IPL Plastics Inc.

Q1 2019 Financial Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Sylvie, and I will be your conference Operator today. At this time, I would like to welcome everyone to IPL Plastics' Q1 2019 financial results conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad, and if you would like to withdraw your question, simply press *, then the number 2. Thank you.

Mr. Meade, you may now begin the conference.

Paul Meade — Head of Investor Relations, IPL Plastics Inc.

Thanks, Sylvie, and welcome, everyone, to today's call. Just before we begin, I would like to remind listeners that certain statements about future events made on this conference call are forward looking in nature and are based on certain assumptions and analysis made by the Company. Please refer to the cautionary statements on forward-looking information on Slide 2 for more information.

And also, please note that we'll discuss several non-IFRS financial measures this morning and that all figures are in US dollars unless stated otherwise.

I now hand you over to Alan, CEO of IPL Plastics for his presentation.

Alan Walsh — Chief Executive Officer, IPL Plastics Inc.

Thank you, Paul. Good morning, everyone, and thank you for taking the time and interest to join our quarterly results call. I will make a few introductory comments about our first quarter performance. Pat will then discuss the financial results in greater detail. I will conclude the presentation with some outlook comments, and then we will answer any questions arising.

Our first-quarter performance reflects a very solid start to fiscal 2019. We reported significantly stronger gross profit and adjusted EBITDA margins in the first quarter compared to the same period last year. This was driven by lower resin input costs and operational efficiency improvements delivered through our business optimization program.

The results also include a positive impact from accounting adjustments related to the adoption of IFRS 16. These benefits were partly offset by higher labour costs, additional operating expenses following completion of the IPO, and reduced volumes in the RPS division.

Net income in the quarter was 1.1 million compared 1.4 million last year. The variance was mainly due to a reduced income tax credit.

Our net debt increased at quarter-end to 317.6 million due to the completion of the Loomans acquisition on March 28th. The performance of Loomans since acquisition was in line with expectations. The integration plan is progressing according to plan, and we remain very positive regarding the outlook for this business.

We were also pleased to report improved margins from the benefits of both lower resin prices and our business optimization plan during Q1. As you know, the rapid, unexpected increase in resin during quarter two and quarter three 2018 adversely impacted performance last year.

We commenced the implementation of our business optimization plan during the fourth quarter of last year, so it is still in its early stages. However, it had a meaningful impact on our margins in Q1, most notably in the LF&E division in North America.

It’s important to explain that part of the optimization program was a detailed customer analysis with the aim of maximizing profitability and margins rather than revenue. This has meant prioritizing customers and volume on the basis of margin in a controlled manner, which explains part of the modest volume decline in the quarter, but improved margins.

In the RPS division, revenue and margins were adversely impacted by temporary trading issues, and in order to rightsize the cost base of RPS, we incurred restructuring costs of 1.4 million.

In January, we received total proceeds of 9.5 million from the sale of our residual interest in our legacy environmental services business.

Looking ahead to the rest of fiscal 2019, both LF&E and CPS divisions continue trade satisfactorily. While temporary trading issues in the RPS division impacted our Q1 performance, we reiterate our expectation that fiscal 2019 adjusted EBITDA in the RPS division will be at least in line with fiscal 2018.

Overall, we are expecting a solid improvement in the Group's trading performance in fiscal 2019, reflecting the underlying strength of our business and the enhancements we are making to our optimization program. This goal does not include the impact of the Loomans acquisition.

Capital investment is slowing, and we expect net debt to decline to 2.7 times adjusted EBITDA by the end of the year, similar to where it was at the end of 2018 prior to the Loomans acquisition. Maintaining a strong balance sheet is a priority for us.

On Slide 4, you can see an overview of the Loomans operations. The site, which is based in Lommel, Belgium, is being fully integrated into our CPS division. As communicated, the existing management team remains in place and continues to do an excellent job.

This is a highly strategic transaction for IPL. It provides IPL with a major foothold in continental Europe, and it is a well-located, well-invested, and highly-automated site with capacity for further expansion.

The total cost of the acquisition was 85.5 million, funded through existing cash and credit facilities. Loomans is a very profitable operation with revenue of approximately 58 million and adjusted EBITDA of 11.9 million last year. We expect the transaction to be mid- to-high single-digit earnings accretive in fiscal 2019. Overall, it is a highly complementary asset for IPL, expanding our geographic reach, customer base, and engineering capabilities.

You can see from the chart on Slide 5 that resin costs represented approximately 38 percent of revenue in the first quarter. This was down from 42 percent in fiscal 2018. This, combined with our business optimization program, is starting to deliver the margin enhancement in line with expectations.

The IFRS 16 adoption resulted in an improvement in adjusted EBITDA of 1 million. However, this was offset by increased depreciation in the quarter of 0.8 million and finance costs of 0.2 million. We also incurred additional operating expenses following the completion of the IPO.

Freight costs spiked in the first half of 2018 and then stabilized in the latter part of the year. They have remained relatively stable in quarter one of this year.

We did have increased labour cost pressures in North America during the quarter, as the high levels of employment are reducing the availability of labour.

I would now like to provide an overview of resin pricing on Slide 6. During the first quarter, index prices in North America declined by 10.9 percent for polypropylene and 2 percent for polyethylene compared to quarter one last year. In Europe, polypropylene declined by 1.6 percent year over year, while polyethylene was relatively flat. Compared to the fourth quarter of 2018, polypropylene resin prices dropped by 15 percent in North America in Q1, while polyethylene prices were down 3 percent.

Our Q1 margins were positively impacted by both the resin price per tonnes and the resin tender procurement process we completed in quarter four 2018. The consensus outlook in the near term is for some modest upward pricing pressure during the second quarter.

I'll now pass over to Pat to discuss our first quarter financial performance in more detail.

Pat Dalton — Chief Financial Officer, IPL Plastics Inc.

Thanks, Alan. Turning to Slide 7. I'll start with an overview of the Q1 results and then take a closer look at each division.

Revenue in Q1 2019 was 131.8 million, a decline of 4.4 percent compared to 148.3 million in the same quarter last year. The revenue decline was downward due to negative FX translation movements, which were offset by price increases.

Volume growth in Consumer Packaging Solutions was positive. Volumes declined in Returnable Packaging Solutions. And volumes were broadly flat and in line in Large Format and Environmental division.

Gross profit increased by 6.6 percent to 26.2 million compared to 24.6 million in Q1 2018, while adjusted EBITDA rose by 1.2 percent to 17.3 million compared to 17.1 million last year.

Gross profit margin was 18.5 percent, up by 190 basis points from 16.6 percent a year ago. Our adjusted EBITDA margin increased by 70 basis points to 12.2 percent compared to 11.5 percent in the prior-year quarter.

Net income was 1.1 million compared to 1.4 million last year. This decline was due to a reduced income tax credit, which was 0.4 million lower in Q1 2019 compared to the prior year.

Adjusted net income was 4.4 million compared to 5.1 million in Q1 2018. And pro forma adjusted diluted earnings per share were $0.08 compared to $0.09 in Q1 in 2018.

Turning to Slide 8. Slide 8 shows the revenue and adjusted EBITDA breakouts for the first quarter. Both charts show a negative impact from lower volume and a positive impact from price increases, which we implemented. Under revenue bridge, you can see the currency impact, which reduced revenue by 4.4 million in Q1 2019 compared to Q1 2018.

In adjusted EBITDA, the bridge illustrates the impact in the quarter of approximately 1 million of increased compliance costs, and operating expenses are in completion of the IPO, and the credit of 1 million from the IFRS 16 adoption. For the full year, we expect adjusted EBITDA to increase by approximately 3.5 million due to impact of the adoption of IFRS 16.

Before I leave this slide, I want to summarize the reconciliation of the EBITDA performance of Q1 2019 compared to Q1 2018. So we need to compare 17.3 million in Q1 2019 versus 17.1 million in the same period last year.

Starting with IFRS 16, which increased the 2019 quarter one EBITDA on an overall basis by 1 million, the increase in simple overheads due to the IPO and related compliance costs and other costs post-IPO amounted to approximately 1 million in Q1 in 2019. These two numbers effectively offset each other and accordingly, the real like-for-like comparison, in terms of performance, is actually unchanged between the 17.3 million in Q1 in 2019 versus 17.1 million in Q1 in 2018 resulting in a real net improvement on a quarter-of-quarter comparison of US$200,000.

This real improvement was generated by an absolute increase in underlying EBITDA in the LF&E business of just over US$2 million, a small increase in the CPS business of approximately US$300,000. And these increases in both business segments were offset by the temporary interruption of the trading performance of the RPS business segment by 2million in Q1 2019 compared to Q1 2018.

Moving to Slide 9 and turning to the divisional performance, which shows we had a solid margin improvement in LF&E due to increased resin costs, operation improvements, and IFRS 16 adoption, while the division was also adversely impacted by higher labour costs in North America.

Revenue declined by 1.4 million overall comprising of a decline of 5 million in North America, offset by an increase of 3.6 million in Europe.

The revenue decline in North America was due to lower sales and negative FX impact, partially offset by a general price increase and the timing of pass-through of resin price movements.

As Alan talked about earlier, of our optimization program, we are prioritizing higher-margin business to improve our profitability.

Our gross profit in this division was 13.8 million compared to 11 million last year while gross margin increased to 18.6 percent from 14.5 percent in Q1 in 2018. Adjusted EBITDA was 10.8 million, up from 8.3 million last year, while adjusted EBITDA margin increased by 360 basis points from 11 percent last year to 14.6 percent in the quarter.

Turning to Slide 10 and moving on to talk about the CPS division, where we also delivered a margin improvement in Q1 in 2019. Revenue was 45.3 million in Q1 2019, a slight increase of 300,000 compared to Q1 2018.

We had revenue growth of 1 million in North America, driven by volume growth. Revenue declined by 0.7 million in Europe primarily due to a temporary reduction in demand from our largest European customer. This was partially offset by increased sales volumes of food packaging products in Europe and a contribution of 0.4 million from Loomans, which we owned for four days at the end of the quarter.

Unfavourable FX movements impacted revenues in both Europe and in North America.

Gross profit in our CPS division increased to 8.7 million compared to 7.9 million in Q1 2018. Our gross margin rose to 19.3 percent from 17.7 percent last year. Adjusted EBITDA improved by 0.5 million year over year to 7.7 million, while adjusted EBITDA margin increased by 90 basis points to 16.9 percent from 16 percent in the prior-year quarter.

Moving on to Slide 11. The RPS division experienced temporary trading issues in Q1 2019. There were two primary issues behind these delays. One was adverse weather conditions in the US West Coast in Q1 in 2019. The other issue involved delays by a third-party logistics provider responsible for the integration of our automotive bins into their logistics fleet serving the primary automotive end to customer.

Revenue in the RPS division was 16.6 million, a decline of 5.2 million from 21.8 million last year. Gross profit was 1.9 million compared to 3.7 million a year ago while gross margins declined to 11.5 percent from 17 percent in Q1 2018. Adjusted EBITDA was 1 million compared to 3 million in Q1 last year and adjusted EBITDA margin was 5.7 percent compared to 13.6 percent in the prior-year quarter. As Alan said earlier, we continue to expect our fiscal 2019 adjusted EBITDA for the RPS division to be at least in line with fiscal 2018.

Moving on to Slide 12. Slide 12 includes the consolidated balance sheet which includes relevant adjustments for the Loomans acquisition, which was completed just prior to the end of the quarter.

Working capital as of March 31, 2019, was 115.3 million compared to 88.2 million at the end of December 2018. Our investment in working capital typically peaks in the first half of the year and then unwinds over the remainder of the year, but this seasonal increase in Q1 is pretty normal.

Total assets increased to 887.4 million at 31 March compared to 751.6 million at December 31. Net debt increased to 317.6 million at the end of Q1 and shareholders' equity around it to 351.7 million at 31 March 2019.

Our net debt to equity ratio increased to 0.9 to 1 from 0.61 to 1 year-end 2018 due to the Loomans acquisition, while net debt to adjusted EBITDA increased to 3.5 times from 2.7 times at the end of December 2018. We expect this to return to the 2.7 times at the end of fiscal '19.

Our interest coverage ratio was 4.92 times compared to 4.84 at the end of December 2018.

Turning to Slide 13, we've provided a reconciliation of adjusted free cash flow for Q1 of 2019 versus 2018. Note that cash outflow in operating activities was 5.1 million in Q1 in 2019, a significant improvement from the 19.9 million of outflows in Q1 last year.

Adjusted free cash flow also improved from a deficit of 23.7 million last year to 7.3 million this year. The improved cash flows were driven primarily by a reduced buildup in working capital.

Moving to Slide 14. Here, I'd like to quickly review our transaction and reorganization and integration costs in the quarter.

These amounted to 2.6 million in Q1 2019. We had 1.4 million of acquisition costs related to the Loomans transaction. And as Alan mentioned earlier, we had 1.4 million of costs, which we incurred in the restructuring of our RPS division. And we had 0.7 million of costs related to other restructuring costs across the Group. We also had 0.9 million of a gain from the sale of the legacy environmental services business.

Transaction, reorganization, and integration costs amounted to 2.9 million in the first quarter of last year, due to the IPO start-up costs, which were then included.

Moving to Slide 15. Here, I want to provide an update on our CapEx. Our total CapEx spending in Q1 2019 was 14.5 million. Of that total, 11.1 million was strategic investment CapEx, and 3.4 million was maintenance CapEx. CapEx spending, as you can see, was down significantly from the 22.2 million in Q1 of last year.

I'll now hand it back to Alan.

Alan Walsh

Thanks, Pat. The business outlook for IPL remains positive. Our optimization program is beginning to deliver, as evidenced in the Q1 margins. Part of the near-term outlook for resin input prices is for modest upward pressure. We remain in a solid position to deliver further margin expansion as we unlock efficiencies.

Trading in the LF&E and CPS divisions remains satisfactory, while RPS experienced temporary trading issues in Q1 due to adverse weather conditions and logistical difficulties in the rollout of automotive bins. Notwithstanding these, we want to reiterate our expectation for adjusted EBITDA for the RPS division for fiscal '19 to be at least in line with fiscal 2018.

We remain excited about the opportunities provided by the Loomans transaction. Loomans is a high-quality plant close to several large cities, providing us with an opportunity to serve IPL's US customers in continental Europe and Loomans' European customers in the United States.

So to conclude, our fiscal 2019 expectations, excluding the impact of the Loomans acquisition, remains for an overall solid improvement in the Group's trading performance, reflecting the benefits of the various initiatives we are taking and the underlying robustness of our business.

Now happy to take any questions. So, Operator, please open the line for questions.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, if you do have a question, please press *, followed by 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. And if you should decide to withdraw your question, please press *, followed by 2. And we ask that if you are using a speakerphone to please lift the handset before pressing any keys.

And your first question will be from Walter Spracklin at RBC Capital Markets. Please go ahead.

Walter Spracklin — RBC Capital Markets

Yeah. Thank you very much. Good morning, everyone.

Alan Walsh

Morning, Walter.

Walter Spracklin

So I'd like to start with RPS division. I know you're guiding for similar EBITDA year over year. So that's helpful but just to get a better understanding on revenue and the seasonality impact within that. I know first quarter actual revenue came in lower than what we were anticipating. So I'm just curious, is the Q1 a good read for how the revenue will go into second quarter? And I know you're looking for a lift in the third and fourth quarter. So just trying to understand order of magnitude what we should be expecting from some of the dislocation with the deferral of these bins in terms of the revenue that goes behind the flat EBITDA that you're guiding for.

Alan Walsh

Okay. So I think, Walter, I'll take that. So really, we had a double whammy in the first quarter. Automotive bins and the temporary halting of manufacturing there, which we previously discussed, was a significant impact. Q1, I should say, is typically the lowest sort of quarter in that division anyway due to seasonality. We had a pretty significant impact due to weather in quarter one of this year. I think if anybody wants to look up the weather conditions along the West Coast of the US for the first three months, I think they had record levels of rainfall, et cetera. So that did have a significant impact in that business.

The quarter one performance, to answer your question, is not a guide for or an extrapolation aid for the rest of the year. We've already seen a significant pickup in the performance of that business in April and into May, where the business is back and farmers are back restocking product again, et cetera, but it was literally driven by the fact that farmers couldn't even go into the fields for the first number of months of the year because they were flooded.

So we have seen that picking back up. We do anticipate recovering a significant portion of that Q1 shortfall in quarter two and quarter three.

Walter Spracklin

Okay. That's helpful. Second question here is on the CPS division. Your growth rate from the—fourth quarter growth rate really slowed into the first quarter growth rate. I saw some of the—from the slide you gave some colour, but is there any reason why now we should look at—whereas we were anticipating a mid- to high-single-digit organic growth rate ex Loomans—in that division in the rest of the year? Should we temper that as a result of the lower growth rate that you experienced in the first quarter of 2019 in the CPS division?

Alan Walsh

No. I think that the net point there extends to seasonality, Walter, and bear in mind we had, if we look at the equivalent quarter last year, we would have had the dairy business fully on stream. So you would have had pretty strong organic growth 12 months ago. But that business, obviously, has been there now and fully up and running. But bear in mind that dairy business brings with it seasonality. It's related to ice cream, yogurt, et cetera, and quarter one, again, is typically the slower period in that business. And we see that ramping up now for the summer months into quarter two and quarter three. So it's really down to seasonality, the movement between quarter four last year and quarter one this year.

Walter Spracklin

Okay. That's great. And my final question here is with regards to Loomans. You noted the potential for further expansion. We're also looking at a CapEx downturn in the back half of the year. Are you comfortable with your current CapEx guide for this year? Or might we see some capital going into the Loomans' potential expansion?

Alan Walsh

In the CapEx guidance that we've given, we did anticipate some CapEx for Loomans in those numbers already. So I think our priority with Loomans, we own it since the 28th of March, so we're six weeks in. It's performing to plan. The integration is going extremely well. And really, for us this year, it's a question of bedding in Loomans properly and integrating it properly into the IPL system and business.

There are a number of opportunities within the Loomans business itself that will require some CapEx, but we have included those in the CapEx guidance that we've previously given.

Walter Spracklin

Okay. Perfect. That's all my questions. Thank you very much.

Alan Walsh

Thanks, Walter.

Operator

Thank you. Next question will be from Scott Fromson at CIBC. Please go ahead.

Scott Fromson — CIBC

Thank you and good morning. Just a question on the margin enhancement program at LF&E. Can you talk about how this program has impacted in Q1 and how it will impact the business mix? Is it a reduction in sales of pails? And is the environmental business, has that changed?

Pat Dalton

Thanks, Walter. [sic] Just maybe first of all, let me just talk about the margin expansion and then maybe deal with your question around the business mix.

So if you look at the drivers of the margin expansion, and I think we timed it pretty well in the last number of releases around the impact of our resin tender process at the end of last year, I would say that that is a very, very significant driver of the margin improvement. That together with the business optimization program, which I would say has delivered smaller amounts of that improvement in Q1, but certainly is now beginning to deliver and be visible in terms of delivering.

Going against that in Q1 was effectively, we obviously have labour agreements. So we have some wage inflation in 2019 versus 2018. So overall, when you look at the net improvement and LF&E margin, it is really driven by resin, business optimization, offset by some increases in labour costs.

And then when you—maybe, just to move then to your question in terms of the product mix. As Alan said, we have done a fairly significant and thorough analysis of our existing customer base looking at whether or not products—the range of the number of SKUs that we actually produce. We produce one of the most comprehensive ranges of plastic products in the segment in which we operate in North America. And, therefore, that adds probably levels of complexity to our business.

And what we have been doing is looking for opportunities to either I want to say rightsize the volumes that we’re shipping to customers, rightsize our production runs in terms of how we’re managing mould changes within the facility. And all of that, Walter, is certainly contributing to us managing our customer—Scott—managing our customer base in a more, I would say, controlled and rigorous process as we go forward. So it is not focused on any one product type or any one customer category.

Scott Fromson

Okay. But the sort of fall out, are you cutting down on pails? Like the Home Depot and Rona-type products?

Pat Dalton

No.

Scott Fromson

Or is there a reduction in sales to the municipalities and environmental—

Pat Dalton

No. No. No. It is effectively what we call probably the smaller customers.

Scott Fromson

Yes.

Pat Dalton

And the less efficient transportation routes in terms of shipping to those customers.

Scott Fromson

Okay. That's helpful. Last question. I'm working on the assumption that acquisitions are not going to resume until at least next year. Is this reasonable? And is there a leverage target level that you're looking to hit before you make further acquisitions?

Pat Dalton

I think, Scott, we are pretty clear on this. We want to bring our leverage back into line with where it was pre-Loomans and that would be, as Alan said, the first priority for us is to integrate Loomans. The second priority is to have an efficient balance sheet and to make sure that we deliver on the integration of Loomans before we move forward on any other acquisitions.

Scott Fromson

So are we talking 2 to 2.5? Or like higher end of the range? Or lower end of the range?

Pat Dalton

No. No. I think, clearly, we certainly would like to get it back in within the IPO guidance range of the 2.5.

Scott Fromson

Okay. Thank you very much.

Operator

Thank you. Next question will be from Sean Blaney at Goodbody. Please go ahead.

Sean Blaney — Goodbody

Hi, fellas. First of all, if I could just touch again on the LF&E division. I think you said back in November that you were targeting maybe 14 or 15 percent margin in that business. Clearly, is that just over 14 percent there now. Do you see much upside to that? And do you see it being sustainable throughout the rest of the year?

Alan Walsh

Yeah, Sean. I spoke that the margin in Q1 was 14.6 percent. So I do want to introduce an element of caution here, and I don't want people thinking that there is going to be significant upside from that.

The number that we remain comfortable with is 15 percent. That was the target to get back to the sustainable, 15 percent EBITDA margin. We've made some significant progress there, as you can see in the margin enhancements, but we still have a long way to go in terms of what we want to achieve in that business.

And I do think it's fair to say that that improvement is probably baked into consensus numbers already. So it's about execution and delivery on our part on those numbers. So 15 percent is the number we've mentioned before. We remain comfortable with that. But because we had 14.6 percent in Q1, I don't want anybody on this call thinking they should be factoring in significant upside for that.

Sean Blaney

Yes. That's very clear. And just secondly, then on just the global demand picture. Clearly, we've seen a bit of a slowdown in the manufacturing segment. Just if you could give us a bit of colour on what you're seeing across different sectors and different regions.

Alan Walsh

Yeah. I think, okay. Part of the revenues for the quarter were down for the reasons that we've explained. We continue to have a pretty healthy pipeline of opportunities across all three segments. We have not … there's a number of opportunities that we're working on. We have not seen any slowdown in demand for our products in (unintelligible), Sean.

Sean Blaney

Great. Thanks.

Operator

Thank you. Next question will be from Elizabeth Johnston at Laurentian Bank Securities. Please go ahead.

Elizabeth Johnston — Laurentian Bank Securities

Hi. Good morning.

Alan Walsh

Hi.

Pat Dalton

Hi, Elizabeth.

Elizabeth Johnston

Let’s go back to LF&E again. I think your comments are certainly clear with respect to the margin improvement, but where I’m coming from here is given your commentary that much of this improvement was really coming from resin pricing, is it not fair that some additional improvement could come from the optimization as you continue to work through that?

Pat Dalton

I think, Elizabeth, we obviously remain cautious about—given that kind of a view for the market. But clearly, I think our position is that we would prefer to be able to deliver first before we would obviously confidence that that might be the case. But certainly, we’re focused on delivery of as much value as we can create from this program as possible.

Elizabeth Johnston

Okay. Understood. And when it comes to the changing sales mix, if you wanted to refer to it like that, are you able to give us a sense of either the number of or some kind of direction of how much more there could be in terms of optimization of the sales mix? In other words, should we expect further declines in revenue for the balance of the year but maintaining or improving margins?

Alan Walsh

You may see some further small, controlled reduction in the revenue numbers. Nothing significant, Elizabeth, in the LF&E division in particular. And I would just elaborate a little bit. I think we mentioned this on a previous call. We did a pretty thorough branch review of every customer that we have in that particular division. And it's really what I would call what we're going through is a customer weeding exercise, if I'd put it that way.

So again, I don't want you or anybody factoring in significant further reductions in revenue in that division going forward. It will be controlled, and I wouldn't call them material amounts by any means. It's just part I'll refer to of the optimization program.

Elizabeth Johnston

Okay. Great. Thank you. And just in terms of RPS and the automotive contract, and I missed some of your prepared remarks, so I apologize if you've already gone over it, but maybe if you could give us an update on the work to bring on new customers to that segment? And if there's any update to the timeline for these sales to return given the restrictions of the 3PL provider?

Alan Walsh

Yeah. We've obviously been working hard since we updated you last in terms of sourcing new customers. There's a lot of active discussions underway with a number of customers. There continues to be active discussions with CHEP (phon) and Ford in the context of the existing contract that we have with them.

There is still a balance of production that will need to be fulfilled under that contract at some point, but we can’t give any further visibility on that. But what needs happen and transpire from the discussions with CHEP (phon) and Ford, we had a price at 25,000 units that were partially manufactured, partially assembled. And since the last call, we have received a PO to complete those.

So it is slowly coming back. But again, I’d further stocked 25,000 units that we will complete over quarter two. We’ve no further update to give in terms of when the balance of the contract may turn back on or when we may successfully secure some new customers. But there is a lot of interest out there, and there’s a lot of interest in variants of that container that we have developed for different applications in the market as well as the challenge. And the issue with this is it can take time to convert those opportunities into actual POs.

Elizabeth Johnston

And the 25,000 units you mentioned, can you give us a sense of what portion of the remaining contracts that might represent?

Alan Walsh

It’s about—of the balance, it’s about, yeah, 25, 30 percent.

Elizabeth Johnston

Okay. Those are all my questions. Thank you very much.

Alan Walsh

Thank you.

Operator

Thank you. Next question will be from Ben Jekic at GMP Securities. Please go ahead.

Ben Jekic — GMP Securities

Good morning. First is just a simple modelling question. What was the impact of IFRS 16 on net debt in the quarter?

Pat Dalton

None.

Ben Jekic

Okay. That was simple. And then my second question is, Alan was mentioning that there were some forecasts that resin costs could potentially firm up in the second quarter. Is there any kind of level that you see could interfere with your plans and outlook coming from that?

Pat Dalton

Ben, to answer your question, it's not material at this point in time. And just to say that even in our RPS segment, we have expanded our hedging program within that segment at this point in time. So we are pretty well fixed and covered for the remaining parts of the year.

Ben Jekic

Okay. Perfect. Those were all of my questions.

Pat Dalton

Thank you.

Operator

Thank you. Next question will be from Zach Evershed at National Bank. Please go ahead.

Zach Evershed — National Bank

Good afternoon. So my question is about your pass-through clauses for resin prices. Looking at the price of polypropylene, which has been dropping sequentially, that's going to put a little bit of pressure on organic growth through pricing in future quarters. Could you walk us through the timeline on that? If it starts to turn up at this point in time, how long would it be before pricing bottoms and then starts to turn up again?

Pat Dalton

And the answer to your question is that it varies depending on the various different business segments because of we have different pass-through arrangements in terms of each of the specific segments, as you recall.

So if you recall, our CPS business is pretty much fully pass-through. Our LF&E business, in terms of the polypro, is pretty much about 75 percent pass-through. And if you recall, the RPS business, which I just talked about with Ben on the last call, effectively, pretty much 75 percent of that business is not pass-through, or is effectively an agricultural business and, therefore, that's not covered.

But as I mentioned, with the RPS business, we have effectively hedged our polypro for the rest remaining part of that year. So we're pretty well covered there.

In terms of the other two businesses, it depends on the existing stock levels we're holding. But in reality, you would expect to see it bottom out somewhere during Q2 at this point in time.

Zach Evershed

During Q2, and then given that you're expecting pressure in Q2 upwards, it would start to tick up again the next quarter?

Pat Dalton

At Q3. Yeah.

Zach Evershed

That’s great. Thanks. I’ll turn it over.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you do have a question, please press *, followed by 1 on your touch-tone phone.

And your next question is a follow-up from Scott Fromson at CIBC. Please go ahead.

Scott Fromson

Thank you. Just a quick one, gentlemen, on CapEx. Do you have any plans into next year to include significant investment in automation? I’m just thinking in order to combat rising labour costs.

Alan Walsh

Yes, Scott. Investment in automation is one of the key points of the business optimization program. And I think we have some significant scope for automation in a number in our facilities. And any of the automation projects that we have identified for 2019 are included in the CapEx guidance number that we’ve given.

Scott Fromson

Perfect. Thank you.

Operator

Thank you. Next is a follow-up from Ben Jekic at GMP Securities. Please go ahead.

Ben Jekic

Yes. You mentioned that you would be looking to get your net debt to EBITDA into the kind of 2.5 range before considering further acquisitions. I don’t know if you can talk a little bit about that, but would the plan still be kind of more tilted towards Europe or North America? Or is there some other angle there?

Alan Walsh

I suppose the answer the leverage point, we're very focused on getting the leverage back down to 2.7 at the end of this year, which reflects the premium's level. And then with our reduced CapEx (unintelligible) will fall further into 2020. So that is objective number one. And integrating Loomans correctly and getting, I think, and developing and maximizing the opportunities in that business would be a key focus for us.

There is a whole range of opportunities out there, Ben, at the moment across North America and Europe. They're two of our obviously key target markets from a grow perspective. And where the next opportunity will come could be in either market.

Ben Jekic

Okay. Perfect. Thank you.

Operator

Thank you. And at this time, we have no other questions, so I would like to turn the call back over to Mr. Walsh.

Alan Walsh

Okay. Well, that wraps it up. So we look forward to talking to you again in August when we announce our Q2 results. Thank you.

Operator

Thank you, Mr. Walsh. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines. Enjoy the rest of your day.