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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 - Associate Analyst*

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

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

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Univar Solutions' Fourth Quarter 2019 Earnings Conference Call. My name is Mariama, 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' Fourth Quarter 2019 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 fourth quarter and full year that ended December 31, 2019, the third full quarter that includes Nexeo Solutions' chemical distribution business, which we acquired on February 28, 2019. We 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 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 his perspective on the quarter and our Nexeo integration progress. Nick will walk through our results and our outlook. And finally, David will close with 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 pretty hectic but exciting quarter for 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 speak to some of the challenges we faced.

In summary, once again, we controlled the controllables well. Despite a challenging macro environment in the chemical sector, operating performance was commendable and in line with our expectations, resulting in higher margins. The overall integration of legacy Univar and Nexeo continues to go well. Our net synergy cost savings came in ahead of our previous forecast. The first wave of ERP migration was completed successfully, and our second wave has now gone live and is also progressing on track.

We sold our Environmental Sciences business, using proceeds to pay down debt and achieving our lowest leverage ratio as a public company at 3.3x. Our working capital efficiency improved. Cash flow was strong, and our balance sheet continued to strengthen. One thing we cannot control is the macro global economy and it continues to be very challenging. We have plans in place to continue to execute on our strategies and financial goals in 2020.

And I'm pleased to introduce Nick Alexos, our new Chief Financial Officer, whose background of improving business performance is helping sharpen our focus and drive our strategies and financial goals. Nick has an impressive background in growth and margin expansion strategies, most recently as EVP and CFO at Dentsply Sirona, and before that, as Managing Director of Madison Dearborn Partners, LLC. Concurrently, I'd like to thank Carl Lukach for his many invaluable contributions as our CFO and appreciate his expertise now as our Executive Vice President of Corporate Development.

Nick will take you through the details of the quarter in a few moments, but first, let me add a little color to those headlines. The double-digit growth you see in our gross profit and adjusted EBITDA reflects the addition of Nexeo plus margin improvement from our disciplined approach to commercial execution from an improving sales force as well as net cost synergies from integrating the legacy organizations. Yet, as we mentioned last quarter, we have opposing forces in our results. We have a sustained improvement in execution and capture of net cost synergies from the Nexeo acquisition, where we were able to pull forward an additional $10 million of synergies into 2019 for a total of $30 million. However, we have headwinds from lower global demand for chemicals, dis-synergies and a generally deflationary price environment that are partially offsetting these actions.

As we noted on our last call, demand in the fourth quarter was quite low across many of our end markets with the ISM PMI index, that barometer of industrial demand, being well below 50 in the U.S.A. With the integration of Nexeo across our operations nearly complete, we only track our performance by the reported geographies. However, our best estimates of our Q4 results that include Nexeo in the prior year indicate that our revenues on a constant currency basis are down low double digits, with about 2/3 attributable to lower price and 1/3 attributable to volume, including the estimates for anticipated dis-synergies from the acquisition. This is generally consistent with the results of our key supplier partners and data from other industry sources.

Our estimates on the same basis for adjusted EBITDA indicate we earned about 6% less on a constant currency basis than last year. As I said earlier, our sustained focus on margin management along with synergy capture were offset by weaker end markets and dis-synergies. While we're intensely focused on increasing our EBITDA, we're equally focused on the long-term opportunity to serve our suppliers and customers and grow share. The global addressable market for distributed chemical and ingredients is large, and the value proposition of Univar Solutions remains attractive and well received.

During the past few months, we successfully delivered on several significant integration milestones and business investments. I'd like to highlight a few of those now. The first wave of our migration to a single SAP system for the Americas successfully went live in Q4 in the Pacific Northwest. The second wave in the Southwest began in mid-January and is also going well. I continue to be pleased with how we are exiting on this program. There is no interruption in service. Our production and transportation schedules are on time. Invoices are being issued accurately, whilst our inventory management processes and records are working well.

With the successful go-live of these 2 waves, we now have approximately 50% of our U.S.A. business on SAP and are on schedule to have it rolled out to the remainder of the U.S.A. before the end of the year. Our attention now turns to Wave 3, which will go live early in Q2, with lessons from Wave 1 and Wave 2 now incorporated into the plan. While never complacent, we move ahead of pace and with confidence. This system migration's long overdue for the legacy Univar business enables us to build agility into our operating model as well as deliver efficiencies. It does, however, consume a large amount of human capital to ensure these go-lives are successful and disruption-free for our customers. And I look forward to that day in the near future when our focus can be exclusively turned externally to delighting our partners as we use the platform to grow profitable share.

Our site consolidation plan continued, closing 8 branches in the quarter, bringing 2019 closures to 12. Additionally, we finalized the sale of 2 of our more valuable sites as well as 5 additional sites for a total of $55 million. We're in the early stages of realizing the benefits of optimizing our scale but remain true to our strategy of having a strong local presence for our customers.

One area where that scale really matters is our investments in digitization. Given the size and complexity of the chemicals ingredient supply chain, a robust comprehensive digital infrastructure will be another competitive advantage. Our customers continue to adopt and use our digital solutions to search, select, source and self-serve in growing numbers. During 2019, the number of site visitors and active users of our platform more than doubled. For customers, it's becoming a more valuable and differentiating part of the Univar Solutions customer experience. And in 2020, we'll continue to expand both the capability and geographic reach of this platform. Meanwhile, our advanced analytics team continues to leverage AI to help us better anticipate and serve our customers' needs and further improve our competitive offering.

Our U.S. commercial team, with their redesigned sales territories, launched dedicated sales support for all field sellers. Our new sales operating rhythm focuses sales managers on driving behaviors and coaching sessions with sellers weekly. A new seller scoreboard has been launched to align to each line of business to support key KPIs that focus on reducing churn and driving growth.

But before we get carried away with ourselves, and as a reminder, despite sales territory realignment being complete, the business is still operating on 2 separate CRM systems, which means we are more clunky than I would want us to be. Migration to a single CRM has been pulled forward to the end of Q1, which will make it much easier to get rapid access to key data to drive performance and growth.

Recently, we highlighted our abilities and strong commitment to technical differentiation, particularly in our global industry verticals such as food ingredients, beauty and personal care and household and industrial cleaning by holding our first ever customer and supplier innovation day. This was a splendid event with over 150 customers and suppliers in attendance, and we were able to put our flagship solution center in Houston on full display.

Our focus on commercial innovation, which enables us to truly differentiate with specialty chemical suppliers, will deliver strong, sustainable growth. From market and trend knowledge to concept definition, sampling, scale up and launch, we demonstrated to customers how our technically qualified subject matter experts can help them identify and solve their most crucial problems.

The event was very well received by all who attended with a significant number of new opportunities to innovate and grow together being brought to Univar Solutions in the immediate aftermath. It is often underestimated. With our worldwide network of innovation experts, supported by state-of-the-art solution centers, we have as much capability as anyone to deliver technical application development excellence and significantly more than most.

Now let me turn the call over to Nick, who will walk you through our fourth quarter results and explain our 2020 full year guidance. Then I will close with some additional comments.

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

Thanks, David. I'm delighted to be part of Univar Solutions, and it's been a welcoming start with a great team of people across the company.

Univar Solutions is enviably positioned in a broad-based sector with many opportunities to add value in the supply chain, while improving our margins by capitalizing on our scale. The team here has accomplished a lot with many accretive strategies ahead. As well, I look forward to working with all of you on this call. As David mentioned, our fourth quarter financial results reflect double-digit growth in gross profit dollars and adjusted EBITDA. The benefits from our Nexeo acquisition, our disciplined approach to commercial execution and improving sales force as well as the realization of net cost synergies of $15 million in the quarter and $30 million for the year drove improved gross margins and adjusted EBITDA margins. Including our integration expenses for Q4, we reported GAAP net loss of $55.1 million or $0.33 per share compared to net income of $1.2 million or $0.01 per share in the prior year. The current GAAP EPS benefits of Nexeo's earnings, better operating performance and the environmental sciences divestiture gain were more than offset by various taxes, lower demand in global industrial markets, a loss on extinguishment of debt and pension mark-to-market. Our taxes were significantly higher, driven by increased international taxes, U.S. tax reform impacts, nonrecurring transactions with foreign subsidiaries and the gain on the sale of the ES business.

Adjusted diluted earnings per share for the quarter was $0.29 compared to $0.33 in the prior year. This decline is attributed to lower demand in global industrial end markets, a higher share count at a $0.07 impact and higher depreciation and amortization had a $0.04 impact, offset by Nexeo earnings and better operating performance.

Page 6 highlights certain key financial metrics. On a GAAP basis, gross profit dollars exclusive of depreciation grew 17.5% to $522 million or 18.4% on a constant currency basis. Our gross margin expanded by 170 basis points to 24.2%, driven by contribution from the Nexeo acquisition, improved sales force execution and favorable product and end market mix. When adding legacy Nexeo Chemical results to last year's financials, we estimate gross profit dollars, exclusive of depreciation, were down about 3.8% on a constant currency basis. The positive impact from improved sales force execution and product mix were more than offset by lower volumes with approximately 2/3 of this negative impact being driven by global macro conditions impacting demand and bulk chemical pricing and the remaining 1/3 coming from dis-synergies. Our fourth quarter adjusted EBITDA of $158.8 million grew 10.3% and 11.3% on a constant currency basis. Adjusted EBITDA margin expanded 10 basis points to 7.4%. We were able to achieve this performance despite the tough macroeconomic conditions affecting our volume. Adjusted EBITDA was favorably impacted by the contribution from Nexeo and our continuous efforts towards improved sales force execution and product mix as well as the realization of synergies.

As David mentioned, on an estimated basis, adding legacy Nexeo to last year's results, adjusted EBITDA was approximately 6% lower on a constant currency basis. Positive impacts from margin improvement and synergy capture were more than offset by negative volume headwinds driven by the lower market demand and dis-synergies. Our cash flow was significantly ahead of prior year largely due to the reduction of net working capital from lower sales, demonstrating the resilient nature of our business model with countercyclical cash flow. Our top priority for use of cash in the short term continues to be deleveraging. Our residual cash earnings in the quarter contributed towards a net debt decline of $480 million, ending the year at a 3.3 leverage ratio, our lowest as a public company and versus 3.9 at the end of Q3 2019.

Return on invested capital is down from 11% in the prior year to 10.1% in 2019, which will improve as 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, excluding goodwill and intangibles. Moving forward, we will be including certain goodwill and intangibles, which will nominally reduce the ROIC benchmark.

We will continue to fund high-return investments in our business and use residual cash earnings to pay down debt and plan to end this year 2020 with a relatively flat leverage ratio versus 2019. Deleveraging could further benefit from additional portfolio divestitures of noncore businesses.

During 2019, we captured net cost synergies of $30 million, and we are on track to achieve a $120 million annual run rate by the end of the third year from the Nexeo closing date. Our estimate of integration costs remains at approximately $225 million. In 2019, we spent roughly $100 million on the Nexeo integration, excluding deal-related expenses, and expect to spend $85 million to $100 million in 2020. As we have said in the past and demonstrated in Q4, monetizing excess facilities will provide substantial funding of these integration costs. In 2019, we captured about $20 million of working capital and $55 million from property sales.

Let me now share highlights of each of our geographic segments. The U.S. segment represents 63% of total consolidated net sales in Q4. On a reported basis, gross margin was higher, up 130 basis points to 24.4%, reflecting our focused margin management, sales force execution, favorable product and end market mix as well as Nexeo synergy capture.

On the cost front, we managed our discretionary spending well and benefited by the net cost synergies from Nexeo. However, in Q4 '19, these cost reductions does not outweigh the macro impact on the business. Upstream oil and gas headwinds of $8 million and caustic price deflation of $4 million result in a flat EBITDA margin. Adding legacy Nexeo Chemical results to last year's financials, estimated adjusted EBITDA in the U.S. was down 9.5%. The favorable impact from margin expansion efforts and synergy capture were more than offset by negative volume headwinds driven by market demand and dis-synergies. Estimated volume, including legacy Nexeo Chemicals, was down 4.7%. Good performance in some of our verticals, like food ingredients and personal beauty care were more than offset by lower demand in the upstream oil and gas markets and deal-related revenue dis-synergies.

Our Canada segment was 12% of total consolidated net sales in Q4. Our industrial chemical business in Canada showed solid performance in the fourth quarter, along with contribution from legacy Nexeo business. We saw continued strength in our focus industry lines, which includes food ingredients, personal beauty care, pharmaceuticals and the CASE markets. The agricultural business also had some pickup due to better product mix. The energy sector continued to be sluggish and saw lower volumes. The segment results were also negatively impacted by chemical price deflation.

Our gross margin expanded by 230 basis points and adjusted EBITDA margin by 70 basis points due to our continuous efforts for margin improvement. Adjusted EBITDA increased 4.7% on a constant currency basis. Our EMEA segment was 19% of total consolidated net sales in Q4. Improved performance in our core chemical distribution business more than offset the continued market pressure in the pharmaceutical finished goods line. Our gross profit margin and EBITDA margins also increased by 90 basis points and 60 basis points, respectively, despite the revenue headwinds. Adjusted EBITDA increased 2.9% on a constant currency basis in a challenging macroeconomic environment.

Our LatAm segment was 6% of total consolidated net sales in Q4. In Mexico, our team was able to capitalize on the expanding energy markets driven by government investment. In Brazil, a bit of a weak economy, we saw some recovery in agriculture and polyurethane. Adjusted EBITDA grew 63% on a constant currency basis, benefiting from improved operating performance in Mexico energy markets and the Brazilian agricultural sector, prudent cost management along with the contribution from the legacy Nexeo business and onetime gain on Brazilian debt recovery. Excluding the impact of the Brazil VAT recovery, gross profit expanded 26.2%.

Net cash provided by operating activities is $329.7 million in Q4 of 2019, $37.2 million higher than last year, reflecting our countercyclical cash flow business model. We're also benefiting from harmonizing payment terms between legacy Nexeo and legacy Univar. Capital expenditures were $50.4 million. And we ended the year with $122.5 million in total CapEx, above our initial 2019 outlook, driven by timing and additional funding of our digital infrastructure and growth initiatives.

Turning to our 2020 outlook. Net sales, gross profit exclusive of depreciation and adjusted EBITDA are projected to grow as we benefit from the addition of Nexeo, our improved operating performance and our net synergies. These gains allow us to achieve margin improvement in 2019 despite the challenging macro environment. This gives us a clear confidence in stronger margins with a recovering market. We expect full year adjusted EBITDA to be within a range of $700 million to $740 million.

With 2019 adjusted EBITDA of $704 million and taking into account the environmental sciences divestiture and 2 months of Nexeo, the adjusted EBITDA growth is up low single digits but is below our long-term expectations. With a continuation of weak industry demand in certain segments and related soft pricing trends, we expect the first quarter of 2020 adjusted EBITDA to be in the range of $150 million to $160 million as compared to $160.1 million in Q1 of 2019. Although we expect additional cost synergies in Q1, the resulting decline versus prior year is principally driven by low double-digit negative trends in upstream energy and commodity chemical pricing deflation, especially in relation to caustic soda and hydrochloric acid. We expect an improved growth profile, particularly in the U.S. market, in the rest of the year as many of our integration activities will be completed by midyear, allowing for even more effective sales force execution.

Our full year results will also be adversely affected by a decline in the finished pharma business in EMEA as this product line becomes a small part of our earnings base. The company expects to generate $120 million to $170 million in free cash flow, which is net of a build in working capital driven by second half growth versus a decline in Q4 2019.

In determining our guidance, we made the following assumptions: flat industrial production weighted to a back half of the year recovery; U.S. energy headwinds continued, estimated at $20 million of EBITDA for the year; pricing pressure in certain bulk commodities, like caustic and hydrochloric acid, impact EBITDA by $15 million. Additionally, our guidance excludes any continuing impact from the coronavirus outbreak.

From a direct sourcing perspective, we have limited exposure. However, the interruption in supply chain, both in and out of the region for our customers, may have more risk, and we'll continue to monitor the situation closely. Operationally, we assumed continued improvement in sales efficiency and effectiveness; growth from new supplier authorizations, especially in our dedicated industry verticals and specialty chemicals; and Nexeo net cost synergies of approximately $40 million in 2020.

Furthermore, we assumed EMEA finished pharma EBITDA decline of $15 million; net interest expense of $115 million to $125 million; income tax rate for adjusted EPS of 20% to 30%, with no expected unusual tax items in 2020; diluted weighted average common shares outstanding of $175 million, largely due to the shares issued in the Nexeo transaction being reflected for the full year of 2020. Free cash flow assumes capital expenditures of $120 million to $130 million, which includes investment in digital infrastructure and other growth initiatives to increase our competitive advantage.

Overall, we are satisfied in how we're performing on our key strategies and the management of our costs during a slowdown in certain sectors. The Nexeo acquisition and integration has been a clear success, which has furthered our ability to delever and create 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, Nick. As Nick mentioned during our guidance, for a variety of reasons, short-term customer demand has become more tricky to predict. The effects of geopolitics and coronavirus-related supply chain disruption means the market is particularly difficult to read at the moment. Upstream energy in North America is depressed, which reduces consumption of certain inorganic chemicals and has a knock-on effect of pricing pressure in those key chemistries. But I've said before, we've operated in these types of constrained tight markets before. Our asset-light model helps us fare better than many others.

Our own focus for the past 3 quarters has been necessarily overly internal. But thankfully, that is now heading towards an end and we can be much more externally focused, active and aggressive to grow faster than the market and win back any lost share of customer demand.

In addition, we have multiple levers in our control such as roughly $40 million of incremental integration cost synergies in 2020. This affords us the opportunity to continue to invest in our expanded U.S. sales force, which as we get progressively less clunky and free of ERP integration demands, will only get more and more effective every day. With greater market coverage and capacity for growth as well as disciplined spending and capital deployment, we believe we have all the elements that will help clearly set us apart from the rest.

As we approach the first anniversary of the launch of Univar Solutions, our confidence in the strategic rationale and value-creation opportunity that comes from the merger of legacy Nexeo and Univar has only grown. I'm pleased to say that 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 are executing at pace with discipline and are confident in our ability to remain agile and execute effectively, sustainably and responsibly.

But in summary from the year, we improved our operating performance with higher margins. We achieved very good performance in EMEA, Canada, Asia Pacific and LatAm markets. We continue to successfully integrate legacy Univar and Nexeo with $30 million of synergy cost savings, $10 million ahead of our previously disclosed forecast for 2019. We successfully completed 2 waves of ERP migration to SAP in the U.S. We decreased our leverage ratio to 3.3x, 20 basis points below our leveraged fourth quarter last year. We completed 2 divestitures, Nexeo Plastics and environmental sciences; successfully executed our site consolidation plan, including the sale of 7 of our sites; and operated effectively in a very challenging macro global economic climate to better serve the needs of our suppliers and customers.

In addition to all these achievements, I want to highlight 2 important strategies that are rooted in the values of the new Univar Solutions. Firstly, we are ingraining our sustainability and diversity agendas deep into our culture. We're a signatory of the UN Global Compact as well as its 1.5-degree commitment. And I'm proud that we are now in the high-upper quartile of ranking on the Human Rights Campaign Foundation's Corporate Equality Index, recognizing the diversity and inclusion around our core. We remain true to our stated aim of making Univar Solutions a place where the best people want to work.

Secondly, and under our banner, "Streamline, Innovate, Grow," we continue to invest in innovation through both technical differentiation and advanced digitization to create more value for our customer and supplier partners, redefine distribution, making it easy for us all to manage our businesses together. We are becoming more commercially and operationally agile every day and are successfully positioning our company to deliver long-term profitable growth and shareholder value.

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

QUESTIONS AND ANSWERS

Operator

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

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

I just wanted to start off with free cash flow. If you can walk us through if there's like a cadence throughout the year. I guess, specifically working capital, your needs there as the demand environment remains a little soft.

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

Sure, Michael. Thanks. This is David. I'm going to let Nick talk you through that. He has those numbers at his fingertips.

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

Yes, Michael. Nice to meet you on the phone. Clearly, working capital varies with our top line. And as we saw -- top line come down Q3 and notably in Q4, we had a good source of cash flow. We're also improving our efficiencies, particularly on the days receivables side. So going into 2020, as we're forecasting growth, you're going to see a consumption at the same kind of ratio level into the quarters. And that's a use of cash during the year roundly, as we said, in the $100 million to $150 million range. So that will get normalized as we go forward in subsequent periods. But that is a use of cash during the year.

In addition, as we've noted, we had some extraordinary tax expenses in 2019. Those will get paid out in 2020. And so you have an incremental use of cash there. And the last thing I would say is we had a notable positive increase in ag prepayments in Canada in Q4, and that will stabilize again going into 2020.

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

Okay. And are you able to frame what that dollar amount of prepayment that basically was built into the 2019 number?

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

Yes. It's roughly around $20 million in Q4, less going into next year. About a $20 million differential.

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

Okay. And then if I can just switch gears. Can you give us an update on what you see in terms of the strategic actions on locations? And then freight consolidation, how that is going to be benefiting ops going forward? And any sort of time line or, I guess, momentum building with the current initiatives you have underway?

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

Sure, Michael. I mean, we have an execution plan for the unite program. I think, as we said, we closed, I think, in total 12 sites last year. The site closures and the consolidations really follow the ERP integrations. The integration is going well. So we'll probably do another 10 to 15 sites in 2020.

So we have a very clear plan and a very strict discipline around that plan. And you can see us executing on that systematically through '19 and you should expect the same in 2020.

Operator

Your next question comes from Laurent Favre with Exane BNP Paribas.

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

First question is on the U.S. conversion ratio. It was up in Q2 year-on-year, up in Q3 year-on-year. In Q4, it was down about 200 basis points. I was wondering if you could talk about that. I was a bit surprised that the synergies didn't come through in the -- in that line.

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

Yes, Laurent. Nick Alexos again. Thank you. We are very mindful of our conversion ratio and clearly targeting an improved EBITDA margin going into 2020 and beyond. The shortfall in the U.S. was principally as a result of the lower dollar DGP base. We are including, obviously, the benefit of the synergies in the net EBITDA number with some improvement, but the mix of business and the lower DGP base caused a compression of the conversion ratio in Q4.

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

And then if I may, on the synergies, so you managed to pull forward $10 million from 2020. I was wondering if there's no improvement in the second half on industrial production, how much of an opportunity do you have to bring forward some of the synergies from 2021?

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

Laurent, well, look, as I said on the previous call, we got a very clear program and a very clear execution strategy against our program. We're very confident that we can achieve at least the $120 million of net synergies that we've given guidance towards. We're consistently looking at how we can move from stabilizing the integration to optimizing the processes. So that's something which we are looking at addressing at the moment.

We are -- we're used to operating in tough markets. And so we're pulling out that playbook to look at the things that we can do to accelerate cost savings or to streamline our business faster than we would want to do. But what I won't do is I won't compromise and I won't put the integration program at risk by doing that. But we have a high degree of confidence in our ability to now execute until at least at the $120 million of net synergies.

Operator

Your next question comes from Laurence Alexander with Jefferies.

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

Two quick ones. Can you give us a feel for what's going on with the regional exclusive account wins, the larger customer wins? And how much of a tailwind that should be giving to growth in 2020 and 2021?

And secondly, just a follow-on to Laurent's question. Given the levers you have, could you maybe speak about in terms of, apart from a sharp shock from corona, what kind of environment would it take for EBITDA to actually be posting negative comparisons year-over-year?

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

Sure. I mean I think on -- Laurence, I think you're thinking about the exclusive supply arrangements that we have, the exclusive distribution arrangements we have, which will benefit and will support growth, particularly in those global industry verticals like food ingredients, beauty and personal care. And we're seeing some benefit in 2020 with our new arrangements in beauty and personal care in Germany and Central Eastern Europe and also then with Novozymes in Canada. They benefit those global verticals quite significantly.

So we do see a good amount of growth that we can get there. That is higher-value growth. It's more sustainable growth. Takes longer to get because you have to technically formulate the chemistries and ingredients into the new season's technologies, but it is a key driver for growth for us.

I think in terms of the current market, we're seeing significant headwinds in energy, which is unwelcome. What energy also does is that it has a knock-on effect onto some of the key chemistries that are used in energy, so things like in caustic and hydrochloric. So we're trying to understand the global flows on those products to see what we should be doing in terms of pricing and supply.

We do, though, have -- and corona, who knows. I mean, corona is -- it's a day-by-day thing. Who knows. Thankfully, we don't have much products which we directly source from China. However, the supply chains are very complex, and our customers are affected both from products from China and selling to China. So I don't know what it's going to do. It is a day-by-day thing.

We do have confidence, though, that as the year goes on, as time goes on, as every day goes on, we free our sales organization to focus -- or in fairness, we have our entire organization, we can focus on not integration, not SAP, not sales territory realignment but growing with our customers. And we continue to invest in that sales organization. And so we're not cutting in sales. We're investing in sales. We're investing in digital. We're investing in more ways to reach and touch customers. So we believe that we should be -- our execution, as it gets better and better, should allow us to grow share on a relative basis and whatever the market conditions.

I mean it is a tough market right now. We do have some headwinds. Energy is the biggest of those. Corona is a big unknown. But there is a lot of self-help that we can do.

Operator

Your next question comes from Jim Sheehan with SunTrust.

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

On the real estate sales, about $55 million in the fourth quarter, have you received the proceeds of that yet?

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

Yes, we have.

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

Terrific. And regarding the working capital tailwind you had in 2019, was that mostly from lower demand? Or maybe you could break that out between where you benefited from better execution and integration. And related to that, how much runway do you have for improvement from integration and better inventory management and DSO and DPO improvement?

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

Sure, Jim. I mean, I think if you look at what we said we would do in terms of working capital improvements as far as the integration program was concerned, we figured there'll be about $20 million, and we achieved that $20 million. I think, as Nick said earlier on, we had higher ag prepayments than we would have necessarily expected or would expect into 2020. So that was a help and a support.

So I mean part of it is, yes, it's -- we have a countercyclical model. And so we're harvesting cash. But a chunk of it is stuff that we are doing. And as I said, we had $20 million in the plan for integration, and we've executed on that. And we'll continue to work to improve our efficiency as the year goes on.

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

And can you talk about what your sales force effectiveness progress that you've gotten to date? What concrete improvements have you made there?

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

Sure. I mean, I think that, as I said earlier on, we are clunkier than I would like us to be because we're still operating on 2 CRMs, although we do have now one sales force. And we are distracted by ERP, and that again means that I can't have everybody every day focused on knocking on doors and selling to customers. We have seen something like a 25% uptick, though, in our call rate. It's something we track every week. We have a sales operating rhythm and a sales dashboard. That sales dashboard is something which my leadership team and I now look at every week, so looking at KPIs and things that are driving sales growth.

So as we -- as the year goes on, we'll just get better and better because we will have -- we'll be less clunky, i.e., we'll be on one CRM, which means our AI can work off one set of data to provide more information to our sales organization to go target and win back business or win new business. And we will have more and more people who will have nothing else to do but just sell rather than worry about SAP, worry about integration. And I really look forward to that day.

Operator

Your next question comes from Bob Koort with Goldman Sachs.

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

Maybe adding on to that, David, you've carried an excess sales capacity for a while here and the world is not getting any better. At some point, do you decide that maybe you need to rightsize that organization? And then you talked about new KPIs and sales. How are those any different than sort of what you've changed culturally in the sales approach over the last 2 years?

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

Bob, look, I think it's a fair question to say, do you rightsize the sales organization? The question is, do you rightsize it against your current sales or do you rightsize it against the opportunity? And we've chosen to rightsize it against the opportunity. So I think there is plenty of share that we can get here. I know others right now are cutting their sales force. I don't see that as a way to grow. I think the very simple metric is calls equal orders. I don't care how you do those calls. But the more times you ask for an order, the more chance you got to get in one. And we want to grow our share profitably in all the markets that we're in. We demonstrated that we could do that in every market that we operated in last year, apart from the U.S. And I understand in the U.S. around disruption, less we're given for 2020 because the disruptions go away. So I would say that we are rightsized against the opportunity rather than against the current base of the business.

In terms of the KPIs, I mean, they are still very much about value and about value driven. And the leading indicators that we're looking at are much more, I guess, tactical around customer contacts, around must-wins, around must-closes, around price management. And so we have a pretty clear dashboard, which can tail us down to a granular level, whether a seller, a region or whatever is performing well or less well. So we can feed that back into the operating rhythm for the sales managers to manage and coach and develop their people. So it's very consistent against a consistent set of data, value-driven set of disciplines to help us to execute better as a sales organization.

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

Got it. And I think Nick mentioned that your finished pharma EMEA was going to be a $15 million EBITDA hit. Is that right? Because it sounds like a very big chunk. And how is it that business just goes away? That seems pretty substantial.

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

It is. It's a product that we've had -- or it's an industry we've been operating in for a very long time. The product we have here is coming towards maturity. And so the demand for that product is going down. There's a bit more competition in there as well and some newer technologies. So this is something which we kind of have foreseen happening over a number of years. This is the first year that it's really impacted significantly, but it's kind of anticipated in our long-term forecast. It's nothing that says there's anything fundamentally wrong in the execution of the pharma ingredient business. It is around no particular application.

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

And as we emphasized, it's gotten down now to a pretty small portion of our EBITDA contribution in 2020.

Operator

Your next question comes from Kevin McCarthy with Vertical Research Partners.

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

David, Friday will be the 1-year anniversary of your acquisition of Nexeo. Just curious, what sort of report card would you give Univar in terms of key metrics like earnings, IT integration, other sources of synergy, talent retention? Maybe you can run down the list and indicate where you've been pleasantly surprised or underwhelmed as you've gone through the first year.

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

Thank you, and thank you for noting the birthday. And we're very proud of what we've achieved in the first 12 months of the business. So our net cost synergies are very much on plan, and we're executing them as fast as we can and ahead of our original estimate.

The IT transition of legacy Univar to legacy Nexeo is, as you'd expect, it's very involved. But we successfully completed 2 waves of that, about to launch our third wave fairly shortly and already have over 50% of the business on SAP. And we haven't created the business like many other people do on SAP nor I may have done earlier on in my career with SAP. So I'm very happy with the way that's gone.

I still -- we can't be complacent on that. And my fingers are crossed every time that we go live, but we have a very good program of execution, and I think we have a great team on that. I think in terms of talent retention, we've really kept most of the talent. We've had very few -- less than a handful of regrettable losses. Losses that we have haven't gone to competition. They've gone for new opportunities in different places, but there was some very talented people that we have. But we managed to retain most of those. So I'd give us a good scorecard on that as well as launching a single company with a single culture. So people do talk about legacy, not us and them, which is huge in this. I think the cultural piece of any acquisition is massive. And I think we've handled that really, really well.

So if I look at what we've done, I look at the teams of how they have delivered, I think they've delivered incredibly well. I think it's been as good as we could have done it. I think the supply dis-synergies are pretty much in line with what we expected. I would have liked better sales in the U.S. faster, but that's probably unrealistic given, a, the amount of distraction we've had as the integration has gone on; and b, just the state of the marketplace at the moment. And we try and spend a lot of time working out how much it does and how much is the market because we absolutely want to find the truth in there. But we haven't had mass defections of customers. We haven't had mass defections of people. We haven't blown up our systems. We haven't missed any of our synergy target. I think we've done pretty well. I have a huge amount of admiration for a team of people who've worked phenomenally hard, executing with discipline and a pace to deliver something, which is now, I think, really, as we -- as the next months go on and we get through that next wave of SAP integration, we get our CRM integrated, I think that, that really does provide a great platform for growth.

So I'm -- I would -- if you had asked me this a year ago, I'd have bitten your hand off.

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

Second question for Nick on the subject of free cash flow. Some others have asked about it. I mean at the risk of beating a dead horse, I wanted to probe a little bit more about what seems to be an apparent disconnect between your earnings guidance and the free cash flow guidance. That relationship is usually countercyclical, as I think you noted in your prepared remarks. Slide 13, I think, indicates some price deflation. And so I was wondering if you could help sort of clarify the relationship there. For example, does your range include any cash cost for restructuring? Were there any factoring of receivables or other unusual items that might explain the relationship or outlook for 2020?

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

Yes, Kevin. I appreciate the question. I think the biggest chunk is basically just the expected bounce back of cash working capital use on Page 14, which was the recovery of the sales. And obviously, that would be countercyclical if we did not realize those sales. But clearly, we plan to grow into 2020.

You had a big source of cash in Q4, somewhat in Q3. So that's just stabilizing at that level. So going forward, we would expect working capital to be flat with a normalized growth rate. As I mentioned, there's the cash taxes, which include $30 million to $40 million of onetime payments related to certain expenses that we noted in our 2019 results. We've not done any. In fact, that's something that we've planned. We have very good receivables and have good collection rates. And to a question earlier, we do look for some improvement in our DSOs, but that's not a meaningful driver of cash flow going into next year.

And then the last piece was a $20 million expected year-over-year swing on the ag payments. So I think our results in Q3, Q4 highlight the benefit of the countercyclical element that when you have reduction in growth, you do see improvement in cash flow. And it will be evident as we move forward.

Operator

Your next question comes from Dave Begleiter with Deutsche Bank.

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

Nick, again, just on the free cash flow. Looking at Slide 14, if I look at all the elements bridging to free cash, just on the Slide 14 elements, I get about $250 million. I'm still short or too high by about $100 million. What is that gap to get to the midpoint of your free cash flow guidance?

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

Yes. I mean there is a line item which you'll see on the cash flow statement, which is just kind of other operating items that get flushed through the cash flow. That includes various accruals and some of the accruals of the onetime expenses do flow through that. What's not reflected on 14 is we have about the same level in 2020 as we have in 2019. So it's about $100 million use. So that, David, would be the differential bridging. And you'll see that -- if you look at the 2019 cash flow, you'll see about $109 million of other, which includes some of those below-the-line expenses that flow through accruals. And those will continue on into 2020. Thereafter, they should come down to a more normalized level.

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

Very helpful. And David, just on the commodity chemical price inflation. Obviously, most is caustic. You'd still be about $15 million this year and was $4 million in Q4. What was it for all of 2019? And how much of your business or EBITDA is generated also as a commodity chemical or caustic distribution?

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

Look, I mean, I think, as you know, our bulk caustic business is probably -- I know we disclosed that in the past half with how big the businesses are. But it's about -- maybe I'm going to tell you something brand new. It's about 10% of our U.S. business is in that -- in terms of earnings, they're in that area. Clearly, we then have a knock-on effect into the packed business. The caustic, hydrochloric would be, in terms of volumes, the largest products that we sell. In terms of value and profitability, obviously, not the largest products that we would sell.

We have silicon sales in Canada, and we have silicon sales into energy and other markets in the U.S. And we have a really good business there, which manages the market very well. So what we recognize at the moment is that this is going to be a tough year for caustic, and it's a tough year for hydrochloric. Hence, the numbers that we've given for guidance for 2020, which is that kind of $15 million, $16 million of headwind that we see.

In terms of what it may have been in 2019, we think it's maybe something like $4 million and then made another $8 million into energy. So it could be up to sort of $12 million hit in 2019.

Operator

Your next question comes from Duffy Fischer with Barclays.

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

Just a question around the comments you were making on guidance. Did you say that guidance excludes any coronavirus impact? Or it excludes any coronavirus impact getting worse from here?

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

I think our general view is we don't have a direct impact on coronavirus on the business. There could be larger impacts if it persists, and that larger impact would not be reflected in the numbers that we've given for guidance.

But whatever is impacting the current environment, we feel, is reflected in our numbers. To the extent it becomes something bigger, that's clearly not.

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

So for instance, Duffy, I think we've given guidance to what we know at the moment. What we don't know is what it's going to do to our Italian business, for instance. As Italy, suddenly, what's gotten to our Italian -- I haven't got a clue. Our Italian business is not massive in the round, but this thing is developing on a daily basis. And so we don't have a crystal ball for those things. We didn't expect the market to drop 1,000 points yesterday. It's evolving. So we've told -- we've given guidance to be conservative about the things that we know, but there's a lot still that we don't know.

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

No. Very fair. Okay. And then second question, it seems like you've got big prepayments in your Canadian ag business. What does that portend for the outlook for that business this year? That's one that suffered a little bit over the last couple of years. Is there a meaningful bounce back happening in that business this year?

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

We have not factored in a meaningful bounce back. We're looking at it to being stable to slightly positive going into 2020.

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

I mean you know we're not weather forecasters.

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

Yes.

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

So -- but I mean the farmers are feeling a little more confident. It maybe tells you that supply chains are emptier after 3 bad seasons. And of course, we're shifting the focus of our ag business into the slightly less seasonal, risky products like the move into bio-ag. So I think it reflects probably that supply chains were a little emptier than they were and that farmers wanted to secure of deals and stop for this season. And then we'll now wait for the weather.

Operator

There are no further questions. At this time, I will now turn the call back over to the presenters.

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