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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Univar Solutions' Third Quarter 2019 Earnings Conference Call. My name is Julie, 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' Third Quarter 2019 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 third quarter ended September 30, 2019, the second full quarter that includes Nexeo Solutions' chemical distribution business, which we acquired on February 28 this year. We have posted to our 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, 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 these risks and uncertainties inherent in our business and our expectations for the future.

On Slide 3, you'll see the agenda for the call. David will start with his perspective on the quarter and our Nexeo integration progress; Carl will walk through our results and outlook; and finally, David will close with some concluding remarks. 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, everyone. We had another busy and exciting quarter at Univar Solutions, taking many steps forward in executing our growth strategy and integrating Nexeo's chemical distribution business. I'd like to highlight several key accomplishments from the quarter, as well as talk to some of the challenges we faced.

In summary, though, we controlled the controllables well and achieved our forecasted EBITDA. Our operating performance was excellent, as seen in higher margins and conversion rates. The integration of legacy Univar and Nexeo continues to go well. Synergy cost savings continued to be at or ahead of our previously disclosed forecast. First wave of ERP migration went live successfully. Our working capital efficiency improved. Cash flow was strong, and our balance sheet continued to strengthen. The macro global economy, however, continues to be a challenge. Carl will take you through the details in a few moments. But first, let me add a little more color to those headlines.

The double-digit growth you saw in our revenues, gross profit dollars and EBITDA reflects the addition of Nexeo plus margin improvements from our improved sales force and disciplined cost management, as well as net cost synergies from integrating the legacy organizations.

Yet we have opposing forces in our results. The sustained improvements in execution and capture of cost synergies from the Nexeo acquisition, which themselves are sequentially rising and are now at least as large as we estimated last quarter, were offset by lower demand for chemicals globally. Our results reflect the determined hard work of our global sales force, supply chain managers and many others to control the controllables, win business and satisfy customers in a lackluster demand environment.

We said since last October that demand was off and that our customers are anxious about the future direction of the economy and their business. That trend continued in the third quarter across many of our end markets, stretching into those feeding into automotive, construction, proteins, energy, agriculture and general industrial industries. That's now a pretty wide swathe across GDP.

We continue to integrate the supply chains of legacy Univar and legacy Nexeo. And as you've heard me say before, the eggs are scrambled, meaning we are losing the identity of each legacy business. However, our best estimates of results that include Nexeo in the prior year indicate that our revenues are down high single digits, reflecting lower price and volume, about equally split, and excluding estimated supply synergies from the acquisition, which we anticipated. This is generally consistent with the results of our key supplier partners and data from other industry sources.

However, our estimates on the same basis for adjusted EBITDA indicate we earned about 3% less than last year, reflecting our sustained focus on margin and cost management along with synergy capture. Those revenue and EBITDA estimates are consistent for our Q3 results as well as our year-to-date results.

While we are intensely focused on managing through the short term, we're equally focused on the long term and the tremendous growth opportunity we have to grow share and capture more of the huge global addressable market for distributed chemicals and ingredients. We strive to redefine chemical ingredient distribution by delivering more value, making it more efficient from our customers to buy from us, lower cost for our supplier partners to sell through us and more profitable for our shareholders by lowering our total cost to operate. Our battle cry remains: streamline, innovate and grow the business.

During the past few months, we successfully delivered on a number of significant integration milestones. I'd like to highlight a few of those to you now.

The first wave of business systems migration to a single SAP system in the Americas began in mid-October in the Pacific Northwest. And so far, I'm really pleased with the results. I've just returned from them, where I visited a number of our sites and talked to our team members on the front line to see firsthand how they're coping with the change. I'm delighted to report that our Wave 1 sites are operating well, and the teams are energized and in great spirits.

Customers have suffered no interruption of service. There have been no missed deliveries. Our production and transportation schedules are on time. Invoices have been issued accurately and also on time, whilst our inventory management processes and records are working well.

Support teams and business process experts will be in place for as long as they're needed to maintain on-the-job training in the new systems and ensure continued smooth business operations. But our teams are learning fast and growing accustomed to the new processes.

We've taken the lessons learned from Wave 1 and incorporated them into the plan for Wave 2 as we move ahead of pace and with confidence. Implementation teams move shortly to the Wave 2 region in the Southwest to launch migration in January. As a reminder, this system migration is long overdue for the legacy Univar business and enables us to build agility into our operating model as well as deliver efficiencies by operating on a single system that integrates across the company.

Moving to our digitization efforts. We've consolidated our entire product catalog with products from both legacy Univar and Nexeo now available on our new e-commerce platform, store.univarsolutions.com. This is an exciting milestone, with October being the first month that customers are able to purchase online from the combined Univar Solutions offering, a mere 8 months after we closed on this acquisition.

We continue to invest in our suite of digital capabilities. We have the tools that bring real and differentiated value to customers and suppliers as we continue to execute on our goal of being the easiest to do business with for customers and suppliers, both large and small.

Additionally, we continue to invest in our growing advanced analytics team. We're expanding our artificial intelligence capabilities right across the business and across the world. Although still in its infancy, we're excited by the results so far, and we'll continue to expand this capability on the quest to be even more customer-centric and have a better understanding of their preferences, order patterns and additional requirements.

As I told you last quarter, our U.S. commercial team had redesigned the sales territories of the combined legacy companies, providing greater productivity and opportunity to grow share by giving more selling time and creating an estimated 20% to 25% of additional capacity. This has now been successfully rolled out across the country. And since mid-October, all sellers are in position and operating in their new territory. I've had the opportunity to meet with a number of them over the quarter. And I'm pleased to report that they're excited and energized by having more time, more support and more solutions than ever before to grow their business and their paycheck.

Our sales force attrition remained at the low levels we observed since we closed the deal in March. Our market focus line of business, selling exclusively specialty chemicals and ingredients into verticals such as food ingredients and beauty and personal care, is now fully staffed with technically qualified subject matter experts to help customers identify and solve their most crucial problems. Customers can now call on the resources of a bank of dedicated technical experts and application development capabilities. From our flagship solution center in Houston to its newly commissioned sister in Essen, Germany, and through our global network of 46 regional solution centers at 28 locations across the globe, we have as much capability as anyone and significantly more than most to deliver technical and application development excellence to the market.

Real opportunity for growth is in the hands of our improved sales force, and we continue to invest in having the best equipped and most skilled sales force in the industry. To date, over 60% of our USA sellers and managers have been certified in our counselor sales process, which helps them build long-term win-win customer relationships. The remaining balance of that team will be certified by the end of Q4.

During the third quarter, we moved forward with our site consolidation plan and closed a further 3 branches. These closures will lower our warehousing and administrative costs; while selling those sites, as we said we would, will help offset our Nexeo integration costs. We're working to finalize the sale of 2 of our largest sites in the next several months.

Another positive indicator and harbinger of future growth is the new or expanding product authorizations we were awarded in the quarter from premier supplier partners such as BASF, Dow, Eastman, (inaudible) and Novozymes. These partnerships and the leading chemical ingredient products they bring truly excite us, and I'm delighted with the support from our partners.

Perhaps most notable amongst these awards was DOW's decision to appoint us as their distributor into beauty and personal care markets in Germany, Central Eastern Europe and Turkey. This marks a significant step change for us in markets where we have traditionally been underrepresented and reflects the growing confidence our partners have in our dedicated industry-focused model and will add to our expanding portfolio.

Our partners recognize the value that our commitment to invest in our expertise and digital capabilities brings them and supports our mission to streamline, innovate and grow.

Now let me turn the call over to Carl, who will walk you through our third quarter results and explain our full year guidance. Then I will close with some additional comments.

Carl J. Lukach - *Univar Solutions Inc. - Executive VP & CFO*

Thanks, David, and good morning, everyone. As David mentioned, we delivered solid third quarter financial results with revenues, gross profit and adjusted EBITDA up double digits. Our operating efficiency and the quality of our total business continued to rise across every metric in the quarter, including gross margin, conversion ratio, adjusted EBITDA margin and per unit measures. This reflects realization in our income statement of targeted cost synergies from the merger of the legacy Univar and Nexeo businesses, as well as continued focus on margin management and disciplined cost control.

In the third quarter, we reported GAAP net income of $2.5 million or $0.01 per share compared to $49.6 million or $0.35 per share in the prior year. The current quarter increase from the addition of Nexeo's earnings and better operating performance was offset by the impact of taxes of $0.18, cost to integrate Nexeo of $0.07 and noncash charges of $0.05. Adjusted diluted earnings per share for the quarter was $0.36 compared to $0.40 in the prior year. The modest decline can be attributed to a slightly higher tax rate for adjusted EPS purposes and FX headwind.

Let's review the 6 financial metrics that we view as key to evaluating our performance. On a reported basis, gross profit dollars, exclusive of depreciation, grew 17% currency-neutral to $545 million. And we expanded our gross margin by 80 basis points to 23%. When adding legacy Nexeo Chemicals results to last year's financials, we estimate that gross profit dollars, exclusive of depreciation, were down about 4%, driven by 1% of FX, a little over 1% by anticipated supplier dyssynergies and 2% by lower chemical demand from global industrial markets.

Our third quarter adjusted EBITDA of $184 million also grew 18%, excluding the impact of currency. Adjusted EBITDA margin expanded 30 basis points to 7.7%. On an estimated basis, adding legacy Nexeo to last year's results, adjusted EBITDA was about 3% lower, with 1% from FX and 2% from lower demand.

Our cash flow year-to-date is significantly ahead of last year, largely due to the release of net working capital from lower sales, demonstrating the resilient nature of our business model with countercyclical cash flow. However, we also had notable improvement in working capital efficiency. Our top priority for use of cash in the short term continues to be deleveraging. We used our residual cash earnings in the quarter to pay down $165 million of debt.

Return on invested capital was down a bit from 11% last year to 10% this year, reflecting the inclusion of legacy Nexeo assets while we advance towards fully capturing synergies from integration. We measure ROIC by dividing adjusted net income for the last 12 months by net assets deployed. We project an improvement in ROIC in 2020 as well as continued rise thereafter as we successfully execute our integration and synergy capture plans and continue to be prudent in deployment of capital.

Our leverage ratio was 3.9x at the end of the quarter, down from 4.1x in the second quarter and flat with the third quarter last year, which was a period before acquiring Nexeo. We will continue to use our residual cash earnings for debt paydown as well as fund high-return investments in our business and expect to end this year lower than the third quarter from a leverage ratio standpoint, excluding any paydown of debt that might result from portfolio divestitures. Given the low-interest rate environment, we continue to evaluate opportunistic refinancing options based on current market rates, as we always do.

And finally, synergy capture. We reaffirm our forecast to capture at least $20 million in net synergies this year and achieve a $120 million run rate of net synergies by the end of the third year from closing. Our estimate of integration costs remains at approximately $225 million over those same 3 years, and we continue to expect that monetizing excess assets will provide not all but substantial funding of these integration costs.

Let me now share highlights from each of our geographic segments. When adding legacy Nexeo Chemicals results to last year's financials, on an estimated basis, adjusted EBITDA in the U.S. was down about 3% as demand for chemicals and ingredients in most end markets during the quarter was lower than the third quarter last year and was down further from the first half of this year. Gross margins were higher, up 80 basis points to 23.4%, reflecting our margin management focus and favorable product and end market mix. But estimated volume was down about 6%. While many of our industrial end markets were lower than last year, we felt the impact of anticipated dyssynergies, including much lower volume from the U.S. upstream oil and gas fracking market. With the Nexeo acquisition, we brought back into our portfolio some business we had previously withdrawn from in prior years and are now seeing a decline of business in that end market.

On the cost front, we managed our discretionary spending well and are starting to realize the flow-through of net cost synergies from Nexeo. As a result, our U.S. conversion ratio increased 70 basis points to just under 35%.

In our Canada segment, adjusted EBITDA increased 15% on a currency-neutral basis. We shared with you in prior quarters that, putting the energy and Ag markets aside, our core industrial chemical business was growing nicely, particularly in Eastern Canada. This continued to be the case in the third quarter, especially in our focused industries line of business, which includes food ingredients, personal care, pharmaceutical and CASE markets. On the other hand, demand for our products from the Canadian energy market and the ag market continued their trend line at well below historical levels.

In our EMEA segment, adjusted EBITDA declined 7%, excluding the impact of currency in a challenging and progressively weakening macroeconomic environment as we observed broad-based weakness across most end markets. As we've done so before, we will continue to be disciplined with our spending as we navigate this challenging market environment across our EMEA segment.

In our LatAm segment, adjusted EBITDA grew 14% on a currency-neutral basis, benefiting from improved operating performance in Mexico and the Brazilian agriculture sector, along with contribution from the legacy Nexeo business and strong cost control. Our Mexico team performance was excellent as they improved market share and won new business in the energy sector.

While our Brazil team dealt with low demand in a soft industrial economy, they had a strong month in September in beauty and personal care markets. We also are internally celebrating our first sales order in our new subsidiary company in Colombia.

Moving now to cash flow. You can see in our GAAP financial statements that net cash provided by operating activities of $215 million in the quarter was 4.5x higher than last year's third quarter of $46 million. This reflects release of working capital from the lower demand, but also reflects delivered meaningful improvement in our net working capital efficiency. We are benefiting from harmonizing payment terms between legacy Nexeo and legacy Univar and have been carefully scrutinizing our inventory levels and tighten our controls on slow payments and selling terms.

Capital expenditures were $27 million in the quarter. We continue to expect around $100 million of capital expenditures for the year, the largest part of which represents discretionary digital investments.

Turning now to our updated outlook for 2019 and the fourth quarter. As you can see in our results, our revenues, gross profit and adjusted EBITDA are growing as we benefit from the addition of Nexeo and our sustained, improved operating performance. We are confident in achieving the $120 million or more projected net synergies from the Nexeo acquisition. These gains, though, are in the short term, being partially offset by the macroeconomic slowdown which many of our supplier partners and other industry players are also dealing with.

At the beginning of the year, we issued guidance with the assumption that industrial production globally would be about equal to 2018, lower than its historical projection of 1% to 2% growth. However, this year's market demand from industrial and energy end markets has been running below last year and has progressively contracted. We saw that in the third quarter and again in our October sales.

Taking all of this into account, we now expect full year adjusted EBITDA to be within a range of $700 million to $725 million compared to our prior forecast of $725 million to $740 million. That compares to $640 million earned last year. That means that for the fourth quarter, we expect adjusted EBITDA to be between $155 million and $180 million, up from the $144 million we earned in the fourth quarter of 2018.

We are not, however, adjusting our free cash flow outlook. Our resilient business model means we are cushioned from the impact of lower revenues during the slowdown by a release of investment in net working capital. Our company is performing very well through this short-term transitory slowdown. And we are pleased with the rising net cost synergies from our successful acquisition of Nexeo earlier this year. We are confident in our plan and know that our strategy is creating long-term value for all of our stakeholders.

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

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

Thanks, Carl. Before moving to closing comments, I mentioned on our last call that we have started a strategic review of various lines of business within our portfolio to determine whether we are the best home for those businesses, [and that] this is a high priority for us.

We have a number of profitable and attractive businesses that, like the legacy Nexeo Plastics business, may be adjacent to our core chemical ingredients and distribution business. We have advanced our analysis and are close with a decision on one of those businesses. As a reminder, our capital deployment priority continues to be debt reduction, so that any proceeds from a sale will be used to pay down debt with our range to get below 3x levered by the end of 2020.

Now we realize that what may be at the foremost of your mind is what do we think about 2020, and we'll have more to say about that in 3 months' time after we finish the year. But from a macro sense, we are setting up preliminary 2020 planning assumptions to expect about the same level of demand for chemical ingredients from industrial markets that we experienced in the second half of this year. That means we're not counting on a rebound or bounce-back recovery in 2020, nor are we expecting at this point any further downturn. So the average of our actual Q3 results with our expected Q4 results would serve as a good trend line at this time for our expectations of market demand in our earnings run rate in 2020.

Although short-term customer demand will become more difficult to predict, as I've outlined earlier, we've operated in these types of constrained, tight markets before and our asset-light model helps us fare better than many others.

Now we have multiple levers in our control and in our favor, such as roughly $50 million of incremental integration cost synergies next year; along with a larger, more skilled sales force in the U.S. with greater market coverage and the capacity for growth; as well as disciplined spending and capital deployment. We believe this will all help clearly set us apart from the rest.

When we merged Nexeo and Univar, we created a new company, Univar Solutions. And our confidence in the strategic rationale and value creation opportunity has only grown. I'm pleased to say we have clear, tangible evidence that the new culture is taking root and our growth strategy is working.

We remain focused on controlling the controllables while simultaneously building for the future. Our execution continues to improve. We're executing at pace with discipline and the confidence in our ability to remain agile and execute effectively, sustainably and responsibly.

We believe Univar Solutions is uniquely positioned to continue to improve its profitability, grow market share and grow the size of the distributed chemical and ingredients market. To achieve this, our focus with suppliers is to deliver value with increased transparency, safe and secure handling of all materials and provide clear market expertise through dedicated sales and product teams that allow for industry specialization.

Our focus for our customers is to couple up already industry-leading safe and secure handling service levels and product availability with deep industry and product expertise, digital [virtual] leadership and technical solution centers that will help deliver further value.

But in summary, for Q3, we controlled the controllables and achieved our forecasted EBITDA. We improved our operating performance with higher margins and conversion rates. We continued to successfully integrate legacy Univar and Nexeo with synergy cost savings at or ahead of our previously disclosed forecast.

We successfully completed the first wave of ERP migration. We improved our working capital efficiency with strong cash flow and strengthened our balance sheet, all while operating in a challenging macro global economic climate. As I said, it's been a busy but exciting quarter for Univar Solutions.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Michael McGinn with Wells Fargo.

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

I was wondering if we can get a finer point on the EBITDA guidance for Q4. It seems like a little bit of a larger range than what we're accustomed to. I was just trying to figure out what you're baking in from the macro perspective into that range.

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

Sure. I mean I think firstly, Q4 is always a difficult quarter to call anyway because of the seasonality with all the holidays. And particularly, I think this year what we don't know is what December is going to be like, whether December is going to be a very, very short month, whether people are going to close down over the Christmas period for longer or not. So it's pretty difficult to call exactly what's going to happen across the quarter, hence the larger-than-normal guidance window.

And I think what we've seen is our volumes per bill day go down in -- through Q3. Certainly, if we look at September, it was sequentially lower than August. So we've built in lower volumes per day through the quarter.

We also look at some of the headwinds that we're getting from energy and some of the margin headwinds we're getting comparatively year-on-year. We're feeding in there some of the benefits from Nexeo integration. And as I think we said on the call, really pleased with the way that's going. I'm really pleased with how we're capturing that.

But it's the -- it's helping us really buffer what is a difficult-to-call macro environment. And I honestly -- I've got no idea about December. I honestly don't know. I really don't know. December is always difficult to call, but this year I think especially so because I don't know what people are going to do around some holiday vacation, whether they're going to be longer or short -- I really don't know. So that's why the guidance is a little wider than it would normally be.

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

Okay. That's fair enough. And then if I could just follow up on Canada. If this turns out to be more of a U-shaped recovery versus like a V-shape we've been accustomed to the last couple of industrial recessions, what do you guys have in your back pocket? Maybe additional cost-out actions or growing in a different -- in different verticals than what you're accustomed to? Can you just add a little color there? That would be great.

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

Well, I think we're very focused on -- I think we said -- well, controlling the controllables and a lot of things that we can control. And we do have a great opportunity to restructure our business and redefine how we go to market through the legacy Nexeo, legacy Univar integration. And that will feed into the Canadian business as well.

The Canada business and the core industrial and chemical ingredient business is doing really rather well. And it's kind of -- it's masked by a weak energy market and another bad ag season, but the core business there is doing really rather well. But -- and we'd want to replay out -- play out our playbook, which is our integration playbook, which is around the SAP integration, which is around building shared service centers, which is around continuing to take costs out of the business, take more costs out of the back end so we can invest more in the front end.

We think there is more growth for us in some of those key verticals which we've identified, food ingredients, for instance, beauty and personal care, CASE, pharma ingredients, home and industrial cleaning. We think there's some good growth that we can get in those as well, which were a bit more countercyclical. So there are a number of things that we can flavor.

We have a game plan, and we're going to stick to our game plan. Now is not the time to run around and get excited. Now is the time to play the game that you know you can play and you've rehearsed for and you've trained for and you execute on the plan that we have. Sorry, far too much sporting analogy in that. Sorry.

Operator

Our next question comes from Laurent Favre with Exane.

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

I've got a question on the synergies for Carl. I think you had guided that you would have more dyssynergies of scale in Q3 than in Q2. And it sounds like you had the same amount, about 1% on GP. So I'm just wondering, are you factoring in that there's a spillover of those dyssynergies of scale into Q4 that you didn't have in mind before? Is that one of the reasons why the Q4 guide is a bit weaker than, I guess, we had assumed? That's the first question.

And then the second question is on the disposal of excess real estate. David, when you say that the 2 largest sites are to be disposed of in the coming months, is that the bulk of what you had in mind in terms of disposals? Or is there more to come?

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

Okay. Well, let me answer the second one first, if I may, Laurent. I think that what we said is we have a number of sites to close. Not all of them are equal in value, and we will prioritize. We are able to prioritize a couple of the more valuable sites ahead of the other sales though, so we're doing that. And we think that we'll be able to dispose of those within the next several months, and we'll use that. We'll use that cash to pay down debt.

But as I said, not every site is equal. And so it'll not -- it's not the bulk of the number of sites that we have, but it's a -- it will be a significantly bigger proportion of the total amount of cash that we'll get from the disposal of assets.

Carl J. Lukach - *Univar Solutions Inc. - Executive VP & CFO*

Okay. And Laurent, on the dyssynergies. Let me just recap the third quarter. Our volumes we estimate on a pro forma basis, including Nexeo in the prior year, were down about 6%, with about a little more than 1%, maybe 1.5% we attribute to synergies. And I'd say that was a little larger than what we expected coming out of energy. And it's very hard to parse dyssynergy in that energy space versus the reduced drilling rates that are going on in fracking right now. So that's a tough math to separate those two.

But as far as the width of the range in the fourth quarter, we really do look at volume per bill day. That's a key metric to us, and we have very extensive data on that. So our -- the width of that rate is really -- comes down to what David said earlier about how many good bill days we're going to get in this third quarter. There's only 8 weeks left. We have heard from some customers that they may have year-end early this year and start focusing on 2020. So we're just going to have to see how November goes and into December. And that's really the basis for the width.

Operator

Our next question comes from Kevin McCarthy with Vertical Research.

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

David, I was wondering if you could provide a little bit more color on Wave 1 of the IT integration in terms of pace and future sequencing. And related to that, does it allow you to begin the process of facility closures? Perhaps you could update us on kind of the cadence of the 40 locations that you plan to reduce in coming quarters?

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

Sure, Kevin. So we went live on Wave 1 mid-October on schedule. And as I said on the call, I was up there at the end of the month to meet with the teams on all the key sites and to see how it's going. I mean it's gone very well. I mean these things can go really badly. And I've led through the ones that go really badly in the past. This one has gone really rather well.

So we said when we made the acquisition of Nexeo that one of the attractions was to move the legacy Univar business onto a modern ERP platform and that we felt that this deal derisked it by having a system which works. It wasn't about the bits and bytes. We've narrowed it down to be a master data transfer and then a change management program, and that's what it's turned out to be. So the master data, I think, has been transferred pretty well. That -- you have to really scroll through the master data in some detail. It takes a lot of tribal knowledge to spot some of the mistakes in there. The team has done a great, great job on that.

And then the change management people have to learn to work in a different way than they have worked for the last however long they worked in the business, and that's gone really well. So the spirit, the engagement of the team, the business process experts we have on site, the super users we have on-site, it's all gone very well.

Are there glitches? Of course there are. Day to day, there'll be this issue or that issue, but that's what the business process experts are there and super users are there to help them through. So it's gone pretty well. And we're closing the months right now. It's going seamlessly. So we're very encouraged by that.

We've taken some lessons learned from that because clearly, that's what you do. You look at it and say what went really well, what could go better next time. We've taken that, we've run through those through a workshop with the whole team. And we now think about the Wave 2, which will happen in January in the Southwest. It gives us some confidence that we can stick to our schedule.

And then clearly, once we have a site stable or site stable on a single ERP platform, then we can think about rationalizing the site. So the site closures follow sequentially behind the SAP program. So all of that is on track. All of that is working well.

I think it's far too -- I'm too old and I've been around too long right now to declare victory. We certainly can't declare victory, but we certainly could have lost the game by now. And we certainly -- we haven't done that. And I'm very encouraged by where we are.

Carl J. Lukach - *Univar Solutions Inc. - Executive VP & CFO*

Let me add to that, Kevin. On the cadence of the sale of the up to 40 properties, first of all, they're not all the same size. I think we've -- you know that. And we're very encouraged that the 2 largest ones, we have that -- those 2 in our sites.

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

Well, 2 most valuable ones.

Carl J. Lukach - *Univar Solutions Inc. - Executive VP & CFO*

Two most valuable ones. And so this could be lumpy. It won't be a straight line over the next 3 or 4 years. I mean basically, you're asking for a prediction on when we close on these sites, which you can imagine is pretty difficult to predict.

But the good news is that we expect a large amount of value to be created, cash to be created from the sale of these sites over the next 3-plus years that will make a substantial payment against the onetime integration costs.

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

That's helpful. And then secondly, I wanted to ask about your monthly sales experience. I appreciate the uncertainty looking out to December, David. But I was wondering if you could comment on what you did see in October. I think you mentioned in the prepared remarks, September was weaker than August. Did that extend into October? Or was October a different trajectory for you? Perhaps you could elaborate on that?

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

No. No, it was the same. It's just -- October is in the same vein.

Operator

Our next question comes from Steve Byrne with Bank of America.

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

David, your U.S. sales force has certainly gone through a lot of changes in recent years. You got a lot of new blood in there and new territories and new areas of expertise and so forth. What metrics do you look at to judge the level of productivity of the redesigned sales force? And where would you say they are at in terms of the level of productivity that you'd like them to be able to achieve?

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

Yes, Steve. Thanks for the question. I think we look at -- firstly, I think -- and I'm happy with the way the sales force is developing. I'm happy with the way we brought the 2 legacy organizations together into 1 organization. And I'm thrilled that, with the team's work, to be able to put those sales charges together. And now I couldn't be more excited that we have one single sales team with one single roster of accounts into the market. And that really only happened in the second half of October. But it does mean we have more capacity, more people, more time to go call on customers. And I think that will feed into share growth in the coming years.

I mean, I think in terms of measuring the health and well-being of our sales organization, the churn rate of our sellers is one thing, and that's gone down significantly. So we've kept at those low levels that we've seen since the close of the acquisition. It means when we train people, they're staying and they're enjoying their experience, which is a good one.

I mean we look at the core rates, we look at the close rates, look at the win-loss ratio. And we look at the delivered gross profit growth that they have as well as the pipeline and pipeline closes that they're doing. And I think that they're important metrics that we see.

In terms of productivity, I think that we get a level of productivity by having smaller sales territories, a more focused sales territory. So that gives us a level of productivity. I think the second level of productivity we get by having better trained, better skilled, better planned account rosters and better skilled and trained salespeople. And I think that's what we're seeing right now.

I think there's a third level of productivity which gets built in, particularly for the legacy Univar sellers, as we move through the systems migration because the systems migration means that we're essentially becoming easier to buy from because we have more automated systems through the organization. Therefore, sellers should not need to get themselves involved in putting an order through our system. And that's probably one of the biggest drains of sales capacity, is that they get involved in processing an order through the system. And so we're having now to help them learn to trust the system, to love the system and trust the system and just go out and sell. So that's another level of sales capacity which we'll get. I don't think we're anywhere near getting that right now, but we'll get that through 2020, really into 2021.

But I think we have a good sales organization right now. I think it's good that, in our key verticals, they're fully staffed. I think we've got some great technical capabilities in those. I think they're supported by great application development. This counts for the sales process that we have. I was with one sales group that's being trained here in Chicago yesterday, brand-new people into -- going through the program, going through the process. We've got over 60% of our sellers engaged in that process right now. They find that really, really beneficial for them. We'll have everybody certified in that by the end of the year. I'm very comfortable with what I'm seeing from our sales organization. But there's a lot, lot more to come.

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

And I was curious what products that you distribute that you provide some level of formulation service to it. And does that provide you any opportunity to create your own private label products?

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

So I mean private label is not something we're really about. We do have some of our own private blends in surfactants, but that's a really small part of our business and is -- we've had that for probably 40 years or more. But our application development labs are there for beauty and personal care, for CASE. They're there for lubes and metalworking fluids. They're there for -- we have food ingredient kitchens. So they're there to look at -- we're there to be brand advocates for the supplies that we represent, and that's what they value in us.

And what they value in us and what customers value in us is that we sell some products that go well with other people's chemistries. So we can add one supplier, start with another supplier (inaudible) another supplier to multiply it to get a great formulation. Our customers appreciate that. Our suppliers appreciate that.

So that formulation capability is something our customers are reaching out to us more and more for and brings real value for them, particularly as we get into tougher markets. I mean we have more solutions and more capability than anybody else to help them stay competitive in tougher markets. So we'll continue to invest in that because we think it's a differentiator for us and we have great capabilities there.

But I don't want to be -- I don't want to own label. I mean we do dilutions in our caustic and HCL and sell-through. But that's adding water to stuff. We have our own diluted -- we have our own brand in surfactant, but we're not into home. We're not into our own label. We represent some of the best brands in the world and the best manufacturers in the world. And we're proud of those brands, and we're delighted to do it.

Operator

Our next question comes from Bob Koort with Goldman Sachs.

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

David, I wanted to explore a little more of this notion of the sales force effectiveness and intensity. And I think it was a major pillar over the last couple of years of improving efficiency. And I guess it's been a little less obvious externally where the traction has picked up there. You just mentioned harder sales, harder times are better for you. Maybe you can add more value.

Is there also a counter that, maybe in harder times, the incumbent suppliers there are more willing to concede anything they can to keep the business? Or maybe give us some sense of why we haven't seen as much obvious traction on winning volumes or winning share? Or maybe you have, and you could give us some validation of that, as well?

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

Yes. Sure, Bob. I mean I think a couple of things. Let me address the kind of traction in the sales organization first. I mean you know, you know better than anybody, we've done a huge amount of work with that sales organization to train them, to develop them, to change the kind of sellers that we have and also to change the kind of products that we have, to change the kind of materials that we sell, to have more differentiated chemistries, less of the big-volume, low-margin products and to come away from the -- from some of the big energy markets or some of those very low-priced products. So it's difficult to see in the top line.

I would suggest to you, though, that if you look at our ability to be able to manage margin and deliver value through the business, that's done by a very good group of product managers and a very good group of sellers finding value with customers and being able to extract that value. And I think if you look at our margin improvements and our DGP (sic) [GDP] improvement, that's testament to the kind of sales organization, professional sales organization that we have today.

I think as we go into tougher times, I encourage our sellers to walk through the door of a customer and to say, "Hello, I'm John Doe or Jane Doe from Univar Solutions. I'm here to save you money." I mean we -- that saving money won't be by dropping the price. We have more solutions than anybody else to help customers stay in business through tough times. That might be change the chemistry. It might be change the package type. It might be a different dilution. It might be a different supply chain offering. It might be using some of our digital capability to take some costs out. We can find ways to bring value to customers with a suite of offerings bigger than anybody else that should allow our people to be able to hold their head high and to go bring real valuable solutions to customers in the toughest of times.

I would argue when times are good, customers haven't got time to change out one chemistry for another because they're busy hanging on to try and grow demand. When times get bad, then people have to find ways of staying in business and have to find ways of getting value. And I think we have more solutions than anybody else, and it's not just price.

By the way, we actually -- we have some great supply partners. And they're supporting us tremendously well. So we can be as competitive as anybody. But I'm here, I'm from Univar Solutions and I'm here to save your money. We can do that, and we can do that better than anybody else.

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

Got you. You also mentioned something in your bullet points there early in the presentation about advanced analytics. Can you give us a little more granularity on what you're doing there, maybe an anecdote or 2 that explains how that's driving value or what's to come there?

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

Sure. I mean we employ people that I would never thought we'd employ in the distribution business. We've brought in data scientists. We have a great group of people who are trying -- who are using AI to help us draw intelligence out of all the data that we have.

Now that -- what that does is that allows us to give better insights into our sellers and our sales organization to go and sell things. Now that could be looking at order patterns so we can call customers and say, "We think you're about to run out," or, "We think you're about to order." We've had a couple of comments from customers coming back to us saying, "Hang on. You're reading our minds right now." Yes, we are.

So rather than wait for that order to come in, it's prompting our inside sellers to be able to call at the right time to be able to capture orders and capture demand. That's just one way that we can do that.

It also helps us, looking at pricing and looking at pricing at a micro market level, to help us understand that pricing -- and then maybe suggest where we can capture more value and move on. So there's a range of places where we are deploying that.

I mean the other area then is also on cross-selling. The simple kind of customers who bought this also bought that. Well, our analytics are helping us do that as well. So again, it feeds information into our sellers. So it helps them ask the right questions at the right time and gives them a greater probability of capturing the order.

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

And you think that's a competitive advantage at least to the smaller competitors you deal with out there? Or is everyone adopting this in the industry, do you think?

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

I don't know. I haven't heard anybody else doing it. It's not easy to do. And we've invested quite a bit of money at it.

What we are able to do, though, is invest that money and scale it across all our business. So we're now using these tools in Europe and in LatAm and everywhere. We can use this. It's write once, read many kind of mentality to this. So we can invest and scale it across what anybody else is doing. I haven't heard anybody else, I haven't heard any of the other major competitors talk about digital tools and digital offering in quite the comprehensive way that we are investing.

Operator

Our next question comes from Jim Sheehan with SunTrust.

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

David, can you comment on the competitive environment? Are you seeing any increase in competitive intensity during the Nexeo integration?

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

Well, look, I mean it's a competitive environment anytime. And I think there were many people who thought that we would mess up the Nexeo integration. And so far, we haven't.

We had a lot of competitors chasing after our sellers when the deal was first announced, and our sales force attrition remains low. There's been a number of competitors who said that we would stumble and fall by bringing the 2 cultures together, and we haven't. There's been a number of competitors who said we're going to screw up the SAP integration, and we haven't. There's a number of competitors that say we're going to -- they'll capitalize then when we start to close sites, and we haven't. So I really focus on what we do and how we can serve customers and our suppliers better and play our game and then let the competitors worry about how they deal with that.

So it's a very competitive marketplace. It always will be a very competitive marketplace. Yes. I mean I think we were in the crosshairs for a while from the second that we announced the deal. And clearly, we're in the crosshairs right now because we're in many markets with the big guys, so there will be. But we've disappointed most of our competitors by not stumbling in the way they predicted.

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

Great. And you mentioned a data point, volume per bill day and you've got extensive data on that. It sounds like an interesting metric. And I'm just wondering, is that a better metric by which outsiders can see the progress you're making? And would you consider disclosing any metrics like that?

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

Look, volume per bill day helps us look at trends. DGP (sic) [GDP] the bill day is much more important because volume is not really the driver for us. I mean, it is about the gross profit. I don't know whether we want to share that far and wide, but it is something which we use to try and understand for our business what's happening and what's going on.

Operator

(Operator Instructions) Our next question comes from David Begleiter with Deutsche Bank.

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

David, just to your comments on 2020, how you think about 2020. Were you suggesting to annualize second half EBITDA as a run rate for next year and then perhaps add in the incremental synergies? Or did I misunderstand that?

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

David, no, I don't think that. I think that's kind of how we're thinking about life. We think -- we don't expect any particular material bounce-back in 2020 in the economy. So from a macro point of view, we look at the second half and think about that as probably a reasonable run rate for 2020. That's what we're looking in our internal thinking. And then you add in the incremental synergies to that. And that kind of gives you a guideline to where we're thinking.

But we're not -- the macro is always the macro. We're controlling the controllables. We know what we control. We're confident about that. But the macro is the macro. We don't expect it to materially deteriorate from where it is in Q4. But we don't anticipate a bounce-back. We're not banking on a bounce-back or a recovery next year. If it comes, great, but we're not banking on it.

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

And we might reference September being below August. Where -- what end markets did you see slowing occur or by region?

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

Well, I think that if we look at our -- I mean our European business just [came off] 23 quarters of growth. It's down 7% currency neutral. And if anything, it had a [bump for] quarter 3 last year. It was ultimately a difficult comparative. But the European economy is slowing down, and it's getting better -- it's getting gradually worse. But our business is doing very well and managing through that.

I think the -- we saw a wide range of industry slowdown. We said that. The industrial markets in the U.S.A. are slowing down, and we saw that guide down. I mean energy, energy in North America really is the one which has probably shown the most marked slowdown in the last quarter or two. The situation in Canada, in Alberta, is kind of well publicized. Fracking is slowing down in the U.S. So that's probably the biggest one.

Now energy is clearly nowhere near as important to us as it was 5 years ago, 4 years ago, when we were very much an energy-focused company. But it's still something like 8% of our North American sales. So that's one which has really disappointed us.

Operator

Our next question comes from Laurence Alexander with Jefferies.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

It's Dan Rizzo on for Laurence. You mentioned that next year, business in oil and gas is -- the option at oil and gas business is obviously -- is showing some weakness. As I recall, a few years ago, I think you guys kind of exited that business or significantly deemphasized it. Are you looking to do the same thing again, just walking away from there again? Or are they better positioned or if -- than you were back then?

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

No. And thanks for the question. No, I mean I think as I just said, I mean North American energy is about 8% of our business. It's about 5% of our business globally. And as you referenced a number of years ago, I mean Univar -- legacy Univar was very big into the energy market, very big into the energy market and wasn't always very profitable. And we moved away from a lot of that over the last few years.

Some of the accounts that we moved away from went to Nexeo. And so when Nexeo and Univar come together, those accounts are probably gone to someone else now. And so it's not us looking to come out of energy completely. We're very happy to be in energy, where we can support the business profitably. So it is about profitable business for us. It's not about shipping volume and shipping railcars. So that's the kind of Nexeo angle on it.

Operator

We have no further questions at this time. I will now turn the call back to Heather.

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

Ladies and gentlemen, thank you for participating.

You may now disconnect.