REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2022 Ashland Global Holdings Inc. Earnings Call

EVENT DATE/TIME: FEBRUARY 02, 2022 / 2:00PM GMT

CORPORATE PARTICIPANTS

Guillermo Novo *Ashland Global Holdings Inc. - Chairman & CEO*
John Kevin Willis *Ashland Global Holdings Inc. - Senior VP & CFO*
Seth A. Mrozek *Ashland Global Holdings Inc. - Director of IR*

CONFERENCE CALL PARTICIPANTS

Christopher S. Parkinson *Mizuho Securities USA LLC, Research Division - MD and Senior Industrials Equity Research Analyst*
David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*
Jeffrey John Zekauskas *JPMorgan Chase & Co, Research Division - Senior Analyst*
John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*
John Patrick McNulty *BMO Capital Markets Equity Research - Analyst*
Laurence Alexander *Jefferies LLC, Research Division - VP & Equity Research Analyst*
Michael Joseph Harrison *Seaport Research Partners - MD & Senior Chemicals Analyst*
Michael Joseph Sison *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst*

PRESENTATION

Operator

Good day. Thank you for standing by, and welcome to the Ashland Global Holdings First Quarter 2022 Earnings Call. (Operator Instructions) Please be advised that today's call is being recorded. (Operator Instructions)

I would now like to hand the call over to your first speaker today, Seth Mrozek, Ashland Director of Investor Relations. Please go ahead.

Seth A. Mrozek ***Ashland Global Holdings Inc. - Director of IR***

Thank you, Josh. Good morning, everyone, and welcome to Ashland's First Quarter Fiscal Year 2022 Earnings Conference Call and Webcast. My name is Seth Mrozek, Director, Ashland Investor Relations.

I hope you enjoyed the video that opened our webcast. As we mentioned during our recent Investor Day, Ashland is increasing the pace of our innovations to drive profitable, sustainable growth. Each quarter, we intend to provide a highlight about one of our new differentiated products or technologies. Our new controlled release grades of Benecel respond to our pharmaceutical customers' needs for specialty ingredients for high-speed tableting so they can produce more tablets in less time. New grades of Benecel are also used as a binder in response to the rapid growth of plant-based proteins.

Joining me on the call today are Guillermo Novo, Ashland's Chair and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer. You'll notice that I referenced Guillermo's Title as Chair and Chief Executive Officer instead of Chairman. On January 24, 2022, Ashland's Board of Directors adopted amendments to our bylaws to change Guillermo's title from Chairman of the Board to Chair of the Board to avoid gender exclusive language as we continue our ESG journey for a more inclusive and diverse company culture.

We released preliminary results for the quarter ended December 31, 2021, at approximately 5:00 p.m. Eastern Time yesterday, February 1. The news release issued last night was furnished to the SEC in a Form 8-K.

During this morning's call, we will reference slides that are currently being webcast on our website, ashland.com, under the Investor Relations section. We encourage you to follow along with the webcast during the call.

Please turn to Slide 2. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our outlook for fiscal year 2022. These forward-looking statements are subject to risks and uncertainties that could cause future results or events to differ materially from today's projections. We believe any such statements are based on reasonable assumptions but cannot assure that such expectations will be achieved.

Please refer to Slide 2 of the presentation for a more complete explanation of those risks and uncertainties and the limits applicable to forward-looking statements. You can also review our most recent Form 10-K under Item 1A for a comprehensive discussion of the risk factors impacting our business.

Please also note that we will be referring to certain actual and projected financial metrics of Ashland on an adjusted basis, which are non-GAAP financial measures. We will refer to these measures as adjusted and present them in order to supplement your understanding and assessment of the financial performance of our ongoing business. Non-GAAP measures should not be considered a substitute for or superior to financial measures calculated in accordance with GAAP. The most directly comparable GAAP measures as well as reconciliation of the non-GAAP measures are available on our website in the appendix of today's slide presentation.

Please turn to Slide 3. Guillermo will begin the call this morning with an overview of Ashland's results in the first fiscal quarter. Next, Kevin will provide a more detailed review of the financial results in the quarter. Guillermo will then close with key priorities and steps to advance our strategy as discussed during our Investor Day in November of last year. He will provide additional commentary related to Ashland innovation and product development progress, sustainability goals and environmental, social and governance commitments. Guillermo will also provide his thoughts on important next steps and our financial outlook for fiscal year 2022. We will then open the line for questions.

Now please turn to Slide 5, and I will turn the call over to Guillermo to begin his opening comments. Guillermo?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Thank you, Seth, and good morning to everyone. Thank you for your interest in Ashland and for your participation this morning.

As you will be hearing during the call, Ashland's financial results in the first fiscal quarter were consistent with the earnings update we issued on January 18. Market demand dynamics in our underlying businesses remained robust, consistent with our commentary in prior earnings calls. Customer order dynamics remain strong across our core end markets, and we're making significant progress on taking appropriate pricing actions across all segments. The teams were able to cover the majority of the forecasted raw material inflation during the quarter through pricing initiatives. However, overall cost inflation, particularly for freight and energy outpaced our original expectations, and ongoing supply chain challenges linked to logistics and shipping constraints remain persistent.

As we discussed in our recent earnings update, roughly $20 million of confirmed orders were delayed in late December. And we have a large backlog of unconfirmed orders that we're working to fill. Despite these challenges, our team operated at a high level to safely deliver products to customers around the world, yielding the strong financial results you see for the quarter.

For all of Ashland, sales in the quarter grew by 9% to $512 million, and adjusted EBITDA grew by 5% to $106 million. Our new preservatives business made a strong contribution to results in the quarter as the team is now fully integrated into our Personal Care segment. We sustained gross profit margins in the face of significant cost inflation for raw materials, freight and energy, again driven by disciplined pricing actions.

Thus far in fiscal year '22, we have launched a record 11 new products to better serve our life science, personal care and Specialty Additives customers with innovative, sustainable solutions. Our plants continue to run very well despite the challenges presented by the pandemic, labor availability and the energy curtailment mandatory shutdowns of our production facility in China.

During the quarter, we generated $26 million of ongoing free cash flow. While below the amount generated in the prior quarter, this is reflective of the impact of higher prices and cost inflation on working capital values as well as our efforts to rebuild inventories across the globe. I'm very pleased with the progress made by the Ashland team during the quarter and look forward to discussing our outlook for the remainder of the fiscal year later in the call.

In the meantime, I will turn over the call to Kevin to review our Q1 results in more detail. Kevin?

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 7. Total Ashland sales in the quarter were $512 million, up 9% versus prior year. Unfavorable foreign currency negatively impacted sales by 1% in the quarter. As Guillermo previously mentioned, gross margin was a consistent 31.4%, reflecting pricing actions by the commercial teams in the face of significant cost inflation.

In total, we saw approximately $43 million of inflation in the quarter versus the prior year across raw materials, energy and freight. While the team did a great job offsetting raw material inflation with price, energy and freight escalated too quickly to fully capture the inflation in the quarter.

Pricing actions have been taken to recover all currently forecasted inflation across the business. Excluding key items, SG&A, R&D and intangible amortization costs increased modestly to $115 million in the quarter, reflecting the addition of the Schülke & Mayr business. In total, Ashland's adjusted EBITDA for the quarter was $106 million, a 5% increase compared to the prior Ashland adjusted EBITDA of $101 million. Ashland's adjusted EBITDA margin for the quarter was 20.7%, a 90 basis point decline compared to prior year, again reflecting the inflation items just discussed.

Adjusted EPS, excluding acquisition amortization for the quarter was $0.88 per share, up 28% on the prior year, inclusive of both a favorable tax rate and lower diluted share count following the initiation of our accelerated share repurchase last fall.

Now let's review the results of each of our 4 operating segments. Please turn to Slide 8. I'll begin with Life Sciences. The team executed well in the face of continued supply chain disruptions and raw material inflation. Sales were $170 million, consistent with the prior year quarter. Currency negatively impacted sales by 1%. The delayed shipment of confirmed orders that we experienced during the quarter impacted the Life Sciences segment sales growth by about 4% as many products are produced in the U.S. and Europe and shipped all over the world.

Life Sciences gross profit declined by 15% due primarily to overall cost inflation during the quarter. In total, year-over-year life sciences cost inflation was approximately $16 million, including $6 million of BDO transferred to the business from intermediates at market price. While the team initiated price increases during the quarter to cover the inflation, more of the impact of this work will flow through the P&L in the March quarter.

In total, adjusted EBITDA declined by 20% to $36 million in the quarter, due largely to the cost inflation I referenced. Adjusted EBITDA margin in the quarter was 21.2%. Please turn to Slide 9. Personal Care sales were $147 million, up 17% from the prior year quarter. Sales to core personal care end markets were strong across the board as we continue to see improved demand for our ingredients globally, following the changes in consumer behavior caused by the pandemic. The Schülke & Mayr business was also a meaningful contributor, adding $19 million of sales to the quarter. These gains were partially offset by the exit of roughly $7 million of low-margin product lines.

We will continue to see the carryover impact of sales of the exited product lines over the next couple of quarters with little impact to profitability. Importantly, the organic growth of the Personal Care business was 8%, excluding the impact of acquisitions and the exited product lines. We're very pleased by the progress made by the personal care team that demonstrate the resilience of the business in the face of challenging global macro headwinds. While gross profit dollars increased, gross margins declined by 120 basis points, reflecting the widespread cost inflation experienced by the business which totaled approximately $9 million in the quarter versus the prior year.

In total, personal care and household adjusted EBITDA increased by 6% to $36 million. Adjusted EBITDA margin remained healthy at nearly 24.5% despite the cost inflation. Please turn to Slide 10. Specialty Additives had yet another nice quarter with sales up 6% to $156 million. Demand for architectural coatings additives remains very strong, and we continue to see a normalization of DIY volumes and a shift to higher contractor paint volumes. As we stated last quarter, global demand continues to be very strong, and the global HCC network is sold out. In addition, the temporary government-mandated energy curtailment shutdown of our facility in Nanjing, China during the quarter had a negative impact on both cost and lost sales. While the prospect of the shutdown was understood, the timing and duration of it was outside of our control.

Outside of coatings, sales to other end markets in Specialty Additives grew by double digits, reflecting improved demand for performance specialties, growth platforms and stronger energy volumes. Enhanced pricing was an important contributor to sales growth and the partial offset to approximately $17 million of raw material, energy and freight inflation in the quarter. As such, gross margins increased by 50 basis points to 25%, and adjusted EBITDA grew by a healthy 19% to $38 million.

Adjusted EBITDA margin also expanded by 260 basis points to 24.4%. Please turn to Slide 11. Intermediates reported another very strong quarter as pricing has continued to rise across all product lines. Total sales were $53 million, up 61% compared to the prior year. This includes captive internal product sales primarily to the Life Sciences and Personal Care business units, which were $14 million, up 79% on higher pricing.

As a reminder, captive internal sales are recognized at market-based pricing. Merchant sales increased by 53% in the quarter, again driven by higher pricing across all product lines. Intermediates margins were up meaningfully during the quarter. The segment reported adjusted EBITDA of $19 million compared to $5 million in the prior year, and adjusted EBITDA margin in Q4 was nearly 36%.

Please turn to Slide 12. Cash generation continues to be an important component of our value creation strategy. Beginning this quarter, we have introduced a new cash flow metric, ongoing free cash flow which we believe will be more helpful in understanding the cash flow generation capability of Ashland. We define ongoing free cash flow as free cash flow, excluding the impact of any inflows or outflows related to the U.S. accounts receivable sales program, restructuring-related payments and any environmental or related litigation payments. The necessary reconciliations to GAAP operating cash flow and non-GAAP free cash flow are and will be included in our quarterly and annual disclosures.

Ongoing free cash flow in the quarter was $26 million compared to $74 million in the prior year quarter. The decline was driven by an increase in working capital, more than all of which was increased inventory values. Meaningfully higher raw material costs are now reflected in our inventory balances. Also, during the quarter, we began shipping additional inventory to key locations across the world to mitigate some of the challenges we and others have been facing related to the global supply chain. Given that we don't expect many of these challenges to significantly improve during this fiscal year, our team is proactively working to build inventory in our warehouses around the world so that we can more quickly respond to customer needs.

During the quarter, we also began to execute on our plan to allocate capital to important organic growth projects. These high-return investments will serve to expand production capacity in some of our key high-margin product lines for our core end markets in pharma, personal care and coatings. Last month, we announced the U.S. expansion of our Aquaflow product line as a synthetic thickener used in architectural coatings.

Just this month, we also announced the Benecel expansion at our dual Belgium facility, which will increase capacity by more than 50%. Benecel is used in our Pharma, Nutrition and Performance Specialties businesses. We also plan to expand HEC capacity. HEC is a key additive use in architectural coatings, pharma and personal care applications.

In fiscal '22, we continue to expect to allocate roughly $60 million to these organic growth projects. Total capital expenditures in fiscal '22 should be in the range of $160 million to $170 million. Guillermo will spend some more time discussing our overall outlook for fiscal '22 and our underlying assumptions in his closing remarks.

With that, I'll turn the call back over to Guillermo to discuss our priorities and outlook for fiscal '22. Guillermo?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Thank you, Kevin. I'm pleased that we continue to see improving demand trends across our core markets. While we continue to operate against a backdrop of macroeconomic uncertainty, we will continue to monitor developments and focus on the things that we can control. As we outlined in detail during the recent Investor Day, our priorities are clear: continue to demonstrate operating discipline and resilience; maintain our strategic focus; continue to drive and accelerate innovation; and maintain disciplined capital allocation.

Importantly, our focus on ESG-related principles is not only core to our strategy and priority. It provides continued competitive advantage. Please turn to Slide 15. I I'd like to take a few minutes to update you on the progress that we're making on executing our core priorities.

First, operating resilience. Our commercial teams have maintained excellent pricing discipline in the face of widespread inflationary environment. But we were able to cover nearly all the raw material inflation we saw in the quarter, overall, energy and freight exceeded our original expectations.

While the pricing actions we've taken will cover currently forecasted inflation, our teams are ready to take additional actions to address any additional unplanned cost inflation. Our business teams have also demonstrated improved mix management given widespread capacity constraints throughout our markets. We are leveraging the strong demand dynamics to shift production to higher-value products for our customers. The commercial, operations and supply chain teams are also working proactively to manage through what continues to be a very challenging global supply chain environment. We continue to strengthen our S&OP process, to better align forecasting and production planning, and we're working to build additional inventory at key regional warehouses to circumvent some of the ocean freight reliability issues that are outside our control. These priorities are aligned to mitigate many of the external headwinds we continue to face.

Second, we're maintaining our strategic focus. Our margin expansion goals remain a key priority, and we continue to focus on driving higher free cash flow conversion. We're refining our innovation portfolio management process to meet changing customer requirements for sustainable ingredients and additives across our portfolio. And we continue to advance our M&A strategies to enhance the existing customer-focused portfolio with bolt-on and technology acquisitions, that further our strategy. As a reminder, we expect to close the previously announced sale of the Performance Adhesives business during this quarter.

The third item is our commitment to profitable innovation-driven growth through new product introductions across our segments. Thus far, in fiscal '22, we have launched 11 new products to serve customers in life science, personal care and Specialty Additives. This is a record number of new product launches for Ashland this early in the year, and we expect that trend to continue over the coming quarters.

Based on the work the business teams have done, these launches are better aligned with market and consumer-driven requirements for sustainability and technology differentiation both key competitive advantages for Ashland. Next is our commitment to disciplined allocation of capital. We're investing in our existing business to further drive organic growth in our core markets. We're expanding cellulosic production capacity in areas of the globe to increase our share of key value-added products, especially where capacity is already constrained. And we're working to expand our production capabilities beyond North America and Europe to better serve rising demand in other parts of the world, most notably, Asia.

The robust organic expansion plan that we have laid out during our Investor Day is underway, and we will continue to update you on the progress we're making to meet those goals over the coming quarters. Finally, is our commitment to sustainability and ESG principles, both key drivers of strategies and competitive advantage for Ashland. Our products and innovations are heavily focused on consumer end markets and applications that value sustainability.

Through our existing portfolio, M&A focus, and new product introductions, we are growing our share of sustainable and sustainable-in-use and ingredients and additives. And as communicated, we continue to make progress in developing our science-based targets for environmental goals. I'm incredibly pleased by the progress the team is making to advance our priorities, and strategy across so many aspects of the business.

Please turn to Slide 16. As I previously mentioned, we have introduced 11 new products year-to-date this fiscal year, a record level of introductions for the company. The 11 introductions serve a broad range of applications and end markets with a key focus on sustainable and sustainable-in-use innovations. At the beginning of this call, you had the opportunity to see a brief showcase of a new controlled release greater Benecel we introduced this quarter for our pharmaceutical customers to support growth in oral solid dosage platform. The pipeline for launches this year and beyond continues to strengthen. Each quarter, we plan to highlight new product launches to support our innovation-driven growth objectives. We expect these and future launches to contribute meaningfully to Ashland's organic growth over the coming years, in addition to driving continued margin expansion for the company.

Please turn to Slide 17. ESG and ESG principles are a business imperative and an integral part of Ashland's strategy and DNA. Late last year, we issued our most recent sustainability report for the year 2020. The report is available on our website at ashland.com/sustainability, and is an excellent resource to provide much greater detail than I have time to cover in this morning's call.

In summary, you will find a detailed description of our commitment to the science-based targets initiative, a summary of our achievements of our 2020 environmental goals, including reductions in hazardous waste generation, greenhouse gas emissions and targets for energy usage.

In addition, as part of the sustainability report, we have announced our most ambitious goals ever for environmental, social and governance targets for 2025 and beyond. At Ashland, commitments to sustainability and ESG are not just talking points. These principles are part of our culture, our strategy for long-term profitable growth and a competitive advantage for the company. If you haven't already, I encourage each of you to review the report, and I look forward to providing updates over the coming quarters and years as we pursue these important objectives.

Please turn to Slide 19. Before I turn to our outlook for fiscal '22, I want to discuss some of the macro trends we are experiencing. From a top line perspective, pricing was a key factor this quarter and will continue to be a key factor for the year. Demand is not only stable, but in many cases, continuing to improve across our core end markets. And in many regions, industry capacity is constrained for many high-value products. As such, disciplined pricing and enhanced mix management, that we've done, we're confident in our ability to drive profitable organic growth.

Our backlog and order books remained strong and we are working to rebuild inventories in key locations to better serve our customers during this time of constrained global supply chains. In short, demand is strong. Our plants are running well, and we have implemented strong pricing action to cover existing and currently forecasted inflation.

In this time of uncertainty, it's also important to highlight the macro headwinds that are outside our control. Very tight global HC capacity limits the opportunity to capture additional share and volume growth. With the pandemic persisting, there is still consumer behaviors being impacted. Supply chain, freight and logistic challenges continue with no indication of improvement at this time. There is a risk of continued cost inflation beyond our current forecast. While pricing actions have been broad-based, there is a lag between pricing recovery and the widespread inflationary environment.

Risks continue to exist that China will implement additional energy usage restrictions, which could impact our cellulosic facility in Nanjing. Most of our headwind risks are driven by potential macro events outside our control, and that are difficult to forecast. Please turn to Slide 20. Underlying these macro headwinds is the impact they can have on 3 critical performance variables: end market demand, price versus cost inflation balances and global supply chain reliability.

Please turn to Slide 21. When we look at demand trends, as we have discussed, core demand across our end markets remain strong. We have confirmed order carryovers from Q1, a strong order book entering January, improving outlook for production and raw material availability, and our current plans already reflect constrained industry capacity in key technologies.

Barring a major external event, near-term demand is expected to remain strong. Although there is some level of uncertainty around how current macroeconomic developments could impact longer-term demand, we still reflect the historically resilient profile of our business portfolio and the markets we serve. We have a portfolio that has demonstrated strong resilience in the face of the COVID-19 pandemic over the last 2 years. Our consumer focus end markets have also historically been more recession resistant. And the 2020 pandemic-related government mandated shutdowns, which impacted many business and contractors, seem unlikely to repeat at this time. Taking these factors into account, the key potential risk to demand within our portfolio is delayed global recovery in consumer behavior impacted end markets. We are monitoring these factors closely throughout our businesses.

Please turn to Slide 22. The second critical performance variable is the balance between pricing and overall cost inflation. As you can see in the chart on the left, pricing actions were sufficient to recapture raw material cost inflation during Q1. However, actual cost inflation for freight and energy was greater than our original expectations. Pricing actions have been implemented by all the businesses to address both past and currently forecasted cost inflation.

Barring any new unplanned inflation, the price cost inflation balance should start being positive this quarter. As we sit here today, we are beginning to see more moderation in cost inflation of raw materials and expect these trends to continue. However, there continues to be significant uncertainty in the global energy markets, especially in the face of potential geopolitical conflict. This volatility in energy prices impacts not only our production facilities, but also the cost of transportation. But we have the pricing actions in place to cover what we expect risk remains for the volatility and uncertainty of inflation for factors outside our control that are difficult to forecast.

Please turn to Slide 23. The third critical performance variable is global supply chain reliability. In terms of what we control, our plants continue to run well, and we are beginning to rebuild inventories in our regions. And as part of our enhanced S&OP planning process, we remain pragmatic and do not assume any significant improvement in reliability for ocean freight across the globe and trucking in North America or Europe. As we rebuild inventories in the regions, we can reduce the invoicing volatility caused by low ocean freight reliability and in turn, also reduce our need for expensive airfreight we have been forced to use over the last year.

Despite the actions we're taking, the risk remains that governments across the globe could reinstitute lockdowns and enhance restrictions or that weather-related events could disrupt progress towards more efficient global supply chains.

Again, we are monitoring these dynamics closely, focused on what we can control and forward planning in the event of future unforeseen disruptions.

Please turn to Slide 24. In summary, the fundamentals of our business remain strong, and we have taken actions to address our known challenges. We have detailed what we believe to be the key issues to our outlook and forecast, most of which are outside of our control. The risk of continued cost inflation, COVID-related lockdowns, natural disasters, geopolitical conflict and potential social disruptions are real for Ashland and all companies.

But we believe we have a disciplined planning in place, and we have built the resilience and agility to quickly react to these potential headwinds by focusing on what we can control and prepare for what continues to be uncertain times.

Please turn to Slide 25. Given all the dynamics I've discussed, based on the information we have and the actions that we've taken, we remain confident in the financial outlook we provided a few months ago. We continue to expect sales in the range of $2.25 billion to $2.35 billion, representing 9% sales growth over the prior year at the midpoint. We also continue to expect adjusted EBITDA in the range of $550 million to $570 million.

Based on the information we have today, our models put us below the midpoint of that range for the full year. However, like what we saw in Q1, we also recognize that there's still a lot of uncertainty on how shipping reliability impacts our model. This presumes that we do not see significant additional inflation in raw materials, freight and energy as such dynamics would require additional pricing actions beyond those that are already planned and for which there would be a timing lag in realization.

Let me be clear, as we did in 2020, when COVID emerged and uncertainty was high - we are being pragmatic and focusing on the things that we can control and forecast. For what we cannot control, we will focus on planning and building resilience. We do not see a lot of value in being overly optimistic or pessimistic based on external factors that we cannot control or forecast, as this would only create more noise in our planning process.

As external developments become clearer, we will maintain our current level of transparency, and we'll communicate any changes in our outlook as appropriate. Ashland is well positioned. We have confidence in the company's business portfolio, market focus, our teams and the actions that we have taken. Ashland has demonstrated its resilience to the last 2 years, and we are confident that we will maintain that resilience in 2022 and beyond.

Please turn to Slide 27. In closing, I want to thank the Ashland team again for their leadership and proactive ownership of their business in an uncertain environment. As you heard at our recent Investor Day, we have changed. We are fortunate to be a premier additives and ingredients company with high-quality businesses that have leadership positions in resilient high-quality consumer-driven segments. I am pleased by the resilience demonstrated by our people and businesses and look forward to the opportunities that lie ahead. Thank you.

Josh, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Chris Parkinson with Mizuho.

Christopher S. Parkinson ***Mizuho Securities USA LLC, Research Division - MD and Senior Industrials Equity Research Analyst***

The adhesive deal should close, I guess we're hoping any day now, and you've only committed a modest chunk of that to an existing ASR environmental trust. And it's fairly clear you want to do a Life Sciences acquisition. But even after all of that, and assuming even a fairly healthy multiple on, let's say, an injectable deal or something along these lines highlighted at your Analyst Day, you're going to have a few hundred -- high hundreds of millions of left, if not, a little bit higher depending on midyear free cash flow generation. And just given where your stock price is and your clear confidence in your guidance range, despite some cost headwinds, why not do another ASR? Or do you believe that multiples will eventually just come down for other deals you may want to pursue? Just any highlights on how we should be thinking about the bloating cash balance towards the end of the fiscal year would be very helpful.

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Okay. So let me make some comments and then I'll ask Kevin to add some additional color. Our basic position is we're going to continue to do what we said we were going to do and be very transparent about it. Obviously, we don't want to go into hypotheticals of different situations, but we remain disciplined. Our first priority is to drive organic growth. So our capital investments, investing in our business on the things that we're driving, there are great opportunities, be it in the CapEx. So we've outlined some of those growth initiatives. But there is also projects where we can put more resources around R&D or commercial capabilities in areas that we want to grow or accelerate growth like injectables in the pharma and some personal care spaces.

We clearly want to maintain the capability for strategic M&A in the 3 areas that we said about life science, personal care and coatings. Those opportunities don't always come at a line time with other activities. So maintaining the capability is the important part so that we can do those deals. And clearly, we want to reward our shareholders. So we balance all of these things out as from the actions we just took last quarter I think we're demonstrating discipline and making sure that all actions reward our shareholders with the outcome. But Kevin, do you want to add any other color on your side?

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

Sure, sure. Happy to. We have approximately $700 million of prepayable variable rate debt on our balance sheet. I think it's highly likely that most, if not all of that, would be paid down with proceeds just as frankly just good interest management, that's probably $10 million to $12 million of cash interest that would go away as a result of those paydowns.

It's all low interest rate debt. It's term Loan A and AR securitization and revolver that stuff. But so that would probably be a near-term activity you should expect from us. That said, balance sheet is still going to be in really great shape. At that point, we only had fixed rate debt, about $1.3 billion worth of bonds, all of which are pretty long term. So nothing really to do there.

As you look at it, the leverage of business is going to be very low. And as Guillermo said, if we're going to continue to execute as we said we would, we want to do bolt-on acquisitions, and we are certainly not precluded from doing share repurchase at the same time. We've done it in the past, and we'll have plenty of flexibility to do that as well. And just a reminder, the current accelerated share repurchase program is still live and could continue through the end of March, that's the contractual end to date for that program could end any time at the bank's discretion. But obviously, we couldn't do anything new from a share repo perspective until that program was over. And just as a reminder, we have $300 million remaining under our existing Board authorization for share repurchase. So I think that's pretty much the picture we're looking at right now.

Christopher S. Parkinson ***Mizuho Securities USA LLC, Research Division - MD and Senior Industrials Equity Research Analyst***

That's very helpful. And just as a quick follow-up, could you just talk a little bit more about Life Sciences and Personal Care margin potential, specifically cellulosic and I guess, synthetic polymer, PVP. It appears you've been keeping pace on the pricing front, but how should we just think about any potential boost for intermediate to long-term margins, if and when some of the inputs roll over? I don't care if it's cuttinters dissolving pulp BDO, which you clearly have a read on how should the buy side and investors thinking about that for, let's say, fiscal year '23 and onwards.

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

So I would split into the cellulosic part of the chain. As you know, it's very tight. And across all businesses, it's a pretty broad-based technology. Prices are moving up, and we've announced capacity expansions. And as others do the same thing, it will take a while to build that capacity. And so I would expect prices to hold up over the foreseeable future. On the cellulosic side, obviously, the BDO, we're looking at market pricing that obviously is 1 of the areas that both business life science and personal care are moving very aggressively to address. We're working through contracts, price increases. There's a lot of different actions. Again, they haven't covered totally the inflation that we've had in the BDO, but we are getting significant improvements in our pricing that we plan to hold as we move forward.

Operator

Our next question comes from David Begleiter with Deutsche Bank.

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

Guillermo, how do you think about earnings -- hello? Can you hear me?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Yes. Yes.

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

Great. How should we think about the cadence of earnings over the next 3 quarters to get to the lower half of your full year EBITDA guidance range?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

I think, obviously, as time progresses, things play in our favor. I think the biggest challenge right now, the 2 biggest ones would be the supply chain reliability and obviously, the price cost inflation. On the reliability, the back end of the year, probabilities improved for us. Why? Demand is strong, capacity is tight. We are producing. Unless we have an issue with our plants, we're going to produce. So we either produce to sell, and you'll see it in our invoice or we produce because we can't invoice, it goes to inventory. Eventually, that inventory will build up in our warehouses at the other end of our supply chain closer to our customers. So once we have those safety stocks, the noise of the ocean freight, which is really where we have the biggest reliability issue will be reduced.

So right now, if you look at just coming through 2021, when production was impacted and then supply chain was impacted, we couldn't produce enough and then we had problem shipping. As we can produce more, even if it's unreliable, we might, in the short term, get that impact on our invoicing. But if each shipment gets larger and we start to build, then eventually, you'll have enough safety stock at the other end and delays. You're not going hand to mouth in terms of the material arriving and you're trying to move it as quickly so that you can invoice it out. So things will normalize. So as we move to the back end of the year, either we continue to have strong sales, and we have some of these pressures in move or in the back end, it gets much better because we are able to rebuild those inventories. So that's on the supply chain side.

On the inflation side, I think right now, we're well positioned from what we know. Most of the pricing, as we said, will cover the inflation that's happened or that we are already forecasting. So the issue of risk there is when will we see new inflation. I think energy, as we highlighted, is the biggest issue. Europe and specifically, we've seen huge increases. The issue now is going to be how much more can we go? A lot of these are more external factors driven as we pass probably the higher risk now is in this quarter through the winter and then it will ease off. So as we go into the back end, obviously, the probabilities in both those areas improve for us.

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

And Kevin, how should we think about the working capital as a use of cash this year given the efforts you have underway to build inventory overseas?

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

Well, it was a pretty significant use of cash in Q1. I think the net was between $45 million and $50 million, and I would say, more than all of that was inventory. There's a couple of dynamics there. Guillermo mentioned and I talked about in my part of the presentation, replenishing inventories. And a big chunk of that is around the idea of what inventory do we have in transit. And where we sit today, we have a lot of inventory in transit, meaning it's on its way from source location to ultimately use location, a warehouse somewhere around the world. A lot of that's on the water, the vast majority of it is on the water. And so as that gets to where it's going and we have sufficient safety stock in some of these locations around the world, we can moderate some of that. I mean working capital is going to be a use of cash. I can't tell you how much it's going to be for the full year, but compared to prior year, it will be. And that will have an impact on ongoing free cash flow. But even so between that and an increased CapEx these organic capacity expansions, we should still report pretty solid free cash flow for the year based on based on the actions that we're taking.

Operator

Our next question comes from John McNulty with BMO Capital Markets.

John Patrick McNulty ***BMO Capital Markets Equity Research - Analyst***

Is there a way to quantify the impact that you guys have had, say, over the last quarter or even over the last, whatever, call it, the last year or so on the air freight issues and how those -- once you've kind of got all the inventory positioned where you want it, how much in terms of freight costs, we may see a relief or a decline?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Kevin, I don't know if you have a specific number. I don't have one with me right now, but the total for a quarter. But I can tell you, in a month when we have to do some of these shipments, it can be in the millions of dollars. I mean it's expensive. We don't do it all the time, but when you really need to get some of the materials on the safety stock level, we're forced to do that. It has been a big cost impact in our freight mix for the year. And I think it gets back to the prior question also of we're not just building inventory, higher inventories. We're not operating at safety stock levels. You usually have a stock that you need, you build in some safety stock because, let's say, it takes 3 weeks to ship across from here to Asia as an example, normally, what's in the water is to supply next month's demand. The way we've been operating is the shipments arrive to supply the immediate demand. It's rushing through from port to warehouse to invoice, and that's where the strain, that's where these delays happen that if you miss a shipment miss, and we push back for a week or 2, it's an invoicing issue. We're going to get the sale, we're going to make it happen, it's just the timing of recognizing that becomes noisy. And the other fallout, the only solution that is the air freight so that you can have it on time.

John Patrick McNulty ***BMO Capital Markets Equity Research - Analyst***

Got it. Okay. No, makes sense. And then just with regard to the pricing, it sounds like from an inflationary perspective, it sounds like at least as a percent of sales, you got hit somewhere in the neighborhood of 8% in the last quarter and pricing isn't quite there, but it sounds like it will be there come this next quarter. I guess, one, are we thinking about that right? And then were there any differences or deviations from segment to segment in terms of the pricing where maybe there's more catching up that needs to be done or less? How should we be thinking about that?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

So there are differences across the businesses. I think the pricing that we have put in place now, and now it just needs to roll through the systems and the orders should cover, as we said, all the past and forecasted inflation. So we should be in a good point. And as the graph showed, I think this should start being very positive in this second quarter -- fiscal second quarter for us. But there are differences. Obviously, if you look at some of the media areas that are more market-driven pricing and in terminus, we've seen that. That's obviously a negative headwind to our downstream businesses. So they're moving on pricing. We have contracts.

So we have not fully caught up on all the parts of the portfolio, but the team have made great progress. And a lot of these actions really happened in Q1 and now in Q2 for those businesses. We also have the cellulosics, we've been moving probably more consistently across because it's been a more gradual move between cost and capacity constraints that have allowed us to move that over in a more consistent manner across all businesses. So the one that gets a little bit can move more quickly as the BDO, the settle linac. That's where you see a little bit of noise across businesses.

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

And you're going to see more lag in Life Sciences, Personal Care, Specialty Additives, just because of the nature of those businesses versus cellulosic.

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

And that plays to the stickiness. I mean, it takes a while longer to move, but when you move, you tend to keep those over a longer period of time.

Operator

Our next question comes from Mike Harrison with Seaport Research.

Michael Joseph Harrison ***Seaport Research Partners - MD & Senior Chemicals Analyst***

I was wondering if we could get a little bit more color on the Nanjing outage and the impact that it had. You said that there was both a volume impact as well as a cost impact. Can you help to quantify those 2 pieces? And then help us understand, is that still expected to weigh on volumes in the March quarter? Kind of what are you seeing on a go-forward basis in terms of the government? What the government is telling you can do there?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Yes. So any impact right now in, not just Nanjing, but in our cellulosic chain, we're sold out. So there is 2 impacts: one, the cost impact of absorption within the month that you get impacted, but it does impact our sales, which you cannot recover if you can't produce more. So Nanjing is the one that we're monitoring. We don't know of any other specific plans at this point in time. So this one, we really need to just stay close to the government and see what happens. It is an impact on both sides, and it's not recoverable in terms of lost sales. But Kevin, I don't know if you want to comment on anything else?

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

Yes. I mean it's -- Mike, it's $3 million to $4 million of impact in the quarter. And as Guillermo said, we don't really have great visibility into what the future may bring. I mean they're energy-related curtailments that we and many, many other businesses are required to follow. And so it's unclear what that's going to look like going forward.

Michael Joseph Harrison ***Seaport Research Partners - MD & Senior Chemicals Analyst***

Okay. And then on the planned HEC expansion and adding capacity there, is that some bottlenecking that you can do near term or are you doing more wholesale expansions? Maybe just help us understand kind of what the magnitude and timing of that capacity could look like?

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

No.

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Yes. So we have debottleneck in all our facilities. So there are some smaller projects that we're doing. We are making a new plant. So we've just added new drying capacity at our Hopewell plant and we're adding a new manufacturing unit that will come in production more in the 2024 time frame.

Operator

Our next question comes from John Roberts of UBS.

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

I think you purchased BDO in Europe where costs are up more, and you sell BDO in the U.S. where costs are up less. Are there significant regional differences in BDO prices that what you're purchasing is going up a lot more than what you're selling?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Okay. We're not purchasing BDO. We're making it, and we make it in the U.S. that we sold all our production and when we did the annual deal, and I'll let Kevin comment on some of the history there. But right now, we are back integrated into BDO in our Lima, Ohio facility. So it's mostly U.S. We're one of the few U.S. producers, not just BDO. The majority of our business, remember, of sales is not BDO. It's other downstream products that we make. BDO is a small percentage of our merchant business.

So we take the BDO, about 40% goes for our captive business, which we transfer price at market. So the market price is important for us in terms of the transfer pricing formulas that we use. We have some merchant business of BDO, but the majority is in other downstream derivatives that we make. But Kevin, you might want to comment on some of the history that you're more familiar with, the past with Europe.

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

Sure. When we did the transaction with NEOs back in 2019, the moral BDO facility was part of that transaction. Prior to that, and this may be what you're referring to, we actually did a lot of swap transactions with other BDO producers and very, very little of that happens today. And again, everything we make is in the U.S., Lima, Ohio is where that facility is located. And then what we don't use at our Calvert City, Kentucky or Texas City, Texas facilities to make the downstream settle linac polymers. We sell third party on the merchant market, as Guillermo indicated, and that's about 60% of the sales in terms.

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

So you don't purchase significant BDO derivatives in Europe?

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

We don't purchase any.

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

Okay. And then back on Nanjing, I assume their primary end market is paint and construction materials. Is the Chinese property correction having any impact on the demand over there?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

We're still seeing demand very strong. I mean, the bigger volumes, as you said, is more in the Specialty Additives, the coatings specifically coatings as a big market, but we do also supply our other business out of Nanjing. So we're still seeing demand is outpacing the ability to supply. It's tight everywhere. So we don't see a significant change at this point in time.

One comment that I will make to your prior question, just for color for everybody on the intermediates business. Obviously, pricing has been favorable for us. But the team has done a lot of work. As I said, BDO, we always talk about BDO. The majority of this is not BDO. It's the derivatives. They've done a lot of work. We're one of the few U.S. suppliers of NMP, BLO, the derivatives that we sell. So we've really been focusing on upgrading our mix, focusing on certain regions, focusing on certain markets as a lot more of the production begins to in-source.

I mean these are markets that we sell into semiconductor into batteries into pharmaceutical active ingredient production, into Ag active ingredient production into coatings. So there are much more specialized areas. So there's been a lot. Besides this pricing, mix improvement has been a big driver. And what we're trying to look at is looking at our market strategy on our business given our footprint and the profile that we have that as the cycle changes, we'll end up with a better position because of the strategic changes that we've done. It's not just writing a price wave only. We want to make sure that we're maximizing our value over the long term over the cycle.

Operator

Our next question comes from Michael Sison with Wells Fargo.

Michael Joseph Sison ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst***

I know you don't want to get into quarterly guidance, but just curious, for fiscal 2Q, I think you mentioned that price cost could be positive. Demand is pretty good, right? I mean, could adjusted EBITDA be up year-over-year in 2Q if you're able to catch up on price cost?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

This is my point on going back to our Investor Day, we are not the same company that everybody looks at. Our profile, our portfolio is much more resilient. You know the peer groups that we think we are targeting the same market, same areas and the behavior that we have. So being overly optimistic or pessimistic based on scenarios, which really what you're asking is scenarios, I can build very positive scenarios. I can build negative scenarios. I don't know if they're going to happen, and that's the issue for us. Our models indicate what we said. We're going to stay focused on delivering that, which really is in line with the profile that we've outlined of a resilient consumer-driven market. We're not going to boom overnight.It's consistent high-quality growth as we go. So there are scenarios. As you said, price inflation does not come up, pricing continues, demand continues, there could be some positives. And when I say we're a little bit below, we're a little bit below the midpoint. But I can make scenarios that can go up and down, and I don't think in line with the spirit of the profile of the company that we have and the belief that we have a more resilient company, I think it's prudent just to stay focused. And as we do with all our other processes, three points make a trend. We don't want to just start jumping up and down with our guidance just to be overly cautious or overly optimistic. We think this is right down the middle, and we feel confident at this point in time based on the information that we have.

Michael Joseph Sison ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst***

Got it. Just curious, your 9% sales growth outlook for fiscal '22, has the component changed now versus maybe what you thought 3 months ago, meaning is volume price about the same or are you seeing a little bit more price and volume? Just your thoughts on the components there?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Definitely, they have changed. And I think pricing, obviously more inflation, more price. So there is some factors there. On the volume side, a lot of our production is tight already s like I said, we're going to make -- we're going to produce. We're either going to sell it or we're going to build inventory because we need it. So I think there's a level of stability there that will help us. But the issue is on revenue recognition will be how does the supply chain reliability improve, and that's where the offset can come of saying, "Hey, what if you don't invoice as much. The demand will be there. So it comes back down to end of the quarter, end of the year, out of those last 2, 10 days, 2 weeks of each end of the quarter, what's going to happen in terms of revenue recognition. I think we'll have a lot more clarity as the year progresses, especially on those 2 items. It's not that we'll have more visibility or expect improvement in shipping. It's have we been able to increase inventory levels. The more we do that, the less the shipping issue is a factor and then you can build more positive scenarios.

Operator

Our next question comes from Laurence Alexander with Jefferies.

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

Two quick ones. First, the inflationary pressure and the way you're passing it through, is there any visible impact on customer commitment or focus in terms of the R&D projects they're asking you to partner on. We see any ripple effects or changes in behavior? And secondly, can you elaborate on the ramifications of the tightness in the cellulosic, is the overall industry tight? Or is there a share shift? And is the share shift in product categories where they're reasonably sticky or ones that you can capture the share back as when conditions improve or the supply to demand balance improves?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

So I think we're moving prudently with our pricing. As I said, we're moving on the things we know and that are clearly forecasted that we can talk to customers so that we can move on pricing. We're not the only ones. I think everybody is moving, as you well know. So we're not standing out. I think the issue now is how we negotiate with our customers, how our ability to supply, we're selling additives. Our impact is lower. So it's about that dialogue with customers trying to be constructive with them. They understand the situations. They're living it through it in the same way. So it's that kind of dialogue. I don't think we're doing something that's different and that will impact us in a negative way long term.

On the contrary, I think our ability to supply reliability coming back faster in terms of being able to be one of their more reliable suppliers in terms of getting the material they need and delivering on the commitments we make helps us as we develop more R&D, more new technologies as one of the go-to players. I think one of the rules for us is very clear and transparent communications, hopefully, not only with all of you, as I hope you're seeing, but also with our customers so that they know what we're doing, why.

On your second question on capacity, this is not us. The industry is tight. The rebound has impacted demand. Everybody is tight. I don't think there's necessarily so much share shifting. There's some upselling, I would say, mix improvements, moving the resources you have into the more strategic, more long-term critical segments. So I think those are the activities that we're doing. I'm sure other players are also doing in their respective portfolios.

Operator

Our next question comes from Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Are you trying to lift prices in your BDO derivatives to offset BDO inflation?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

I think, obviously, like all other areas, it is a key input that drives high level of the pricing and the less differentiating on the intermediate type segments, but there are other issues. Supply is a big issue. If you look at the supply chain for us and many industries has impacted the low-end pricing coming from further regions. So supply reliability is much more important to our customers, if they don't have some of these ingredients. So there is an opportunity to reposition based on our footprint, on our reliability and our commitment to allocate for the long term, the limited resources of BDO, we can sell it in different markets, we can transform it in different areas. We're talking to our customers so that we can take some longer-term positions with them in the appropriate markets. We are a U.S. centric business. And before just selling to move volume and absorb cost is not what we're doing now. We are really focusing on which are the core markets and how do we improve that mix also.

Jeffrey John Zekauskas ***JPMorgan Chase & Co, Research Division - Senior Analyst***

I'm sorry, I didn't understand your answer. In other words, can you go to your customers and say, BDO prices are up, so we should have higher prices for BDO derivatives or you can't do that?

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

You can do thator you can also say we are a local supplier -- you can't get product now imported. You're impacting your production, the cost of not having product is 5x the cost of your BDO or we're a local supplier, let's establish a relationship with you. And here's our price and that we can improve our mix, commit to different markets. So it's not just a pricing negotiation to your point of you bought from me, here's a new price. It's also about how do we commit to certain segments and that we're going to allocate more of our resources to those spaces. And those spaces have a better mix for us. So part of the pricing improvement is mix improvement, not just pricing.

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

And so Jeff, let me jump in as well. I think there's 2 components to it. The intermediates business on an overall basis tends to be supply-demand driven, and that's what sets the price. It's less about inflationary aspects. We are seeing inflation and our production facility butane is the primary raw material that we use to make BDO, whether that goes into third-party sales of derivatives or sales across the business to our personal care, life science business units. And so the pricing aspect is more of a market function based on supply and demand. And there's a lot of demand right now, which is driving the overall price very high.

We enjoy that in our third-party sales of intermediates products and Life Sciences and Personal Care pay the price for that as we transfer that product to them at cost. Now to your question about what they can do about price, what they are doing about price is they are moving their objective. All of our businesses objective is to recover all of our inflation, whether it's around raw material cost and that includes transfer price of BDO, which has gone up significantly for Life Sciences and Personal Care, great energy, et cetera. And the good news is at this stage of the game, all of the businesses have put pricing in place to recover all the inflation that we currently know about and expect.

Now to Guillermo's point earlier, if we see new inflation, if energy spikes again, we have to deal with that. That's going to mean new pricing to catch up with that, which would likely have a lag to it as we've seen. But by and large, I would say the businesses have done a really, really good job on the price inflation dynamic in terms of what we've seen and what we expect to recover on an overall basis.

Jeffrey John Zekauskas ***JPMorgan Chase & Co, Research Division - Senior Analyst***

If you look at your year-over-year comparison, you made a lot more money in your Intermediates and Solvents business than you did last year in the first quarter because butanediol values are much, much higher. Since you transfer cost to life sciences...

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

No, we don't. We transferred...

John Kevin Willis ***Ashland Global Holdings Inc. - Senior VP & CFO***

No, we don't.

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

We transfer market.

Jeffrey John Zekauskas ***JPMorgan Chase & Co, Research Division - Senior Analyst***

You transfer market. Okay, great. Then I don't need to ask that question.

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

And just to be clear on the mix issue, the merchant business we can sell BDO or we cannot sell BDO and convert it into a different product and sell that one. We have a mix impact. It's not just pricing. It's pricing within each product line, but which product lines do we sell more of. So the business is focusing on improving our product mix so that we have -- because of we're a local producer, we can differentiate ourselves in some areas more because the value of some of these downstream product intermediates are higher than video.

Operator

Thank you. And I'm not showing any further questions at this time. I would now like to turn the call back over to Guillermo Novo for any further remarks.

Guillermo Novo ***Ashland Global Holdings Inc. - Chairman & CEO***

Well, I want to thank everybody for your time. Hopefully, we've been able to shed some light on the strength of our business. Even in these uncertain times, we're very excited of where we are, the progress that we're making and we thank you for your time, and we look forward to talking to you in the coming weeks. Thank you.

Operator

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