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

PRESENTATION

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

Good morning, everyone. Welcome to Ashland's Fourth Quarter Fiscal Year 2021 Earnings Call and Webcast. My name is Seth Mrozek, Director, Ashland Investor Relations. Joining me on the call today are Guillermo Novo, Ashland's Chairman and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer.

We released preliminary results for the quarter ended September 30, 2021, at approximately 5:00 p.m. Eastern Time yesterday, November 9. 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 during this 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 reconciliations of the non-GAAP measures to those GAAP measures are available on our website and 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 fourth fiscal quarter, including commentary on the recently announced signing of a definitive agreement to sell the Performance Adhesives business. Next, Kevin will provide a more detailed review of financial results for the quarter and the fiscal year. Finally, Guillermo will close with key priorities and planning in the current economic environment in addition to providing his thoughts on important next steps and our financial outlook for fiscal year 2022. We will then open the line for questions.

As a reminder, on Friday of this week, we will host a live virtual Investor Day beginning at 9:00 a.m. Eastern Time. We are excited to tell Ashland's story, our plans for sustainable innovation and the strategy for profitable growth and value creation. We encourage all participants to register for the live event using the link available on Ashland's Investor Relations website. Beginning with the start of the live event, all materials and presentations will be accessible on Ashland's website for the next 12 months.

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

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

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

Before I discuss results for the quarter, please let me first acknowledge the Performance Adhesives team. As we announced during the quarter, on August 31, we signed a definitive agreement to sell the Performance Adhesives business to Arkema for $1.65 billion. Our teams are working very well together in planning the sale and future integration. At this time, we expect the transaction to close during the March quarter of 2022.

Net proceeds, cash from the sale after tax and transaction-related fees are expected to be in the range of $1.2 billion to $1.3 billion. Given that the Performance Adhesives business is now reported as discontinued operations for Ashland accounting purposes, this is the final quarter in which I plan to specifically address the results of the business. I would like to take this opportunity to recognize their performance.

While the Ashland and Arkema teams are working diligently on the transaction closing process, Performance Adhesives continues to execute on their winning strategy. The business performed very well during the quarter with sales up 31% compared to prior year. Adjusted EBITDA also grew by 10% with strong demand and enhanced pricing for its value-added adhesive applications being partially offset by continued raw material and cost inflation.

I'd like again to congratulate the Performance Adhesives team for building an excellent business. Adhesives has been an important part of the Ashland portfolio and story. And we'd like to thank the team for the contributions made over the decades. We wish the team great success as they continue their strategy as a future part of Arkema.

Please turn to Slide 6, turning to Ashland's results in the fiscal fourth quarter. As you will hear during the call and consistent with our update on November 1, sales and earnings results for the quarter and full year were consistent with the outlook we provided earlier in the year. For the most part, market dynamics of our underlying business continued to improve and behaved in line with our commentary from prior calls. Customer order dynamics remain strong across the core end markets, and we're making progress on taking appropriate pricing actions across all segments.

However, ongoing supply chain challenges linked to shipping constraints and raw material availability as well as the pace of raw material and energy cost inflation remain persistent. Despite these challenges, our team operated at a high level to safely deliver products to our customers around the world, yielding the financial results you see for the quarter and the year. The Schülke & Mayr business also made a strong contribution to results in the quarter as the team is now fully integrated into our core personal care segment.

For all of Ashland, the sales in the quarter grew by 12% to $591 million and adjusted EBITDA grew by 14% to $149 million. In addition, cash generation remained strong as we reported $120 million of free cash flow in the quarter. Kevin will provide more details on the results for the quarter and the fiscal year in a few moments. In addition to the strong execution to deliver financial results, the Ashland team also made good progress on reshaping the portfolio, strengthening the balance sheet and returning capital to shareholders.

I already referenced the signing of the definite agreement to sell the Performance Adhesives business. Second, we issued $450 million of new senior notes while retiring the notes that were due next August, thereby lowering our annual interest expense and pushing out our next notable debt maturity to 2025.

Third, we established an annual renewable environmental trust with an initial funding of $90 million. We plan to further fund the trust using proceeds from the planned sale of remediated real estate over the coming years. With this trust, we expect to fund all future environmental-related costs without using operating cash flow, in addition to mitigating some of the volatility we recognize from time to time in our adjusted results.

Last but not least, during the quarter, we initiated a $450 million accelerated share repurchase program with an initial delivery of 3.9 million shares, which were retired. We expect the ASR to be complete by March 2022 at the latest, at which point, there will remain $350 million under our existing share repurchase authorization.

I'm very pleased with the progress made by the Ashland team during the quarter and the year and look forward to discussing our outlook for the next fiscal year later in the call. In the meantime, I'll turn over the call over to Kevin to review our Q4 and fiscal year 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 8. Before I begin, I'd like to remind everyone that the results of the Performance Adhesives business are now reported as discontinued operations for Ashland and will not be included in my discussion of adjusted results from continuing operations. However, as a reminder, even though we still own the business and expect to until sometime in the March quarter, stranded costs related to adhesives are included in our corporate unallocated expenses.

Total Ashland sales in the quarter were $591 million, up 12% versus prior year. Favorable currency contributed 1% growth during the quarter. Gross margin for the quarter declined modestly to 33.2%, primarily reflecting higher raw material, freight and energy costs. Excluding key items, SG&A, R&D and intangible amortization costs increased modestly to $113 million in the quarter, primarily reflecting the addition of the Schülke & Mayr business.

In total, Ashland's adjusted EBITDA for the quarter was $149 million, a 14% increase compared to the prior year adjusted EBITDA of $131 million. Ashland's adjusted EBITDA margin for the quarter was 25.2%, a 40 basis point improvement compared to the prior year, again reflecting the items discussed above. Notably, all four of Ashland's operating segments reported adjusted EBITDA margin above 25%. Adjusted EPS, excluding acquisition amortization for the quarter, was $1.22 per share, up 18% from the prior year.

Now let's review the results of each of our four operating segments. Please turn to Slide 9. I'll begin with Life Sciences. The team executed well in the face of continued supply chain disruptions and raw material inflation. Sales were $189 million, up 5% from the prior year quarter. Currency favorably impacted sales by 1%. Demand for pharma and nutrition ingredients was healthy and was only partially offset by lower nutraceutical sales due to labor shortage issues.

Life Sciences' gross margins declined by 9% due primarily to raw material cost inflation during the quarter. The vast majority of this inflation came from higher BDO transfer pricing. While the team was able to initiate price increases, there is more work to be done to recapture the inflation we have seen and are continuing to experience. In total, adjusted EBITDA declined by 6% to $48 million in the quarter, due largely to the cost inflation I referenced. Adjusted EBITDA margin in the quarter was 25.4%.

Please turn to Slide 10. Personal Care and Household sales were $183 million, up 12% 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 onset of the pandemic last year. The Schülke & Mayr business was also a meaningful contributor, adding roughly $22 million of sales to the quarter. These gains were partially offset by the exit of roughly $10 million of low-margin purchase for resale business in addition to lower sales of additives for hand sanitizers compared to prior year.

At the end of fiscal '21, the exit of low-margin Personal Care and Household product lines is complete. The carryover impact to sales of these exits for fiscal '22 is expected to be approximately $35 million with very little EBITDA impact. Gross margins improved by 60 basis points, reflecting the contribution from the acquisition, the exit of low-margin business and lower operating cost. In total, Personal Care and Household adjusted EBITDA increased by 11% to $51 million. Adjusted EBITDA margin remained healthy at nearly 28%.

Please turn to Slide 11. Specialty Additives had yet another nice quarter with sales up 13% to $181 million. Demand for architectural coatings additives remains very strong. And we are seeing a normalization in DIY volumes and a shift to higher contractor paint volumes. As we stated last quarter, global demand continues to be very strong. And our HEC network as well as the industry has sold out. To meet incremental demand, one of our key growth projects in fiscal '22 is expanding our global HEC production capacity.

Sales growth remains strong and price versus cost for Specialty Additives was positive during the quarter while operating costs were a headwind year-over-year due to the inventory control actions we took last year. As such, gross margins declined by 350 basis points to

26%. However, in total, adjusted EBITDA grew by 7% to $47 million. And adjusted EBITDA for the quarter was 26%.

Please turn to Slide 12. Intermediates & Solvents reported a very strong quarter as pricing has continued to rise following strong global demand and outages at competitor facilities in the U.S. I&S sales were $60 million, more than double compared to the prior year. While merchant sales were up double digits due to strong demand in pricing, internal captive sales were up even more significantly compared to last year, reflecting the higher BDO transfer price and the internal inventory control measures that were in place during fiscal Q4 of last year. I&S margins were up meaningfully. The segment reported adjusted EBITDA of $21 million compared to $6 million in the prior year. And adjusted EBITDA margin in Q4 was 35%.

Please turn to Slide 13. As I have done for the last few quarters, I'd like to spend a few minutes talking about cash generation, which continues to be an important component of our value creation strategy. Total free cash flow in the quarter was $120 million, a $31 million increase compared to prior year. While we generated higher cash flow from lower capital expenditures, greater earnings and lower cash interest expense, we also received an additional $16 million as part of the new accounts receivable sales program that we implemented during the quarter.

Free cash flow during the fiscal year was also very strong. Ashland generated $361 million of cash from higher earnings, lower capital expenditures, lower interest expense and a $91 million contribution from the AR sales program. The discipline around capital expenditures this year was an important contributor to free cash generation. Total CapEx for the year declined by nearly $30 million as we prioritized plant investments and worked more efficiently in our maintenance activities.

As we look to next year, we 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. In fiscal 2022, we expect to allocate roughly $60 million to these organic growth projects. Total capital expenditures next year should be in the range of $160 million to $170 million. Guillermo will spend more time discussing our overall outlook for fiscal '22 and our underlying assumptions in his closing remarks.

Please turn to Slide 15. Next, I'd like to briefly review our financial results for fiscal year '21. For the year, Ashland generated 5% sales growth across the portfolio in a difficult and uncertain economic environment. All businesses saw improved top line results over the prior year, including personal care, which also grew net of exited sales related to low-margin product lines. Demand recovery and the Ashland team's execution in the face of raw material availability and freight and logistics challenges were key drivers to the year-over-year sales growth.

Please turn to Slide 16. Adjusted EBITDA for the year was $495 million, a 10% increase over the prior year. Adjusted EBITDA margin also expanded by 110 basis points to 23.4%. Ashland generated strong earnings growth and margin improvement during a challenging macro environment and $18 million of negative impact from the labor strike at our Belgian facility and winter storm Uri. For the year, Ashland generated $361 million of free cash flow, inclusive of about $92 million from our AR sales program and $44 million of cash restructuring payments. Cash generation will be critically important as we execute on our organic growth plans.

Please turn to Slide 18. Before Guillermo discusses our financial outlook for fiscal year '22, I think it's appropriate to calibrate the results for fiscal '21 and put them in context for next year. First, as previously discussed, beginning with Q4, we are now reporting adhesives as discontinued operations. With the disc ops reporting, a portion of the cost previously allocated to the adhesives business will remain in our unallocated corporate segment.

These stranded costs totaled $14 million in fiscal year '21 and are included in our adjusted results for the year being reflected in unallocated and other segment of the income statement. We are also reporting all environmental costs net of asset returns in the renewable environmental trust as key items for adjusted results reporting. After making these adjustments, fiscal year 2021 results amount to $2.1 billion of sales and $495 million of adjusted EBITDA with an adjusted EBITDA margin of 23.4%.

Please turn to Slide 19. In addition, there are several discrete items that reset the baseline for fiscal year '21. Earlier in this year, there were cost impacts related to winter storm Uri and the labor strike at our plant in Doel, Belgium that impacted earnings. The cumulative amount of EBITDA impact from these two events was approximately $18 million in fiscal '21. We don't anticipate that these events will recur next year, so we factored them into our baseline for 2022 planning.

Second, we will have an additional 7 months of earnings from the Schülke & Mayr acquisition in fiscal '22, given that the transaction closed on May 1, 2021. We expect these additional 7 months of earnings to contribute roughly $15 million of EBITDA to fiscal '22. Finally, the transition services agreement we had in place with INEOS following the sale of the composites business in late 2019 has come to an end. We recognized roughly $8 million of income in fiscal '21 from this agreement in the unallocated and other segment. And this income will not repeat in fiscal '22. As such, we are also adjusting this out of the baseline.

In summary, as we look at our 2022 planning, our starting point baseline for 2021 is approximately $520 million of EBITDA. For internal analysis, our expectations for fiscal '22 will be compared against this baseline as we started the year. 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***

Thanks, Kevin. Please turn to Slide 21. As Kevin indicated, given all the challenges and changes, we have set a clear baseline for 2021 to build our outlook. As we look at 2022 macro trend, we see both tailwinds and headwinds we need to address. Demand remains strong across most of our end markets. Given our increased exposure to consumer-driven segments, we see the strength of the consumer as a positive for us in the coming year.

The normalization of social and economic activity as we move past COVID should begin to have a positive impact on demand in key segments. For pharma, we should start to see improved funding for therapeutic treatments for a broad range of infectious diseases, which have been negatively impacted by lower government and donor funding as they focus resources on the COVID pandemic.

Equally, the opening of social activities will likely change consumer activities and behaviors, which should have a positive impact on demand in several personal care segments. Pricing environment remains positive, given high demand, supply chain challenges and longer term tight industry supply and demand balances in key technologies, such as HEC.

We acknowledge that 2022 will come with its share of challenges and headwinds. We expect supply chain and logistics challenges to persist at least through our fiscal third quarter. Broad-based cost inflation will continue to be a challenge to everyone. For Ashland, we see several cost inflation drivers. We see cost increases in cellulose driven by poor cotton crop, supply logistics challenges as well as high demand for cellulose across all categories.

We continue to see cost escalations in butane driven by higher natural gas costs. This impacts our BDO costs. And in general, we expect to continue to see broad-based inflation across our small volume raw materials driven by product supply and logistics-specific factors. This includes higher cost of freight, logistics and labor.

In China, we continue to monitor some of the energy use restrictions and the potential impact on our plant operations in China as well as on the operations of our suppliers and customers. Lastly, although the tight HEC industry supply-demand balances are favorable for pricing, they will place volume growth constraints until we bring online the additional capacity we have announced.

Please turn to Slide 22. As you will hear in the coming Investor Day, our priority will be on driving profitable growth. As we move into 2022, we will be increasing our growth investments to drive organic growth. We will be investing in our cellulosic franchise to support growth of HEC, Klucel and Benecel product lines. We will invest in our geographic formulation capabilities in pharma and personal care to support our oral solid dose business as well as our preservative business. And we will invest in growing in Asia.

Please turn to Slide 23. The basis for our 2022 outlook is continued strong demand in Life Science and Specialty Additives and improving demand in personal care. No changes in our operating performance. We expect continued broad-based cost inflation. This will be offset with strong pricing actions across our portfolio. Given the strong market recovery, supply of our product lines will remain tight until we bring on incremental capacity. This tight supply-demand balance will impact the broader industry.

Based on these insights, our outlook for 2022 is sales of $2.25 billion to $2.35 billion, adjusted EBITDA of $550 million to $570 million. As was the case in 2021, there are several risks that are difficult for us to forecast. We will monitor developments and adjust our plans as needed. These risk areas include changes in supply chain challenges and more specifically around ocean freight, which is a big driver of our network; potential impact of China's energy usage restrictions; raw material availability changes; acceleration of energy cost increases, depending on weather and geographic dynamics; and changes in general inflation trends.

Please turn to Slide 24. Although the demand continues to improve, we will continue to operate in an environment of uncertainty. We will continue to monitor developments and focus on the things we can control. 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.

Please turn to Slide 25. As Seth mentioned earlier in the call, on Friday this week, beginning at 9:00 a.m. Eastern Time, we will host a live virtual Investor Day. We're excited about the opportunity to share our views on Ashland today and our expectations for Ashland in the future. We'll talk about the company and our focused portfolio. Our commitment to ESG priorities and goals, our improving financial performance and our premier financial profile.

You'll have opportunities to hear directly from our business unit general managers and their respective strategies for profitable growth. And we will review our priorities, strategies and outlook for results over the coming years. Following a live Q&A session with securities analysts, we will highlight 12 different products and technology innovations in which you will have the opportunity to interact with Ashland leaders via live Q&A chat sessions. We anticipate the event will be well attended and look forward to the day's event.

Please turn to Slide 26. In closing, I want to thank the Ashland team once again for their leadership and proactive ownership of their businesses in an uncertain environment. As you will see on Friday, we have changed. We are fortunate to be a premier additives and ingredients company with high-quality businesses that have leadership position 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. And operator, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from John McNulty from BMO Capital Markets.

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

Maybe a couple of them. Firstly, just kind of getting some of the noise of freight out of the equation, I guess, can you help us to understand what the impact of freight, either availability and/or costs, were on the quarter? And I guess, how are you going to manage through that as you kind of look to 2022? Have you kind of just either locked up more freight availability? Or I guess, what prevents that from capping some of the growth that you could otherwise see in 2022?

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

Let me comment on when we look at the whole supply chain logistics side, just what's impacting us and then I'll pass it to Kevin to talk maybe about the cost and freight. But our biggest issue right now is if you look at, let's say, in simplistic terms, 75% of our sales are local. We have inventory around the world and it's just local shipping and 25% is indent.

So the biggest issue that we have is more the on-time scheduling of ships. And that's really where we see a lot of this end of the month, end of the quarter surprises of did the ship arrive on time? Did we load it? So the availability is the biggest issue for us. Most of our shipments are coming out of the U.S. and Europe to the rest of the world. We're not in the dynamic that other companies have of shipping in from Asia into the U.S. So we have availability. It's the on-time side that is the biggest impact.

On the land transportation, I would say we have some issues in Europe, but the bigger issues are here in the U.S. on truck availability, drivers, those kinds of things. But frankly speaking, that's going to be less and less of an issue as the adhesive business leaves the portfolio. Ocean freight is one of the biggest issues for us. But Kevin, do you want to comment on the cost?

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

Yes. Q4 of this year versus last, freight and logistics costs were up, call it, mid-single-digit millions of dollars. And '22 versus '21 full year, we expect it to be $15 million or so of inflation based on the environment that we're in today. So not insignificant, but you have to get it through pricing.

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

Got it. And then maybe just as a follow-up, can you speak to -- so you do have a number of headwinds on the freight side. You also spoke to the BDO impact, in particular on the Life Sciences segment but even a little bit in personal care. I guess, can you speak to the ability to get the pricing through that you need? And when you think about 2022, what level of price do you need when you think about the -- at least the consumer-related portions of the business?

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

Well, I mean, we're moving on pricing across the board. I would classify this as a much broader general inflation and it's hitting everybody. It's not just us, so we're able to pass that on. I think the pricing dynamics, the HEC network, the industry is tight right now and demand is very strong. So it's favorable, as I said, to pricing. So the growth will come more from pricing than from volume in that part of the portfolio until new capacity comes on stream.

So it's favorable dynamics. The issue is more that whole timing. This is very different than when we talk about adhesives, which is much more volatile in terms of the petrochemical side. Our exposure right now, if you look at the 3 buckets I mentioned, cellulose is big because we have a big cellulose franchise. That tends to be very, very stable. I mean, what we're seeing right now, we probably haven't seen in 10 years.

So it's a little bit more unprecedented. We're already seeing some signs of softening towards the back end of the year, but we'll be tracking that. Usually, we can pass on pricing. We're able to hold on to that for much longer. The butane dynamic is a normal dynamic on our BDO part of the portfolio. And it's really driven right now by energy.

And the rest, we don't have any major, large raw material. I look at the list of our procured, it's $1 million up here, $1 million in there. It's a lot of little things and it's just a holistic increase, which is impacting everyone. Therefore, I think we have favorable pricing environment in terms of the entire industry moving on price.

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

Got it. No, that's helpful. Maybe if I can sneak one last one in. With the sale of the adhesive business, you're going to have what is arguably a mountain of cash or flexibility. And that's only increased some of the improvements you made on the cash conversion. So I guess, can you speak to the M&A opportunities that you see out there and the potential pipeline that you're looking at in terms of ability to deploy some of that capital?

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

So John, I'm going to have to leave you with a little bit of a cliffhanger so that you have to come in and see our Investor Day on Friday. But yes, to answer your question, I mean, we obviously have the resources. And it's not just from the sale. I think you've seen the strong cash flow generation that the core business has, our issue now is going to be to refocus on growth. And we'll talk a little bit more about that in terms of the Investor Day.

You've seen the attention we've had of free cash flow conversion. We're fine-tuning that even more. We really want to split out what is the cash flow for maintaining our business, just the normal operations and refocus so that we're investing more of our resources on growth, be it organic growth, and we have some specific areas that we want to accelerate growth because we see we're very well positioned and demand is very good.

There's M&A, bolt-on M&A opportunities. And we'll talk about that at the Investor Day and where we're focusing on. And as you've seen, we are also rewarding our shareholders. And I think, fortunately, we're in a position that we can do all of the above. And we'll remain balanced in our approach.

Operator

And our next question comes from Chris Parkinson from Mizuho.

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

So Guillermo, when you put aside all of the noise, the raw material, P&L pressures in fiscal year '21 and you assess your current ingredients portfolio, specialty materials, et cetera, et cetera, where does it ultimately stand in terms of growth, pricing power and margin potential versus your original assessment as CEO?

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

So I'm extremely excited. That's going to be the theme of our call on Friday. I mean, we have now -- and I think one of the things we want to do is takeaway, especially on the growth side, some of the history and noise. I mean, this is a company that has gone through a massive transformation over the last decade and longer. It's not just reducing the size and noise, it's the portfolio itself has changed a lot.

So when I hear of things, "Well, Ashland in the past, XYZ," that refers to a distribution business, to a water business, to a composites business, it's just a lot of things. And you'll see on Friday, we'll try to give some transparency of what's happened to the core business. Our business right now is a 10-year-old portfolio. It's not a 100-year-old like the old Ashland. It is very different.

And it's, I think, a very high quality. It's a coherent strategically coherent additives and ingredients portfolio with leadership positions in some high-quality markets, personal care, pharma and architectural coatings, most of which 70-plus percent, 75%, is consumer-driven in terms of the demand profile that we have, so very, very healthy. And the majority of the rest is really integrated on how we can leverage our technologies and capabilities for scale and profitability.

So on growth, we still stay focused on our objective of growing 200 to 400 basis points over market. These are steady market growth with very good macro trends supporting the change, and we'll talk about that. So that's the type of growth that we're still committed to in terms of our underlying core businesses.

In terms of margin improvement, we still see opportunities to improve margins. I mean, you've seen the top-down actions we've taken. We continue to improve now through better management. And that includes productivity, it includes mix improvements that we're doing. And we continue to edge up some of our margins. And I would say as we look at growth that we get greater scale, that we can bring in new businesses through innovation or through M&A.

Those tend to be higher margin than what we have today. We're not going to invest in lower-margin businesses. So all those things will tend to push our margins. So our long term, and I don't want to steal my thunder for Friday, but we really want to start continue pushing on that road to greater than 30% EBITDA margins to the future.

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

Great. And I'll thank McNulty for stealing my cash war chest question, then we'll wait until Friday. I couldn't help but notice on Slide 22, you mentioned expansions in Klucel, Benecel. Many of us recalled those expansions, if I'm not confused, one was in Virginia, one was a conversion in Belgium. Is that ultimately where the expansions will be, if you could confirm that, and then just also mention the longer-term growth outlook for Life Sciences, specifically excipients and how that ties into Asia, if at all?

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

I mean, we're being very prudent in planning out our capacity expansions, not just for these next expansions but even for the future, where do we want to bring them. So balancing out where the most efficient investments are going to be so that we can leverage infrastructure and profitability. Also, we want to look at longer term where we want to go. I would assume the first series of investments will leverage our cost position and our infrastructure for value.

But we have a longer-term plan so that we have a series of investments that we'll try to use our leverage, especially in Asia. So for those cellulosics, I would say that, that core base will be the big driver. But we're using our network. If you look at, for example, biofunctionals is growing very, very well for us in personal care and it's very profitable. We're expanding and putting capacity in our Nanjing plant.

So we're leveraging that footprint so that we can start producing, not just to supply Asia, but this will allow us now to develop products with our customers in Asia using different raw materials, different development opportunities that our customers are interested in that region. So the broader growth is not just in cellulose, it's on some other areas that tend to be lower asset intensity, but we do still need to make the investment and leverage the infrastructure we have.

Operator

And our next question comes from Mike Harrison from Seaport Research.

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

I obviously appreciate the outlook on fiscal '22. But you don't provide any quarterly guidance. So I was wondering if you can give us some thoughts on the cadence of earnings as the year progresses. Is it fair to assume that there are some headwinds on the margin front to start the year and then better margin performance later in the year? And also maybe comment on when we start to see the contributions from the capacity expansions.

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

Right. So let me start with the last one. The contributions will come more towards the back end of the year. I mean, we are making debottlenecking investments and all that, that we'll bring on throughout the year. But the bigger things will start coming in a bit later in the year. Full transparency on the margins and some of the headwinds, and this is my take, there's a lot of noise right now in the market.

So I do think the front end is where we see it's more frothy right now. I will tell you, even as we looked at our plans for 2022, between the original plans we were working on 2 months ago and the one that we've locked out now, we saw a significant increase in raw material and cost inflation. And we're obviously moving on price. And I'll tell you, as we move that now, we're seeing some things softening in other areas.

So it is very volatile. I think the issue right now is to understand the directions and to be agile in moving. So I think what all companies need to do and us, this is our mantra right now, is make sure that we're moving with speed and agility to address what we see and the challenges that are ahead of us. So we're moving on price, making sure that we're moving. But it is going to remain volatile.

I think the front end will be more volatile. And as we get into the back end, where supply chain dynamics start easing off, will be better. I think the other part that we'll monitor in the early part is the winter. And it's really two things: COVID, how will that behave and what is in demand in the coming months; and two is energy, that in some parts of the world, there's still a lot of volatility around the energy side.

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

All right. And then you mentioned within the pharma business that the funding has been directed to COVID. Hopefully, as COVID runs its course, it's going to be shifting back to some other areas that could be a little bit more advantageous for you. We've also heard other pharma-related companies talk about some reductions in demand because fewer people are getting sick as we continue with social distancing and mask-wearing. So maybe just, I guess, give some thoughts on the pharma business as we kind of transition to this post-pandemic environment and how you see the growth opportunities going forward.

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

Well, I think two things. One, we're seeing opening up and I'm not going to say I'm a medical expert, but there are obviously drops in some therapy just because people are not going out and not getting as exposed. But at the same time, we're hearing that as people do, things are spiking, just a simple flu and other things are also spiking. So I think that, we'll have to see how it plays out. I think for us, I mean, it's a pretty broad-based portfolio in terms of the therapies that we go into.

I think that the part that we'd point out is that we do have good business, especially with a lot of the generic customers around the world funding. And I would say AIDS is a great example of some of the therapies that we are in that go to AIDS treatments have suffered during the last year as funding has shifted to COVID. And this is mostly driven by government and donor funding. So I think as that normalizes, the broader portfolio in which we sell into will benefit from that.

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

I think also as we see more elective procedures done, there should also be an uptick in the related therapeutics that go along with those. Because those are still very, very muted really across the world today.

Operator

And our next question comes from John Roberts from UBS.

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

I think you transferred BDO at cost, not market. I just want to confirm if that's true, and therefore, the integrated margin compression was even more relative to market BDO. And as good as the I&S earnings were, I guess, it would have been even higher if they were all priced at market.

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

No. Actually, I would say we are transferring at -- it's a transfer price that is based on a large buyer. We have some big customers, so we try to set our pricing with a similar type of formula, recognizing some producer economics to it but also market price. So this is a bit of a pocket switch for us. If you look at the headwind in our Life Sciences and personal care, the majority, when we say inflation and cost, the majority of the impact in 2021 was BDO transfer pricing. It's not the general cost. It is that transfer pricing.

So what we've done is put an edge on the businesses so that they have moved on price. We probably did, to your point, perform better because we moved on price. We didn't cover it all. But if we had not been transferring at cost, we probably would not have moved this aggressively on price and the net for the company would have been lower. So our focus is not right now on which pocket gets the money, it's on making sure that we're getting the money and we're getting the movement across the businesses.

One comment that I will make on the I&S business because it will not be a big focus of our discussion on Friday, but as we've said in other calls, this is about integration. So we want to leverage integration, not just cost, security of supply and making sure that we have a smooth operation for our core businesses. But fundamentally, it's about value. If that integration doesn't create value, then we'll consider our strategic alternatives. But if we look at the business, it's changed a little bit.

So we are doing the transfer price. We'll make the profit on one side or the other, depending on the pricing dynamics. We do recognize right now that for BDO, this is a pretty unique situation in terms of pricing. We expect pricing to remain strong in the early part of 2022 and through 2022, especially the early part. But then over time, it will start normalizing just because of the global demand balances of BDO.

But I would say we have a very, very unique business. One, we have a very valuable asset. To build a new BDO plant, we're 1 of 3 producers in the U.S. To build a new plant in the U.S. would be extremely expensive. And our asset is not in the Gulf Coast. During all the hurricanes and all that, we've actually performed very well and we've benefited from that. So we're very well positioned.

The other point is the majority of our merchant business, the BDO side of it, it's transfer pricing and a lot of how we want to manage that internally. But the majority of our merchant business is not BDO, it's the derivatives, the intermediates that we sell. Most of those intermediates are going into spaces like semiconductor, batteries, production, pharma and ag active ingredients and coatings. And with a lot of the in-sourcing projects that the U.S. is working on, longer term, the pricing will come down and stabilize.

But our view is they might stabilize for those derivatives at a better place than they were historically, where we had to sometimes ship to other parts of the world. So the business, we will continue to evaluate what we want to do with it long term. But it is in a good position. And I think some of the macro trends also favor that part of the portfolio in the long term.

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

Okay. And then back to the pharma business, IFF seems to have similar supply chain problems with its pharma excipient business. And I think of the two of you as two of the largest suppliers. So what are the pharma customers doing if two large suppliers both have issues? Or is the demand for pills and gel tabs and so forth down enough that there's not -- they don't need as much product?

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

So two things that I would say is it's to not confuse ability to meet demand with ability to meet sales recognition. The problem that we're having is getting on ships. So if it doesn't get on the ship on September 27, it's an issue for us in terms of recognition in the revenue for our company. But if we ship it on October 3, for our customers, our issue of the timing is not that we can't get the material, get it to our customers. It just creates a lot of noise for us in terms of how we can deliver.

So our bigger issue is that supply side of the equation with ocean freight. And then we're managing through. Yes, we have issues with small raw materials and those kinds of things that impact our operations. But that part, actually, we've been managing very well. It's more that end of quarter loading of ships is really the part that's out of our control.

So the actions we've taken is building inventory in our warehouses around the world, accelerating shipments, intercompany shipments, working with our customers that are buying indent so that we can accelerate their orders and get them more ships on time and make sure the inventory is ready. So when the ships are there, then we can roll them that we don't miss the ship.

Operator

(Operator Instructions) And our next question comes from Jeff Zekauskas from JPMorgan.

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

Your BDO operation, the Intermediates & Solvents, earned about $20 million in EBITDA in the fourth quarter. And so if you annualize that, that's about $80 million and your EBITDA this year in that segment was about $50 million. So what you said is that the prices are going to be strong going into next year. So order of magnitude, there's a $30 million increase in EBITDA from the BDO operation alone.

But your guidance at the bottom of the range is $550 million. So if you go from $520 million to $550 million, you can do that on BDO alone. So is the meaning of your guidance that there's a lot of growth in BDO and there's a little bit of growth elsewhere and there's only a little bit because raw materials are up a little bit and you're not growing as fast as you can normally yet? Is that the way to understand your guidance? Or do I understand it in a different way?

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

No, you would understand it a different way. If you look at BDO, what we're forecasting is the front end of the year, we'll continue to have strong prices. We do see some softening as we move forward. There is noise there. But as we look at our plan, it's sort of a curve that starts coming down. Butane is a huge part of our raw material inflation in the year. So that was big this year, it was big next year. So there are balances there. The rest of the portfolio is doing well.

The BDO transfer price is an issue for the other businesses, and we're moving on price. And as that softens out, for 50% of that calculation, it's either going to benefit our downstream business or the BDO. And so we're not as concerned of where it's going to come. I think the issue right now is getting our pricing, assuming it's going to stay on the BDO side in terms of our transfer pricing and that we're passing on the price increases so that we can ensure that our downstream businesses are well positioned.

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

A couple of other things to add to that. As you're aware, Jeff, we periodically have to do catalyst change, and that's a pretty major shutdown for that business. We have one of those planned for fiscal '22. So that will be a headwind to earnings for the BDO business or the I&S business. But as we think of it, I mean, most of the growth year-over-year is going to come from the core business and not from the I&S business.

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

Okay. And then for my follow-up, I take it that volumes in personal care shrank a little bit, excluding the acquisition. When do you expect that to begin to grow? And in Specialty Additives, your sales were up 13%. Can you talk about order of magnitude how much was volume and how much was price?

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

Yes, I'll start with the personal care piece. If you look at the quarter, if you take out the acquisition and you also disregard the purchase for resale volumes that we exited, volumes were up 5%. Organic volume growth was 5% in personal care Q4 of '21 versus Q4 of '20. So it was really across all of our end markets, skin, hair, oral as well as the (inaudible) business all grew.

In the Specialty Additives piece, organic volume growth was up about 4% in total for Specialty Additives. Coatings was up about 4%. Performance specialties and energies were stronger than that and we saw a decline in the construction business. And so again, overall volume is up about 4%. So there was a good bit of price in there, too.

Operator

And that concludes our question-and-answer session for today. I'd like to turn the conference back over to Mr. Novo for closing remarks.

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

Okay. Well, thank you very much, Valerie, and thank you all of you for joining us today. And most importantly, thank you to the entire Ashland team for all the support and hard work that has helped us achieve these results. I look forward to talking to all of you on Friday. And we look forward to having a productive and interesting discussion with all of you about Ashland, the changes within our portfolio, the strength and the excitement that we have about the future. So thank you very much, and we look forward to talking to you on Friday. Bye.

Operator

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