw material spreads in the second quarter? How big a headwind will price deflation be for you?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Jim, look, I mean, we serve a very diverse range of markets, so it's a very diverse answer. We're seeing some prices in the bulk commodities declining. We're seeing some prices in the bulk commodities increasing. We manage that spread very carefully. And we manage -- our product management teams are very good these days. They've got great tool to manage price. Margin management has become one of our core strengths. And so whilst there will be a deflationary effect in some end markets because of reducing oil prices or whatever. Really, it's margin management that we focus on and making sure that we have the appropriate stock in the appropriate location at the appropriate price. And I think we do that very well and have demonstrated that in the quarter.

James Michael Sheehan - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

And can you also comment on working capital in the first quarter? It seems like with lower product prices and volumes, I might have expected a bigger source of cash there from working capital. Did you do anything, like loading up on safety stock? And then also if you could comment on what you expect -- how much cash you'd expect to generate from working capital in 2020?

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

Jim, it's Nick. I'll take that. There was nothing extraordinary about working capital in Q1. As we've said earlier on the call, we highlighted on Page 21 in the earnings presentation some metrics, and we ended up at the low end of those metrics, 13.3% in Q1. And that will vary depending on sales through the next few quarters. To the extent we have a difficult recessionary environment, you will certainly see the countercyclical benefit of that. Or conversely, if you grow, you'll see some use. But I would say there was nothing extraordinary from either accounts receivable nor inventory in Q1. And as David said, we are managing that very tightly.

James Michael Sheehan - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Terrific. And can you talk about how your businesses performed in the last recession? And any differences you see in the business today versus the previous recession?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Look, I think it's difficult to compare recessions and how relevant they are. I think that the last big recession was a very different looking recession to this one. However, we said we have managed in these kind of environments before. We know how to manage these. We'd expect to keep our operating margins in the same sort of levels as we did through the last recession.

Operator

Your next question comes from the line of Kevin McCarthy of Vertical Research.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

On Slide 5, you provide a new and helpful characterization of your end-use market exposures. Just wondering if you could speak to the level of declines that you've witnessed in April in the general industrial category and the industrial specialties category. Any quantifications there would be helpful as we recast our financial models.

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Kevin, look, it's difficult for me to comment on the quarter that we're in. I think that overall, our April performance, in terms of our own modeling, came up at the upper end of our expectations. And we're encouraged to see some of the markets reopen in Europe and see some outperformance out of there. We do have a very diverse customer base, a very diverse set of end markets. We were able to reposition our ag business into more somewhat added-value products and less kind of crop seasonal-based products. That helped the general industrial business in the first quarter and in Q2. Industrial specialties, there are some bits in there which are still going to be challenged. We'll see what happens when the automotive market comes back. But we've really got great strength in Consumer Solutions, particularly in parts of food ingredients and in the household cleaning ranges and in the sanitization ranges, which are providing some real areas of strength.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

Okay. And then secondly, I wanted to ask about the SAP time line there. Can you talk about what prompted the move to 6 smaller waves and the attenuation of the time line, I guess, would be the first part. And then the second part, is that the reason for lower expected cash costs for your synergies in 2020? Or are there other factors that would explain that?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

So primarily, yes, it is the reason for the lower cash cost. The reason we've moved from 6 big -- sorry, 3 big waves to 6 smaller waves is simply the -- not being able to travel, not being able to have the social distancing that you need to have people sat next to people to do the training for a large go live, we've had to rethink about how we launch a transfer of system to business system migration. So that's what we've done. We prioritized some of our efforts on to optimizing the processes in the area, the West Coast, which is already on SAP, which is proving to be very advantageous for us and will be as we go forward. But really now, we're looking at how we can do smaller waves where people -- where we're not so reliant on large numbers of people flying across to various regions to support. We have much more remote support. We have people who can drive to various locations to support. It's really driven by that. It's driven by the restrictions of travel because of COVID. As we said earlier on, if those travel restrictions lift in the autumn, then we may be able to accelerate that time line a little more. But it's really all driven by the ability to get people trained properly and supported properly. The last thing I want is a botched go live.

Operator

Your next question comes from the line of David Begleiter of Deutsche Bank.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

David, can you talk about decremental margins in your U.S.A. business? How we should think about those for Q2 and the back half of the year?

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

Yes. David, it's Nick. I'll follow up on that. Much like a lot of other points, there's many ups and downs to that number. I mean, generally, we are very pleased with our overall margin performance. Certainly, at the gross margin level, we see continued stability in those numbers. And we're also managing our costs, as David said, in order to maintain a high level of margin resiliency. So the pricing has an impact, volume has an impact. But we've got a lot of variable elements to our cost structure to mitigate a significant EBITDA margin impact.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Understood. And at least for April, can you provide a range of the sales decline for the company in the first -- in April?

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

Not -- this is Nick speaking, David. I would say not specifically. But I would say at this point, we are pleased with the performance that we're seeing in Q2, recognizing the unpredictability week-to-week.

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

I think that's the key message. I think it's -- we have very -- the visibility going forward is very, very short. So as I said a few moments ago, April was at the upper end of our expectations for our internal modeling. We're very encouraged by what we saw through April, particularly through Europe, which is a few weeks ahead of the U.S. Visibility in the U.S. right now is very difficult. And as I also mentioned in the prepared remarks, we have anything between 10% and 14% of our customers closed at the moment or partially closed. So we need to see what happens when they reopen and what happens when their customers reopen and demand starts to pick up.

Operator

(Operator Instructions) Our next question comes from the line of Duffy Fischer of Barclays.

Patrick Duffy Fischer - *Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst*

Don't mean to be a curmudgeon. But I mean, this call has been somewhat unhelpful in that you haven't answered the question that everybody needs to know, which are 45% of the quarter is in, what have volumes done in that 45% of the quarter? I mean, are we talking down 5% to 10% or down 25% to 30%? We don't need an exact number. But almost every other company has given volume numbers quarter-to-date. Is that a competitive dynamic issue? Or why won't you offer up at least some range of what we've seen quarter-to-date so far?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Well, Duffy, firstly, we rarely give volume numbers. Volume is not the most important number for us, it's gross margin. And what we have said is April is at the upper end of our expectations. So I think we've given you some pointers there for how we are seeing the quarter so far. We also said the visibility going forward is very murky. We don't know what the order book is going to be like at the end of May. We don't even know maybe what it's going to be like next week. The order book is very, very short and very limited. But I think we have given a qualitive information there or -- yes, qualitive information there about how we're seeing things currently.

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

Yes. The other thing, Duffy, I would add is we've also, I think, given some fairly clear guidelines around liquidity, end of year expectations and margin resiliency comparable with prior recessionary periods. So I think we're managing within some pretty tight guardrails.

Operator

Your next question comes from the line of Laurent Favre of Exane.

Laurent Guy Favre - *Exane BNP Paribas, Research Division - Research Analyst*

I've got a couple of questions on free cash flow and net debt. Nick, I think you just alluded to the fact that you've guided to flat to slightly better net debt, which I guess tells us a bit about your internal modeling. So I was wondering, is there anything we should be aware of in that net debt number, for instance, around assumed monetization of excess real estate? Or is this a clean net debt 2019 plus free cash to get to that number that you just alluded to? That's the first question. And then the second one, on working capital. Is there any reason why your working capital guidance is slightly above the end of 2019 level? When we look at the end of 2020, is it an assumption that we have the recovery into 2021? Or again, is there another item that would push the working capital to sales ratio or what?

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

Yes, Laurent. Thank you. Good questions. On the net debt, that excludes any proceeds from asset divestitures which we are working to obviously get some proceeds from. So that would be more helpful to the guidance that we provided. So once again, the guidance excludes any impact from asset disposals. In terms of the net working capital, we did provide the detail on Page 21. As footnoted, the 2019 number has the revenue of the Environmental Sciences business which, as you know, was roughly a little over $400 million in 2019. So you can pro rata that to keep it simple. But it did not include the working capital from the Environmental Sciences business. If you were to adjust for that, the year-end working capital number would be closer to 13%. Typically, at year-end, we're at our best number and you see a slight increase in the metrics. But overall, we are well within the guidelines and really no concerns in working capital and expect the pattern to be within that 13% to 14% for the year.

Operator

Your next question comes from the line of Michael McGinn of Wells Fargo.

Michael Lawrence McGinn - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I was wondering if I was going to try to attack this volume question in a different manner. David, I think you mentioned the 10% to 15% of your customers are closed. Is that correct?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

We said anywhere between 10% to 14% are closed or partially closed right now, yes.

Michael Lawrence McGinn - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And are there -- can we discuss the variations and, I guess, using your industrial type of business, the minibulk? Can you help us explain, is there -- what the order point of products were before COVID and what they are now for those customers still running?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Sorry, I'm not sure I understand your question.

Michael Lawrence McGinn - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

The refresh rate of the minibulk product, how delayed is that? How long -- what's the time variance between when you're refilling that product in that product at customers' facilities?

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Well, I mean, minibulk's a pretty small market, pretty small overall, Mike -- so at the moment...

Michael Lawrence McGinn - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

So I guess what I'm trying to understand is what is the level of demand decline for the remaining 80%, 90% of the business that is still up and running -- customers that aren't closed? With any tangible data point, I can get -- we can get our hands on.

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Yes. And that's -- look, as we said in the prepared remarks, we have a complex set of diverse markets are all behaving differently. So if you want to look into water, industrial water is down because industries are closed. Recreational water is down because people aren't opening swimming pools right now. If you look at sanitization, that's up because people are cleaning, washing and preparing sites, preparing facilities for growth. If you look at food ingredients, anything into domestic or bakery or preprepared food is doing very well right now. Anything into restaurants or into hospitality is doing pretty badly right now. So I'm not sure I can give you one simple thing. It's a Bingo Board of ups and downs across the whole portfolio. That's why we are looking at that Bingo Board in deciding how we reallocate our resources appropriately to make sure that we have the right resources, the right people, the right level of support in the areas which are growing and strong. And we move away, albeit temporarily, from some of the markets which aren't.

Michael Lawrence McGinn - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Got it. Okay. Next one, I guess, the $40 million plus in OpEx savings you're targeting, how close are you or where are you to Phase 2? And what kind of guideposts are you looking to when you would take that next level of cost out? If you could just give a little color there, that would be great.

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

Sure. So let's just look at the cost out that we set for this year. There's $35 million through the Nexeo integration, which is structural cost out. We're executing on $40 million, just north of $40 million right now, which is partly structural, partly deferred, partly flexed cost. And then we have further cost measures, which we will take as demand dictates. So we've done various models in various scenarios, and we know what triggers we would pull if we get to various scenarios in the marketplace. But really, it's about scenario planning because no one really knows what's going to happen in the rest of Q2 or Q3. So we map out various scenarios, map out our responses to it and take the appropriate actions at the appropriate time. We're tracking that on a day-by-day, week-by-week basis.

Michael Lawrence McGinn - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. Would you see -- say that Phase 2 is geared more towards your consumer markets that are holding in relatively well? Or is this -- could it even be -- there could be a second leg down in the more industrial-centric markets? And I'll pass it along after that.

David C. Jukes - *Univar Solutions Inc. - President, CEO & Director*

I -- look, we are -- we're trying to look at each individual market on that Bingo Board and address our costs appropriately. So something as obvious as energy, which is impacted by lower transportation, we'll be clearly taking more cost out of that than we would out of sanitization of food ingredients, for instance.

Operator

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

Nicholas William Alexos - *Univar Solutions Inc. - Executive VP & CFO*

Well, before Heather jumps in, one thing we also wanted to add, nobody asked the question, was just to confirm our view on share count for the year is 171 million down from the 175 million communicated last. We thought somebody might ask that question, but I'll answer it -- I'll ask and answer it as well. But Heather, to you. Thanks, everybody.

Heather Anne Kos - *Univar Solutions Inc. - VP of IR*

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

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
