

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2021 Ashland Global Holdings Inc Earnings Call

EVENT DATE/TIME: JULY 28, 2021 / 1:00PM 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

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*
Vincent Alwardt Anderson *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

PRESENTATION

Operator

Good day, and thank you for standing by, and welcome to the Ashland Global Holdings Inc. Third Quarter 2021 Earnings Call. (Operator Instructions) After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded. (Operator Instructions)

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

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

Thank you, Justin. Good morning, everyone, and welcome to Ashland's Third Quarter Fiscal Year 2021 Earnings Conference 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 June 30, 2021 at approximately 5:00 p.m. Eastern Time yesterday, July 27. 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. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our outlook for fiscal year 2021. 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 third fiscal quarter. Next, Kevin will provide a more detailed review of financial results for the quarter. Finally, Guillermo will close with key priorities and planning in the current economic environment in addition to providing his thoughts and important next steps. We will then open the line for

questions.

On a final note, we continue to work on planning for an upcoming Investor Day. Our intent is to host this event during the back end of the calendar year.

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. Thank you for your interest in Ashland and your participation this morning.

Before I start, I would like to clarify that we will not be making any comments or responding to any questions about our ongoing strategic review process for our Performance Adhesives business. For now, I would just comment that the process is well underway and going well with significant interest.

As you will hear during the call, in line with our June 10 update, the major issues impacting our Q3 performance revolved around the supply chain challenges linked to shipping constraints and raw material availability as well as the pace of raw material cost inflation. For the most part, market dynamics for our underlying business performance behaved in line with our commentary from prior calls. Despite the supply chain headwinds, we continue to operate safely with a clear focus on the safety and well-being of our employees as we manage through the challenges of the pandemic. I'm also pleased by the progress our business units are making as we continue to execute our strategy.

Before I comment on our Q3 performance, let me start by summarizing some of the tailwinds and headwinds we saw in the quarter. From the tailwind side, our self-help cost savings activities progress as planned. We continue to see strong recovery in industrial end market demand, and our nutraceutical and nutrition business continued to deliver improved performance. We saw favorable impact of FX, of the Schülke acquisition and BDO pricing. And our capital discipline also delivered strong free cash flow and free cash flow conversion.

On the headwind side, global constraints on logistics and shipping continue to impact sales and cost. As an example, June confirmed orders for direct shipments to customers on ocean freight were impacted by the significant drop in on-time shipping reliability. This has been a recurring theme for the last few months. For June, we had \$20 million to \$30 million of orders that were at warehouses ready to be loaded on ships but were not invoiced due to delays in shipping arrivals and loading. Most of these orders were invoiced in early July. Indications are that these shipping reliability challenges will persist for the foreseeable future.

Raw material availability continues to be a challenge, causing unplanned shutdowns as well as inefficiencies in our manufacturing productivity that negatively impacted costs. For our Performance Adhesives business, volume was strong, but the magnitude and pace of raw material inflation impacted margins. The business continues to act on pricing to cover these cost increases, but the incremental inflation has impacted the timing of margin recovery.

Personal Care [market] (added by company after the call) dynamics have not changed much as the pandemic-related impact on consumer behaviors continues to delay demand recovery. Additionally, as we discussed in our last call, we continue to see demand weakness in hand sanitizers and Avoca. Clearly, although the longer-term dynamics remain favorable, managing through these near-term supply challenges and cost inflation dynamics is a critical priority and focus for all businesses.

Please turn to Slide 6. This quarter presented new challenges for our teams and our customers. However, regardless of these near-term challenges, we continue to deliver growth and improve performance. Sales of \$637 million were up 11% by continued recovery of our Industrial businesses and continued resilience of our Consumer businesses. We're also starting to see the benefits of the Schülke acquisition. For I&S, the strength was driven by strong BDO pricing. Currency was favorable by 3%.

Life Sciences continues to perform well. Pharma sales were down compared to a strong prior year period as customers worked to build inventory as the global pandemic took hold. Sales in the quarter were also impacted by ocean freight shipping challenges. Nutraceutical demand remains strong, and the team has demonstrated strong year-over-year growth, thanks to the concerted efforts to change the

business trajectory.

In Personal Care, the global pandemic continues to impact some market segments linked to consumer social and recreational behavior. We have not seen the global demand recovery to date, but we're confident that it will develop once there is broader vaccination across the globe.

Specialty Additives continues to see strong demand recovery across all markets, except energy. Global architectural coatings business demonstrated significant volume recovery driven by both DIY and contractor segments.

Our Performance Adhesive business also saw broad-based growth across applications. However, the availability of certain raw materials continues to constrain sales. EBITDA of \$148 million was up 4%. The impact of strong sales and our self-help actions were offset by higher costs from supply chain and raw materials impacting logistics and manufacturing costs as well as raw material costs and mix. Although we took significant pricing actions, they were offset by additional incremental raw material cost inflation. More pricing actions are already being implemented.

Our free cash flow conversion focus continues to deliver strong results generating \$210 million of free cash flow in the quarter.

Despite these challenges during the quarter, our business priorities remain unchanged, demonstrating organic growth, expanding margins and improving free cash flow. I'm pleased by the progress made by the Ashland team during the quarter. They managed very well during another difficult external challenge, ensuring the safety of all our employees, that our customers were supplied and that we maximize our performance.

Let me now pass it over to Kevin for the financial update. Kevin?

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

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 8.

Total Ashland sales in the quarter were \$637 million, up 11% versus prior year. Favorable currency contributed 3% growth during the quarter. Excluding key items, SG&A, R&D and intangible amortization costs increased modestly to \$118 million in the quarter, primarily reflecting increases to incentive accruals and deferred compensation, plus the addition of the Schülke & Mayr business.

In total, Ashland's adjusted EBITDA was \$148 million, a 4% increase compared to the prior year adjusted EBITDA of \$143 million. Ashland's adjusted EBITDA margin was 23.2%, a 170 basis point decline compared to prior year, again, reflecting the items discussed above. Adjusted EPS, excluding acquisition amortization, was \$1.22 per diluted share, up 9% from the prior year.

Now let's review the results of each of our 3 business groups. Please turn to Slide 9. First, I'll begin with Consumer Specialties. Sales were \$340 million, down 1% from the prior year quarter. Currency favorably impacted sales by 3%. Within Life Sciences, pharma sales were down compared to the strong prior year quarter when our customers built inventory levels as the pandemic's impact on the global supply chain was in question. Nutraceutical sales were again up double digits as the team has done an excellent job stabilizing and growing the business. Sales to nutrition and other end markets also grew by double digits, reflecting improved trends for consumer dining behavior. In total, Life Sciences sales increased 2% during the quarter, inclusive of favorable currency.

Sales to personal care end markets were down 6% during the quarter due to several factors. The global pandemic continues to impact certain consumer behaviors related to hair styling, sun care and oral care in the context of social activities, leisure activities and mask wearing. In addition, demand for ingredients used in hand sanitizer formulations have normalized and are below prior year levels. We also closed on the Schülke & Mayr acquisition during the quarter, which contributed roughly 2 months of sales and earnings to Personal Care results. The integration is proceeding as planned, and we're excited about the future growth opportunities that the team and technology bring to our portfolio.

For all of Consumer Specialties, lower manufacturing and SARD expenses led to improved adjusted EBITDA margins of 27.1%, a 90 basis

point increase over prior year. In total, Consumer Specialties' adjusted EBITDA increased by \$2 million to \$92 million.

Please turn to Slide 10. Industrial Specialties had a very strong quarter with sales of \$263 million, up 28% from the prior year. Industrial demand was significantly improved compared to the June quarter in 2020 when pandemic-driven lockdowns have been implemented across the globe. We saw broad-based growth across the industrial end markets, consistent with industrial demand recovery. In fact, Industrial Specialty sales essentially returned to pre-pandemic levels last seen in the fiscal third quarter of 2019. Favorable currency contributed 4% to overall sales growth.

Our Coatings business was up double digits during the quarter, reflecting strong global demand for architectural paints in both DIY and contractor applications. The only exception to strong sales growth in Industrial Specialties were energy markets where demand continued to remain weak across the globe. In total, sales for Specialty Additives grew by 25%.

Sales for Performance Adhesives grew by 34%, reflecting growth in all 3 primary adhesive end markets. While sales and demand were strong, the combination of higher raw material costs, raw material availability and constrained global logistics and shipping availability resulted in increased costs and hampered our ability to meet incremental customer demand. These issues impacted overall margins.

Adjusted EBITDA margin for Industrial Specialties declined by 540 basis points to 20.9%. However, given the strong sales growth, adjusted EBITDA was \$55 million, a \$1 million increase above the prior year.

Please turn to Slide 11. Turning to Intermediates and Solvents, sales were \$49 million, up over 30% compared to the prior year period. Pricing for BDO and related derivatives drove the sales growth in the quarter. Extended outages and force majeure at competitors' facilities contributed to the elevated pricing levels. We expect to continue to experience these pricing dynamics for the balance of our fiscal year. Adjusted EBITDA for I&S was \$15 million, up from \$11 million in the prior year period.

Please turn to Slide 12. So like I've done for the last few quarters, I'd like to spend a few minutes talking about free cash flow, which continues to be an important component of our value creation strategy.

Total free cash flow in the quarter was \$210 million, a \$98 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 \$90 million as part of the New Accounts Receivable Sales Program that we implemented during the quarter. This sales program replaces the previous U.S. AR securitization program.

Excluding any inflows or outflows from the new AR Sales Program, we still expect to convert significantly more than 50% of our adjusted EBITDA to free cash flow in fiscal year 2021. And we continue to expect that conversion rate to push higher in future years, testimony to the free cash flow generation capability of the company. As we stated, our goal is to consistently convert at least 60% of EBITDA to free cash flow. Guillermo will spend more time discussing our fiscal '21 outlook and our underlying assumptions in his closing remarks.

With that, I'll now turn the call back over to Guillermo. Guillermo?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Thank you, Kevin. Please turn to Slide 14. As we look at our market demand outlook, we continue to see positive dynamics. Life Science demand is expected to remain strong for pharma, nutraceuticals and nutrition. Although there's still some uncertainty regarding the pace of COVID reopening, in the U.S., where reopening has started to take place, our Personal Care business is starting to see some strengthening in demand. Although a small part of our portfolio, I would note that we do not expect to see any recovery in the hand sanitizer application.

Industrial demand is expected to continue to remain strong. And although it's a small part of our portfolio, I would also note that we are starting to see demand recovery in the energy end markets. Clearly, the biggest risk and uncertainty to revenue and margins will continue to come from the supply chain and raw material challenges the world is experiencing. As a result, given their broad and uncertain nature, it's very difficult for us to forecast their impact. As we did last year at the beginning of COVID, rather than trying to

predict the unknown, we're focusing on building resilience so that we can respond quickly to developments: maximizing the positive, minimizing the negatives.

Please turn to Slide 15. With that context in mind, we continue to maintain our full year guidance for sales of \$2.4 billion to \$2.5 billion and EBITDA of \$570 million to \$590 million range. This outlook is based on expected continued demand in Industrial segments, continued stable demand in Life Science and no significant acceleration of global demand recovery in Personal Care.

No changes in our underlying operating performance. Pricing actions continue to be implemented to offset higher raw material costs, and the acquired Schülke business will contribute favorably to the business. Although we have factored in some of the impact of the current supply chain dynamics on our business, we cannot forecast unique one-off events that are unknown.

To qualify our guidance, excluding the Schülke acquisition, our outlook would be in the lower end of the range. With the Schülke acquisition, results included, our outlook would be in the middle of the range. We are not forecasting any major one-off items caused by supply chain issues, such as plant shutdowns or major raw material shortfalls. Additionally, quarter-end logistics uncertainty could have a positive or negative 3% to 5% impact on revenue in the quarter.

Please turn to Slide 16. In summary, I am pleased to report that regardless of the supply chain and raw material headwinds, our business units are performing well, continue to drive improvement and execute their strategy. We are maintaining our long-term focus on growth, business resilience, margin expansion and free cash flow conversions.

However, we do recognize the added focus and urgency on managing through these near-term supply chain challenges, managing pricing and raw material dynamics to recover margins and building operating resilience to improve planning, communication with our suppliers and customers and cost management.

We managed through higher levels of uncertainty and change during 2020, and I am confident that our business units and teams are ready to manage through the current supply chain challenges.

Please turn to Slide 23. In closing, I want to thank the Ashland team once again for their leadership and proactive ownership of their business in an uncertain environment. We're fortunate to be a premier specialty materials company with high-quality businesses that have leadership positions in defensive markets. I'm pleased with the resilience demonstrated by our people and businesses and look forward to the opportunities that lie ahead.

Thank you for your attention. And operator, let's open up for 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*

So I guess a question on how to think about the fourth quarter because I think based on where 3Q ended, you're looking for what should be EBITDA that kind of improves by \$20-plus million kind of even at the low end of the range. And yet, it sounds like a lot of these freight issues that kind of plagued you and the rest of the industry, it sounds like a lot of these are still really kind of wreaking havoc on things. So I guess, what confidence do you have that you can kind of get that incremental improvement and start this kind of catch-up when it comes to the freight side. Can you help us to think about that?

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

Yes. I think the important perspective to have is, unlike other situations, most of the discussions and most of the outlook is based on what is demand, how are our customers positioning in terms of their needs for products. And the fact is it's still very strong across the board. We have a lot of orders in hand. So we're -- often in what we have at hand, the issue now -- the question is, how do we forecast some of

these uncertainties. We have factored in some of the items that impacted our demand, especially around raw material availability. We have some plant closings, those kinds of things that we don't expect to be repeated. So we factored that in.

I think as we qualified in our guidance, we do recognize that there's going to be some degree of uncertainty. We cannot plan for a major force majeure by a supplier like we had this quarter. Things are improving, so we expect some of these things to ease off. For us, I think one of the unique things for us, it's about the shipping. Really, that's the biggest problem for us. We had constraints in supply chain availability. But we actually were able to produce and deliver a lot of our core demand that we had planned. The shipping is the part that really is out of our control.

As I said in the example, we have the material ready and ready to ship. So I think we've captured that in some of the outlook. And frankly, there's potential upside. It's not just downside that we could see in the quarter. We're talking about what's going to happen at the end of the quarter, September, the last 2 weeks of September is what's going to define things. So it's very hard for us to forecast that. And it'd be easy to be very negative, if you want to pile all that, but there's no real foundation for that negativity in terms of concrete facts that we have at our disposal at this point in time. So we'll provide additional update if we need to, but this is our best estimate at the time.

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

Yes. Completely agree with that, Guillermo. The only thing I would add is that the teams across the board have been taking significant pricing actions. And John, we would expect some positive impact during Q4 from pricing actions that have been taken during Q3 and early into Q4. So that should provide us with some improved momentum. And there were some one-off items from an operating cost perspective that could also be a net positive all said and done. But it really is about the shipping.

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Yes. Current -- and to just build on Kevin's comment, current outlook would be, especially in the Adhesive business, that margins would recover by the end of the quarter. The part we don't know is, is there more incremental inflation that will come, we'll have to react to that as it comes.

John Patrick McNulty BMO Capital Markets Equity Research - Analyst

Got it. That's helpful color. And it actually goes to kind of the follow-up question that I had. When you think about the raw material inflation that you saw in the quarter and the price difference from that, I guess, can you quantify that? And maybe you just answered it a little bit on the last answer, but how much of that do you think you actually get back as we look into 4Q?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Yes. I think in raw material, I mean, I would look at what are the core drivers. And then there's noise across the board if you look at the broader things on smaller items. But the 2 big items are the adhesives, and that's very clear across the industry, and it's really about the the ability to pass on and the speed, more than the ability, the speed of passing on. We have been moving on pricing. We've recovered most of the past increases. It's just that the pace of these new pricing -- raw material increases, we just need to catch up with that. So that's being played out.

I think the other big impact and it impacts mostly Life Science and Personal Care but mostly Life Science, is BDO, which is a core raw material, and we are transferring at market. So we're seeing the inflation coming through, and they're moving on pricing, too. Obviously, we're seeing the benefit in the I&S segment at this point in time. But those are the 2 areas that are the biggest drivers. The rest I would classify as just broad-based inflation on secondary raw materials and freight and those kinds of things, which we're also managing through.

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 know you're not taking questions on the adhesive review process, but what would be the priority for the proceeds?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

John, we'll be communicating all that once we have our plans for next year and once there's clarity on what's going to happen. But obviously, growth is a major priority for us as we look at where we want to invest, and our capital allocation to reward our shareholders is also going to be a big part of what we do. So more to come there. But that is a very important part of our longer-term plans for the portfolio.

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

Okay. And although some of us, I guess, would like to see I&S at least deconsolidated, this was probably a pretty good quarter to have it in the fold. What's the outlook for that business? I mean, it had the highest earnings, I think, since you've been reporting that segment. Does it stay up for 1 more quarter, or does it spike back down?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

You know what? I think we see continued strength, at least during the fourth quarter. I think we'll see how things play out starting 2022. I think some of the shipping dynamics and things like that as we look at global supply chains will have an impact to how that the pricing evolves, but I think into 2022, we'll see some softening on pricing there.

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

Okay, but not in the September quarter?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Not in the September quarter. It should continue to be strong.

Operator

And our next question comes from Jeff Zekauskas from JPMorgan.

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

Can you talk about the pricing trends in your Industrial businesses? What were prices up in the quarter? What are the price increases that you're trying to put through? How much were raw materials up? Can you supply some granularity of detail?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Yes. So we've been moving on pricing across the board. I would say the biggest area, obviously, is the adhesive side of the equation. And the issue, as I said, is not the recovery. It's reacting to the new inflation that has come through in the quarter, but we've been moving very aggressively on pricing. I think we didn't cover all of the pricing in the quarter, but a lot of it, I would say, 90% of it, we were able to cover in the quarter, and the same thing for Q4. Our expectation right now, unless there's another wave of raw material inflation is that we'll be caught up by the end of the fourth quarter on the pricing side.

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

That's correct. And again, just to reiterate, most of that is in adhesives. There's a little bit in some of the other businesses, but it's mostly adhesives. And the team there is doing a great job on the pricing front. It's just margin recovery that's going to be the question. And by the end of the Q4, we should be there.

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

I think the other one is, as I mentioned in the prior question, is BDO. We've moved on pricing, and it will be very favorable. It was favorable this quarter. We expect it could be very favorable next quarter. In the I&S side, on the consumer side, we're passing on. There is a little bit more of a lag there, just the way our contracts are set up and how we pass on pricing. So that will take a little bit longer than the fourth quarter to catch up on pricing.

But those are the main two. I think broader-based, freight costs, secondary raw materials and all that, we are moving on pricing as needed. But that's much more specific to product lines, specific product lines, so it's harder to make generic or high-level comments there.

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

What was your organic volume growth in Consumer Specialties, and Industrial Specialties in the quarter?

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

The organic growth...

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

Volume.

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

Yes. So for total volume growth, Kevin, do you have the -- just the organic side of it? Because we had the exits, and we had a few of the other items. No, we'll get back to you with a specific volume number. The majority, if you look at it, versus prior year, as we said in the call, the nutraceutical nutritions were the parts that were up organically. And in the double digits, so very strong. The pharma, I think, it's much more of the comp versus prior quarter. It's not demand per se. It was the inventory building that occurred last year. I think you'll see the next quarter will be much stronger versus the prior year comp for us.

And in the Personal Care, most of the businesses, if you look at hair care, skin, oral, they were slightly down. We're talking basically the markets have been fairly flat. The biggest headwinds for us in volume, really, although it was small, it's been just a significant drop is the hand sanitizers and the Avoca. So net-net, we didn't have a lot of organic growth. But within each segments, we had significant variation by segment.

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

That's right, Guillermo. And total company is organic volume growth is up 10% year-over-year with the Industrial piece being up more than 10%. And like you said, due to some hand sanitizer, Avoca and some other items on the consumer side, driving that part of the equation. But overall, up 10% year-over-year.

Operator

And our next question comes from David Begleiter from Deutsche Bank.

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

Guillermo, as we approach 2022, do you have an early view on how we should think about next year's earnings cadence versus this year?

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

I think overall demand and the overall conditions are still very favorable. As you heard in the call, I mean, we're really talking about reacting to some of these dynamics. If I look at the longer-term dynamics for the business, is they're all very positive. So as we look at 2021, we'll have to see how the supply chain situation, especially the ocean freight, I think that's going to take the longest to clarify how it improves. I think raw materials, barring a big storm or something that causes a supply disruption across the entire industry, we should continue to see recovery in that part of it.

So our focus is going to be more on normalizing our business activity around the growth. And that means organic growth is the top priority, and it's about innovation and what we're going to be launching. That's going to be a lot of the focus of what we want to cover in our Investor Day. But it's really focusing on some of those longer-term dynamics.

And we're very excited. In that side, we've been making significant progress. Look at the R&D portfolio changes that we've made as we go into the back end of the fourth quarter and into the early part of 2022, we're going to be making a lot of significant launches of new products, and that's when the really exciting time for us. So more to come there, but we're very positive overall in terms of the longer-term outlook. I think the supply chain is the part, like everybody else, we're going to have to manage through.

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

Very good. And just on Schülke, what did it add in Q3? And what do you think will add in Q4 on both sales and EBITDA?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Yes. So Kevin, you might want to provide the numbers out. What I would qualify, this first quarter, obviously, we had it 2 months, but just the normal transitions. It wasn't the ongoing run rate impact, so it was slightly lower just in terms of inventory transitions and all the normal integration activities. But for the next quarter, it should be more of a normal quarter. But Kevin, you want to provide a little bit of color there?

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

Yes. On the EBITDA front, Dave, it will be high single digits for the 5 months that we've owned it. Again, as Guillermo indicated, you've got some initial costs on an upfront basis there that we've been dealing with, just normal transition stuff. But then more normalized in Q4 from an overall perspective. But you think high single digits for this full year impact. And Q4 revenues are going to be, call it, mid-to-high 20s, probably for that business, give or take.

Operator

And our next question comes from Mike Sison from Wells Fargo.

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

In terms of your guidance for 2021, the \$570 million, \$590 million -- and maybe I apologize if I didn't understand your comments, but does that include some degree of negatives from the key risk? I recall that it was something like \$5 million to \$10 million in the third. So are you including sort of a negative hit in that \$570 million to \$590 million?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Yes. So the \$5 million to \$10 million was a Q3 comment, and you saw we have the actual results. I would say for Q3, the actual was slightly higher than the top of the range that we communicated in June 10, maybe \$2 million worse. We have and its offsets. We had positives and better costs and things that offset it, but that's included in the numbers. So the \$570 million to \$590 million is the range.

Without Schülke, it would be in the lower end of the range. With Schülke, which a lot of the numbers now and consensus are more built with Schülke. So the Schülke would be more in the middle. And as I said, the part that we are not forecasting because it's very difficult to predict the unknown is any major force majeure shutdowns of major raw material availability issue that's not on the radar screen, would not be included there. And I do think there is a plus/minus potential on the revenue side because of the supply chain challenges. And we'll monitor that during the quarter and report out if there's any need to give any communication.

But we have a lot of pent-up demand. And as we saw this month, we didn't have a raw material availability issue for missed orders. It was sitting in warehouses ready to load. The material was in warehouses by mid-month and did not get invoiced. And it really shows, I think ocean shipping reliability has dropped to less than 25%. And that's the biggest impact, and there's no way we can forecast that.

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

Got it. And then for the fourth...

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

Mike, the teams are taking into account what new knowledge we have. So as this has progressed over the last several months, each of the business units has tweaked their processes to do what they can to offset and mitigate some of these unknowns. And that said, the unknown, unknowns, we still don't know, and we can't forecast. But we have forecasted for Q4 what we believe to be our best estimate of what's going to happen. And to Guillermo's point, if we see some big negatives or big positives, either of which could happen coming out of that, we'll let you know. I mean we'll update if it's appropriate to do so.

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

Got it. And then in terms of Consumer Specialties for the fourth quarter, excluding the 25 or mid-20s in Schülke, will organic sales growth turn positive? And then if you think about that business into '22, how do you feel about sort of turning the quarter and generating some organic growth?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Yes. just to give some color on the longer-term outlook for the Consumer side, and I'll go segment by segment. I think pharma never really dropped so the recovery here is just the continued growth market plus several 100 basis points that we feel that we can achieve. I think the dynamics and outlook is that, that's going to continue. Obviously, the comp this year because of COVID dynamics last year, we're going to have several quarters that the behaviors of when inventory was built was different, but we see continued momentum there.

As Kevin mentioned, the nutraceutical business the market has remained strong, and the issues we had last year were ours. I think you're starting to see just a good recovery. The teams have really got new business. Its margins are improving. This is just hard work from the team, and it's starting to pay off. And we do see recovery in the nutrition side of the equation. So outlook seems very, very good. But I wouldn't say it's a recovery of the market. It's -- the markets are good, and it's really how we play them.

In Personal Care, I do think we're going to start seeing unless something turns around from the pandemic side, if the vaccination and -- continues to roll out, and we continue to see just a phased opening we will see recovery. We're -- as I mentioned, we're already starting to see it in the U.S. Hair care, for example, demand in the U.S. is strengthening and that is as a result of the opening. So we hope that, that will continue. Europe probably will be the next, and then it will carry around. So more positive momentum for us.

I think we will have behind us, the hand sanitizer dynamics of last year and this year. Next year will not be there, so that won't be a headwind for us. So it's really going to be more about the demand recovery and the new product launches. We have a lot of new products that we're going to be launching, so we feel very good about the Personal Care side of the equation.

And Industrial, I think the big question for industrial as demand continues to be strong is as we hit the seasonal low that usually comes in our Q1 and Q2, will it be stronger than normal, because there's a lot of pent-up demand in projects. So my outlook right now would be that it will probably be stronger than normal because of that pent-up demand. So overall, it's really going to be dependent on the supply chain questions. Remember, our supply for a lot of these products come out of the U.S. and Europe. So shipping -- the issues from China, the U.S. are not what impacts us. It's more shipping U.S. out and Europe out. This quarter, the biggest challenge in shipping was Europe and/or the European ports were the biggest problem for us. So as those things open up into next year, that will be favorable for us.

Operator

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

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

I wanted to ask a couple of questions on your Coatings business. You've mentioned that for now, DIY and contractor demand remains pretty strong in architectural coatings. Are your additives used more intensively in the types of higher-end paints that are used by DIY-ers, such that if we are expecting to see DIY demand come off and contractor activity improve, that, that could actually drag on your additive sales into the coatings market?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

So if you look at our additive coatings, the reology is the biggest one, and that's both the cellulose, HEC being the major driver. And then in the synthetics, it would be the Aquaflow. Aquaflow goes more into the DIY. HEC is broad-based across the board. Demand continues to be very strong. We are seeing the DIY market starting to stabilize relative to a very strong prior year. It's still very strong. We are pretty global, and we're very broad-based in terms of the customer base. Some customers are more DIY-focused. Others are mixed. Some are more contractor-focused. So we'll see a little bit of that dynamic of the contractor market, probably being the stronger part of the portfolio as we go into next year.

I will say, HEC, as an example, the entire market is very tight, running out of capacity. So pricing is going up. So we are going to be investing for added capacity and incremental and more fundamental capacity additions in that area. But the industry is tight, and especially given the strong demand for cellulose, both from the recovery of the markets as well as cellulose and many of the consumer markets, obviously, more natural-based products, the demand and interest from new applications is still very high.

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

All right. And then not really a question on the adhesives process, but just wondering if there will be any stranded costs associated with a potential divestiture there. Can you quantify that and maybe discuss what actions you would be taking in order to counteract those costs?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Right. So we are taking actions in terms of our transformation of our portfolio. That's the big theme for our Investor Day as we look at it, becoming much more of an additive ingredient company, less petrochemical-based, more natural-based. So this is going to become a much different company with different dynamics. We are factoring all these issues into some of our plans. If you look at actions we're taking, the Schülke acquisition, we're planning to grow and replace the impact. So all that will be factored in, and we'll communicate more at the appropriate time. But we want to present the full picture of what we want to do and what the company is becoming as we do this transformation.

Operator

And our next question comes from Laurence Alexander from Jefferies.

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

2 questions. First, how are you thinking about lumpiness for the next 4 to 8 quarters compared to your normal lumpiness in incremental margins? And secondly, as we think about the innovation tailwinds in 2022, is it kind of setting a new cadence for the firm? Or is it going to be significantly above or below normal?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

So to your first question on just the demand outlooks, and I'm assuming from your question, it's more around plant loadings and some of the lumpiness that's in the...

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

If it helps, I'm really just getting at the level of unpredictability. It used to be sort of you'd have like a 2% lumpiness. I think you called out like 3% to 4% just on logistics. So how do you think about the total swing factors quarter-by-quarter in the current environment and what it normalizes?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Yes. Okay. So the bigger lumpiness that we're seeing right now would have been manufacturing and loading of our plants more than the supply chain cost, logistics cost. I think that's not going to be as lumpy as it's inflating, and we're managing through that. But with regards to our manufacturing side, a lot of our demand is very strong in many of our products and we're running the plants full out. HEC is a great example. I mean, the market is very tight at this point in time.

So from an operating and some of the lumpiness that used to come from that, that will level off because we'll be producing as much as we can across the year. So the issue is really going to be more about the demand side of the equation in terms of revenue, and as I said, especially on the industrial side, I do think that we're going to see continued strength into the first and second quarter, which tend to be from a lumpiness perspective, where a lot of the seasonality comes in, and we might not see as much seasonality this year.

And then the second question on innovation. I think the issue now is the pace of launch. As we've talked in last calls, we've changed the portfolio. There's a lot of activity. What we're focusing right now is accelerating, which are the areas that we can accelerate, launch a lot of new products. If you look at some of the trends in Personal Care, especially around ESG, it is starting to get more (inaudible). And most of what we're doing is really in that lane. So it's about launching them and then working it through customers. So a lot of new innovations, very excited about the portfolio there.

Operator

And our next question comes from Vincent Anderson from Stifel.

Vincent Alwardt Anderson Stifel, Nicolaus & Company, Incorporated, Research Division - Associate

So I just wanted to touch on Avoca quickly. How much of that drag currently is a fixed cost issue? And at what point does it make more sense to maybe just walk away from clary sage for a while, contract the capacity out and then until you find a better long term solution?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Right. Yes. So I would say, the issue is, as you pointed out, it's on the clary line side of the portfolio. The team is developing new business, new applications. So that part of the equation is going well. Actually, last year, it was more of the production loading this year. We've worked off inventory, so production has stabilized. The issue is more, it's a lumpier order pattern, the bigger customers that place bigger orders. As an example, the fourth quarter, there is some very strong orders in that part of the portfolio. So we're monitoring those very closely, especially around shipping. A lot of that goes to Europe and other regions. So it's really about monitoring that.

I think that's stabilizing. I think the longer-term view is growth and innovation is going to come through new applications, and that's what the team is working on. And we are making very good progress there.

Vincent Alwardt Anderson Stifel, Nicolaus & Company, Incorporated, Research Division - Associate

Okay. Great. So yes, just more of an order timing perspective. And then I guess, just quickly, to end on feeling a bit more forward-looking. In the flavors world, as an example, there are some pretty obvious products you kind of need just to have a seat at the table in customer conversations. Is there anything like that in nutrition that you're lacking in that your product pipeline, development pipeline, is specifically geared towards trying to address?

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Yes. So if you look at the nutrition side of it, a lot of the growth that we're focused on right now is on plant-based protein. So a lot of the cellulosic products and other additives that we have for that area, that's growing very well. As we look at our markets, pharma, personal care, and coatings are like the major ones. This would be that second-tier of markets where we leverage the additive and innovation activities from these bigger parts of the portfolio. So we continue to see good opportunities there, but this is not our major business. It is a secondary market. We're not in the food and flavors. That's not the core of what we do.

Operator

And I'm showing no further questions. I would now like to turn the call back over to Guillermo Novo for closing remarks.

Guillermo Novo Ashland Global Holdings Inc. - Chairman & CEO

Okay. Thank you. Well, I want to thank everyone for your interest. As I hope you've seen the challenges for this quarter and for the near term is about some of these external dynamics. But if you look at the some of the longer-term trends and outlooks, we're very excited. I think we're in very good position. And as I said, the teams are really doing a great job in managing through this continued uncertain environment. But thank you very much, and we look forward to talking to you in the coming weeks.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021 Refinitiv. All Rights Reserved.