PARTICIPANTS

Corporate Participants

Jason L. Thompson – Director, Investor Relations, Ashland, Inc.
John E. Panichella – COO & President-Ashland Specialty Ingredients
Lamar M. Chambers – Chief Financial Officer & Senior Vice President
James J. O'Brien – Chairman & Chief Executive Officer

Other Participants

John McNulty – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Laurence Alexander – Analyst, Jefferies & Co., Inc.
Jeffrey J. Zekauskas – Analyst, JPMorgan Securities LLC
David I. Begleiter – Analyst, Deutsche Bank Securities, Inc.
Michael J. Sison – Analyst, KeyBanc Capital Markets
Michael J. Harrison – Analyst, First Analysis Securities Corp.
Dmitry Silversteyn – Analyst, Longbow Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Ashland Inc. First Quarter Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session with instructions to follow at that time. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to turn the conference over to your host for today, Mr. Jason Thompson, Director of Investor Relations. Sir, you may begin.

Jason L. Thompson, Director, Investor Relations, Ashland, Inc.

Thank you, Ben. Good morning, and welcome to Ashland's first quarter fiscal 2013 conference call and webcast. We released results for the quarter ended December 31, 2012 at approximately 6:00 a.m. Eastern Time today, and this presentation should be viewed in conjunction with the earnings release. These results are preliminary until we file our 10-K.

On the call today are Ashland's Chairman and Chief Executive Officer, Jim O'Brien; Lamar Chambers, Senior Vice President and Chief Financial Officer; and John Panichella, Senior Vice President and Group Operating Officer responsible for Ashland Specialty Ingredients and Ashland Water Technologies.

As shown on slide two, our remarks today will include forward-looking statements as that term is defined in securities laws. We believe any such statements are based on reasonable assumptions, but cannot assure that such expectations will be achieved.

Please also note that during this presentation, we will be discussing adjusted results. We believe this will enhance understanding of our performance by more accurately reflecting our ongoing business.

Please turn to slide three for our first quarter highlights.

In the December 2012 quarter, we reported earnings of $1.27 per share from continuing operations. On adjusted for key items, EPS was $1.12, as compared with $1.20 in the year-ago quarter. We acquired ISP on August 23, 2011, and the prior year includes a full quarter of the ISP results and related financing. Sales during the quarter were $1.9 billion. When we normalized for currency and adjusted for divestitures and joint ventures, sales would have been flat with the prior year quarter.

I'll note that our fiscal first quarter is our seasonally weakest, coupled with this typical seasonality was a very soft month of December impacting Specialty Ingredients. Our adjusted EBITDA was $268 million, which was 11% below the prior year. During the quarter, we took up $31 million loss on straight guar, $6 million higher than the $25 million loss we previously described at our Analyst Day in early December. This includes an inventory write-down as well as some transactional losses on the higher cost inventory. Total after-tax guar EPS impact was $0.25 per share. Excluding this effect, adjusted EPS would have been up 14% versus prior year.

We have addressed the straight guar issue and it is behind us. Outside of guar, we experienced reduced demand in energy, coatings and construction most notably during the latter half of December. For the remainder of our business, we had mixed results.

Water Technologies saw year-over-year decline in sales and volume, offset by an increase in gross profit margin due to a stronger business mix. Performance Materials was negatively affected by reduced margins in the elastomers business and weakness in the European economy. Consumer Markets EBITDA increased by 34% year-over-year, due to lower raw material costs and a strong quarter for the international business.

Slide four details our key items. In total, three key items had a net favorable EPS impact on continuing operations of $0.15 in the December 2012 quarter. The first key item is an insurance settlement resulting in a $22 million gain or a positive $0.16 per share due to a business interruption insurance claim. We expect to receive the cash for this in the second quarter. This is related to a supply disruption in our Specialty Ingredients site in Calvert City that occurred in 2011. The settlement was for damages incurred, while the normal source of a key raw material was disrupted.

The supply chain and associated cost structure was back to normal for the full December quarter. The second key item is a $5 million after-tax charge or a negative $0.06 per share related to various cost restructuring efforts. Roughly one-third of this charge stemmed from plant rationalization projects, which when completed should lead to better utilization rates and improved fixed cost absorption. The remaining two-thirds is related to the ISP integration.

Lastly, we had a tax benefit of $4 million or a positive $0.05 per share due to a deferred tax adjustment related to foreign corporate income tax rate changes. In the year ago quarter, two key items combined for a net unfavorable impact on earnings or $0.44 per share. To aid in your analysis versus the peer group, Ashland's results included $29 million of intangible amortization expense during the December 2012 quarter. We carry higher than average amortization due to our corporate transformation and prior acquisitions. Without this amortization, earnings would be roughly $0.25 higher or $1.37 per share.

Please turn to slide five for Ashland's adjusted results. Ashland's December quarter sales decreased 3% over the prior year to $1.9 billion. We did not achieve the sales growth we were expecting due to softness across three of the four business units. Sales declined 9% sequentially. December is our seasonally weakest quarter, which accounts for some of this decline. We continue to experience weakness in our more commoditized products, including straight guar, solvents and elastomers, but we also had volume declines in our coatings and construction segments during the month of December. Gross profit as a percent of sales was 27.6%. Excluding the loss on straight guar in the quarter, gross profit margin would have been up 100 basis points to 29.3%.

Selling, general and administrative, and research and development expenses – collectively referred to as SG&A – was up slightly to $368 million. EBITDA of $268 million was 11% below the prior year and down 23% sequentially. EBITDA margin was 14.3% compared to 15.6% in the prior year.

Now turn to slide six to review our volume trends. This chart shows underlying volume trends on a normalized and rolling four quarters basis. By totaling the trailing four quarters for each period, we are eliminating seasonality and showing yearly growth. The data have been normalized for acquisitions, divestitures and joint ventures. As shown here, volumes in Specialty Ingredients flattened out in recent quarters. We believe this is in part due to temporary issues. John will elaborate on this later.

Performance Materials had been previously trending downward, primarily due to reduced demand in Europe and the emerging regions. The trend has recently reversed due to a strengthening North American environment. Water Technologies and Consumer Markets have started to show improvement with new leadership in place in the Water Technologies business, we are focused on improving volumes over the next few quarters.

Now, let's turn to slide seven for Ashland's overall EBITDA bridge. This chart shows what led to the December quarter's performance as compared with the year ago period. Margin declines in Specialty Ingredients and the Performance Materials drove the year-over-year decrease in EBITDA. Our margin decline in Specialty Ingredients was primarily concentrated in our straight guar and intermediates and solvents businesses. Performance Materials had a tough comp to the prior year quarter where elastomers benefited $10 million to $12 million due to pricing. SG&A which is adjusted for currency translation negatively affected the EBITDA by $6 million. Currency translation represented a $5 million headwind to EBITDA. Altogether, the EBITDA decreased by $33 million compared to a year ago.

Now let's turn to slide eight. Total liquidity which is cash plus available revolver and AR capacity was $1.4 billion at quarter end. It paid down roughly $40 million of debt during the quarter, reducing our cash balance to $488 million. Our gross debt remained at $3.6 billion and our net debt remained at $3.1 billion. I'll remind everyone that we have a long-term targeted gross debt-to-EBITDA ratio of two times. As we generate cash throughout the year, we expect to progress toward meeting this goal.

I'll now turn the presentation over to John Panichella and ask you to turn to slide nine.

John E. Panichella, COO & President-Ashland Specialty Ingredients

Thank you, Jason. Good morning, everyone. Our fiscal first quarter results did not meet our expectations. This underperformance was due to a volume issue, not a margin issue. We experienced lower than expected volumes in our energy, coatings, and construction businesses, particularly during the last two weeks of December. In addition, we had a higher than anticipated loss on straight guar for the quarter. We will go into detail on guar and energy in a few minutes.

Specialty Ingredients sales decreased 1% to $622 million versus the prior year. There were several factors contributing to this sales decline. Coatings and construction sales and volumes were both down year-over-year. Both businesses experienced destocking among several large distributors and customers, primarily within emerging markets. We typically see modest declines in these businesses at this time of the year; however, this year was significantly lower as a result of year-end order patterns.

We also saw sales decline in our intermediates and solvents business, primarily in emerging markets. The drop in sales was due to pricing and is consistent with what we have communicated on previous earnings calls. In addition, the year ago quarter includes $6 million in sales from a facility in Jiangmen, China that we closed during the year. We are disappointed with the overall results during the quarter, which were below our growth expectations.

On a positive note, we saw year-over-year sales and gross profit increases in our pharmaceutical, oral and hair care, non-energy, non-guar energy, and specialties businesses. Gross profit as a percent of sales was 27.5%, 590 basis points below the prior year. This year-over-year drop is due almost exclusively to loss on straight guar and intermediates and solvents pricing.

SG&A was $121 million in the quarter, which is down sequentially by $6 million. Overall, EBITDA fell 28% versus the prior year to $116 million and EBITDA as a percent of sales was 18.6%. Excluding the loss, the straight guar losses, EBITDA margins would have been about 24%, which is roughly in line with our near-term expectations.

Slide 10 shows Specialty Ingredients' EBITDA bridge. The $31 million loss on straight guar was the largest contributor to the year-over-year decline in EBITDA, which is captured in the margin category on the slide. Gross profit in the year ago period for our straight guar product line was $7 million. The net effect to EBITDA on a year-over-year basis due to straight guar is $38 million.

Hurricane Sandy affected operations at a few of our East Coast plants, which reduced EBITDA by $2 million. Improved business mix largely offset the effect of lower overall volumes. Several of our higher margin businesses did well, but we saw compression in our low-margin intermediates and solvents product lines. Excluding the loss on straight guar and intermediates and solvents pricing, EBITDA would have been flat.

SG&A adjusted for currency was a $5 million headwind to EBITDA. In addition, currency translation negatively affected EBITDA by $4 million. In total, EBITDA was down $44 million over the year ago December quarter.

Please turn to slide 11. We mentioned during our December 4th Analyst Day that we expected to incur a $25 million loss on straight guar in the first quarter. This estimate was based on market conditions at that time. Through the month of December price continued to move against us ultimately increasing the loss to $31 million. As of today, we have orders for all remaining material and expect two thirds to be shipped by the end of the month, with the remainder shipped by the end of the quarter.

To make it clear because of the lower or cost or market adjustment, we expect to generate no margin from straight guar sales during the second quarter. We have taken several steps to significantly reduce risk associated with the straight guar business. First, we work directly with our suppliers and customers to improve supply in commercial agreements. This enables us to mitigate the inherent risk in this volatile market. Second, we affirmed up our supply chain processes to optimize inventory levels. As a result, we have reduced inventory levels from three months to one-month and expect to manage at this level going forward. We feel these measures will dramatically reduce earnings volatility in this business.

I would like to remind you that the guar dynamics differ by end product. We sell two main types of guar. Our straight guar product lines are more commoditized and experienced dramatic declines in volume over the prior-year quarter. We expected this and have discussed it at length in previous calls. The second type is derivatized guar, which are highly differentiated, more technically advanced products. Volumes on derivatives were down relative to the prior year, but profitability was up on strong pricing. We expect underlying demand for these products to return to normal levels toward the end of the second quarter as our customers receive 2013 project funding.

Please turn slide 12 and I'll give you an outlook on the other parts of our business.

These are the key areas of our strategy that will support growth. We described each of these in detail at our Analyst Day. Despite the difficult quarter, we remain on track in most of these areas. Our top line strategy is to grow within key segments, strategic accounts, new products and emerging regions. We continue to improve both the top line and profitability on a year-over-year basis in our pharmaceutical and personal care businesses. Coatings, another key segment for growth, experienced some softness in the quarter due primarily to emerging markets. The broader HEC market for coatings has experienced weakness over the past few quarters. This market does exhibit some volatility from quarter-to-quarter, but historically it has grown 4% to 5% annually.

We expect the market will return to the historical trend, but we are cautious about demand for our coatings HEC products in the second quarter. We saw solid growth in our top 40 strategic accounts and new products during the quarter with sales up 11% and 12% respectively. We are pleased with this performance.

Emerging markets is an area where we failed to meet our growth expectations, especially during the month of December. One example is with our HEC product line sold into the emerging regions of Latin America, Eastern Europe and Middle-East Africa, where we saw significant declines. We did see sales growth in North America.

Our construction business was also affected by weak demand in the emerging markets. We did not anticipate weakness in these regions in either of these product lines and do not expect that it reflects any long-term trend. We remain confident in the underlying trends that support growth in the emerging markets but do expect some volatility as these trends play out.

In the near-term, we anticipate two headwinds affecting Specialty Ingredients. The first is continued weakness in emerging markets in Europe. The second is related to the intermediates and solvents product lines. We have seen reduced price in these commodities due to softer demand and capacity expansion by our competitors. This was discussed at both our 2012 fiscal fourth quarter earnings call and previous analyst days. For the most part, this continues to play out as expected. As a result of these near-term headwinds and straight guar sale generating no margin, we expect our overall second quarter sales to be relatively flat with the prior year quarter.

We continue to expect our differentiated, more technically advanced businesses, such as pharmaceutical and personal care will remain strong. We do expect continued weakness in our more commoditized product line.

I'll now turn the presentation over to Lamar, who will cover the Water Technologies business on slide 13.

Lamar M. Chambers, Chief Financial Officer & Senior Vice President

Thank you, John, and good morning, everyone. While still weak versus the prior year, Water Technologies' performance slightly improved over the September quarter. Volumes were down 1% versus the prior year, and sales of $421 million were down 6% from the prior year. Normalizing for currency effects and divestitures, both sales and volumes would have been roughly flat year-over-year. Gross profit margin increased 100 basis points from the prior quarter due to strong pricing and mix. SG&A of $125 million was essentially flat with the September quarter.

At $34 million, EBITDA increased 3% sequentially, but was down 15% versus the prior year. EBITDA as a percent of sales was 8.1%. In total, recent performance in Water Technologies has stabilized. Geographically, Latin America remains strong and all other regions remain soft.

We have new leadership in place and actions are being taken today to improve this business. Among these are improving sales efficiency, increasing focus on large multinational customers, incorporating strict contract management procedures and pricing management. We expect to see benefits from these actions over the next few quarters. With new management employees, we are examining our longer term strategy, including our operating model and cost structure, and we expect to share more detail during our March quarter earnings presentation.

Now let's turn to the bridge on slide 14. Excluding divestitures, volumes were slightly higher versus prior year. Margin was a tailwind in the quarter driven by price. When normalized for currency, higher SG&A expenses more than offset this benefit. Currency translation negatively affected EBITDA by $2 million. The other consists of our divested North American lubes and commercial businesses. In total, EBITDA decreased $6 million from the year ago quarter.

Please turn to slide 15. Performance Materials reported volume and sales were both down 9% from the year ago quarter. When we exclude the effects of the divested PVAc business, volumes were flat year-over-year. Sequentially, volumes were down 6%, roughly in line with normal seasonality. Overall, sales were $345 million. Normalizing for currency and adjusting for business divestitures, sales would have been down 4% from the prior year.

We achieved gross profit as a percent of sales of 15.7%, a 350 basis point decline from the prior year. For Performance Materials in total, we view normalized gross profit at current demand levels as being roughly in line with these results. This level varies for some degree based on normal seasonality.

I'll remind you that the year ago quarter does include a $10 million to $12 million benefit from elastomers due to declining butadiene costs. Going forward, we expect the elastomers business to be affected by three different drivers. First, we expect butadiene costs to continue taking up. As we've mentioned before, we have a four to six week lag on price, which we would expect to impact margins slightly. Second, replacement tire market remains weak. And third, low-cost imports continue to influence the market. As a result, we expect second quarter elastomers volume to be roughly in line with Q1.

Our composites business continues to be impacted by a weakness in Europe, China and Brazil. This was somewhat offset by a year-over-year improvement in North America due to the improving construction market. SG&A was $44 million, or 2% below the year ago quarter, and in line with expectations.

While not explicitly shown on this slide, we had a roughly $2 million year-over-year decline in equity income from our Casting Solutions joint venture. This shows up within Performance Materials' operating income. Most of this decline is due to the significantly reduced demand in the European transportation market, and actions are currently being taken to realign the joint ventures cost structure with existing demand levels. In total, Performance Materials' EBITDA was $28 million during the December quarter with EBITDA margins of 8.1%.

Now let's turn to slide 16. On this bridge, the effects of the ASK Chemicals joint venture and the divested PVAc business are captured in the Other category. Other was $3 million headwind to EBITDA.

Excluding those effects, decreased elastomer margin accounted for essentially all of decline in EBITDA year-over-year, which was due to butadiene effects. The volume declines in Europe led to a $3 million reduction to EBITDA. SG&A adjusted per currency was down $1 million. In total, EBITDA fell $17 million during the quarter, most of which is attributed to the unusually higher earnings generated by the elastomers business in the year ago quarter.

Now let's go to Consumer Markets on slide 17. Consumer Markets had a strong quarter with significant expansion in earnings due to volume increases in our international business and lower material costs. Lubricant volumes were up 1% versus the prior year and down 8% sequentially in line with normal seasonal declines.

Our international business had a record first quarter with volume increases of 13% over the prior year. This business has seen consistent earnings growth over the past several quarters, most notably in Asia and Latin America. Sales of $481 million were up 1% versus prior year. Gross profit as a percent of sales increased 480 basis points to 30.1%.

Gross profit has improved due to a number of raw material decreases announced over the past eight months. The most recent announcement was in early January and the effects will begin to take place in the March quarter. Some of this benefit will be eroded through competitive pricing adjustments. As we've said in the past, we expect gross profit percent to be in the high 20% range.

SG&A was up $6 million, or 8% from the prior year. I'll remind everyone that our advertising spend during the December quarter is typically our lowest and that we would expect to increase this on a dollar basis ahead of the December driving season. Overall, Consumer Markets generated EBITDA of $75 million, a 34% increase over the prior year. We achieved EBITDA margins of 15.6%.

Now please turn to slide 18 for Consumer Markets EBITDA bridge. Higher margins were the primary driver of the year-over-year increase in EBITDA accounting for $19 million of EBITDA growth. This was driven by falling input cost as previously discussed. Volume and mix added $4 million to EBITDA, primarily due to strong International volumes. The Other category captures equity income from our joint ventures and contributed $1 million of the EBITDA increase for the quarter. In total, it was a strong quarter for Consumer Markets with EBITDA increasing by $19 million from the prior year.

Please turn to slide 19 for a few comments on corporate items. Capital expenditure were $51 million for the December 2012 quarter and our 2013 forecast remains $385 million. We expect to spend a little over half of this in Specialty Ingredients with most of the growth capital concentrated there. Net interest expense for the quarter was $44 million. This is in line with the $180 million annual run rate we mentioned at our Analyst Day in early December.

Our effective tax rate for the quarter was 24% excluding the effects of key items. This is slightly below our fiscal 2013 estimate of 26% to 28% which remains unchanged for the full year. Trade working capital for the quarter averaged 17.3% of annualized sales. This is roughly in line with our target of 17% and a 100 basis point improvement from the year ago quarter.

We generated $30 million of free cash flow, which is unusually high for the December quarter. For example, we had a use of cash of $133 million in the prior year quarter.

Now I'll turn the presentation over to Jim O'Brien for his closing comments starting on slide 20.

James J. O'Brien, Chairman & Chief Executive Officer

Thanks, Lamar, and good morning, everyone. As you heard this morning, Ashland had a challenging quarter. Our financial results came in below our expectations due to weak demand in some key markets and the loss on straight-guar. Three of our four commercial units experienced year-over-year decline in sales. Most of this was in the more commoditized product lines, including straight-guar, solvents and elastomers. We also saw volume declines in two of our more growth-oriented businesses; coatings and construction.

During the last two weeks of December, a number of our customers curtailed purchasing, particularly in the emerging markets. They have returned to more normal purchasing patterns in January.

Sales for the quarter declined slightly to $1.9 billion, down 3% from the prior year. However, when we normalize for currency and divestitures, sales would have been flat. Specialty Ingredients had a weak December and a quarter that did not meet our expectations. Performance in the quarter was a volume issue and not a margin issue. The loss on straight-guar was more than we anticipated, and volumes in our coatings and construction businesses declined dramatically in the latter half of the month. We did see year-over-year improvement in sales and profitability in key segments such as pharmaceutical, oral and hair care.

Within Water Technologies, both sales and volumes declined compared to the prior year. These were concentrated primarily in our low margin product lines. Gross profit margin in this unit improved both year-over-year and sequentially. And we saw a year-over-year growth in our North American packaging and tissue and towel business. We believe the floor has been set for this business, and have confidence that Luis and his leadership team can return it to growth.

Performance Materials continues to be affected by weak economic activity in Europe. Both our composites business and our Casting Solutions joint venture were affected by the slow economy in this region. However, Performance Materials continues to experience strength in North America, due to a rebound in construction market. Supermarkets performed well in the quarter. We had year-over-year improvement in volumes, led by strong results in our international business. We also had same-store sales growth within Valvoline Instant Oil Change. We continue to maintain more normalized margins in line with our longer term expectations.

We achieved EBITDA of $268 million during the quarter, which included a $31 million loss on straight guar and adjusted EPS of $1.12. Excluding the loss on guar, adjusted EPS would have been up 14% year-over-year. It was a strong quarter for cash flow and as you heard from Lamar, we generated $30 million of free cash in a seasonally difficult period. As we mentioned before, we had an insurance settlement and expect to receive the associated cash in the second quarter.

Let's turn to slide 21. January data is showing that Specialty Ingredients is back on track for the second quarter, as order patterns have returned to more normalized levels, I'm encouraged by this, but with only one month of data, I'm cautiously optimistic about the March quarter.

For Performance Materials, we do not expect much improvement in the elastomers business in the second quarter and anticipate overall margins to remain steady at current demand levels.

Water Technologies performance has stabilized. We continue to work on the business model and are hopeful for improvement in the coming quarters. Sequentially, we expect slightly better performance for Consumer Markets, as it continues to improve. At a corporate level, we continue to focus on generating free cash flow, which we are currently directing primarily toward debt reduction. Additionally, we routinely analyze growth investments and other value-creating opportunities.

I would like to reiterate our stance on the straight guar market. I stated at the Analyst Day in early December that we would not participate in a speculative market. We have taken actions during the quarter to minimize the risk in this inherently volatile segment. And I can say that the inventory and earnings volatility issues we have faced over the past several months are behind us.

To wrap it up, I want to reaffirm our commitment to the 2013 objectives laid out on our September earnings call. Our strategy certainly has not changed because of one challenging quarter. We have strong competitive positions in many high growth markets and I firmly believe, we can execute to hit our goals. This positions us well to deliver on our overall 2014 financial targets that we presented at Analyst Day.

With that, we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of John McNulty from Credit Suisse. Your line is open. Please go ahead.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Yeah. Good morning. Just a few questions on the Specialty Ingredients business, I know you don't normally give overly specific guidance on the business, but just because of all the moving parts, trying to think about the base for the second quarter or how we should be thinking about that. In terms of earnings or EBITDA, you did $116 million in the first quarter, it looks like about $33 million, $34 million of that was kind of one time-ish, whether it's write-downs or Sandy. So that kind of moves you to a $150 million run rate. And then, it looks like – if I heard you right, you're looking for flat volumes year-over-year. So that's up, call it, $80 million. So should we be thinking about the base kind of for the second quarter in terms of EBITDA in the kind of $170 million to $180 million range? Is that right kind of a right ballpark to be starting about – thinking about growth going forward?

<A – Jim O'Brien – Ashland, Inc.>: So without giving you a specific number, John, I think that the way you're thinking about is directionally right. The guidance that John gave you in his presentation was that we expect the second quarter to be in line with last year's second quarter. Now, the mix is going to be different because there was a lot of guar in that number. And obviously, as we said, there won't be any guar in the second quarter as far as straight guar. Now, the derivatized guar will pretty much be in line what we expect for that period. So, overall, the growth that we're going to get will be in the pharmaceuticals and hair care and the personal care. And as John also stated, we're expecting the HEC market for coatings to still be a little weak because they haven't kicked into the construction season, and also we're seeing some weakness in the emerging markets. So as those continue to strengthen we think that we hear in the second half, we're hoping that picks up. But if you're going to set your expectations for ASI, I would use last year's second quarter as your best guidance.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Okay. And then just with regard to the de-stocking that you saw in the segment, is there – do you have much color as to where the inventories are at your customers and if there's at any point a need for a restocking phase or were the inventories just too fat to start with and they've just gotten them back down to more normal levels? How should we think about that?

<A – John Panichella – Ashland, Inc.>: Yeah that's why we'd commented on January sales, so we were a little bit surprised by the last two weeks of December. We've gone out and talked to our top 80 distributors and kind of understand where their inventory levels are. And as Jim said, we're cautiously optimistic. January looks to be tracking where we expected it and their buying patterns have returned to normal.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Okay fair enough. And then, just one last question on the raw material front, it looks like you've got a number of moving pieces. On Valvoline, you've got base oil coming down a reasonable amount. On the Water Tech side, you should be seeing propylene, I guess pushing higher. So can you give us a little color as to how we should think about the incremental hits and benefits on these and how they all together may net out?

<A – Jim O'Brien – Ashland, Inc.>: I think on Valvoline, what you've seen as far as the margin expansion because of the pricing is pretty much in line, because you have to give some of that back as it rolls through your own numbers to the market, and that's pretty much taken place.

On the propylene side, as propylene moves through, we'll have to take pricing actions to recover that. So if indeed propylene does move as you stated, then the only avenue we have for recovery will be to move it through the market and that only gives us about a one month lag to get that done.

So overall though, as we look at products based on crude oil, we're concerned that if crude continues to move, that's going to put upward pricing pressure. But at the same time, it seems to be trading within a certain range. So I really can't predict what we'll see in the second quarter, but if we do indeed see increases, we'll have to pass it through.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Okay fair enough. Thanks a lot.

Operator: Thank you. Our next question comes from the line of Laurence Alexander of Jefferies. Your line is open. Please go ahead.

<Q – Laurence Alexander – Jefferies & Co., Inc.>: Good morning. Two questions on Specialty Ingredients. First, were you surprised by the degree of cyclicality or volume lumpiness in the cyclical parts of the business?

<A – John Panichella – Ashland, Inc.>: We predicted the specialty solvents decline. So we weren't very surprised by that. What we were more surprised by is the coatings construction weakness that we saw toward the last couple weeks of December. So the specialty solvents, we had anticipated and it was pretty much in line with what we had expected. It's down year-over-year, but pretty much what we had expected.

<Q – Laurence Alexander – Jefferies & Co., Inc.>: And then just to clarify the prior comment, so when you say that you – we should be thinking about Specialty Ingredients as being flat with Q2 last year, that's on the profit level, not just the sales level, is that right?

<A – John Panichella – Ashland, Inc.>: Yes.

<A – Jim O'Brien – Ashland, Inc.>: That's correct. That was the statement that I made.

<Q – Laurence Alexander – Jefferies & Co., Inc.>: And then with Valvoline, given the trends we've been seeing the last few quarters, do you – what's your sense of possible peak margins in that business and what kind of conditions would you need to see to get back there?

<A – Jim O'Brien – Ashland, Inc.>: I think to see peak margins to get back you're going to need a couple of things. One is a continually falling base stock market, which we don't anticipate. So with that, I wouldn't forecast that. And at the same time, you're going to need a strengthening consumption, which consumption is staying pretty steady, so you don't see a tremendous amount of increase in consumption, although international business is certainly getting additional share and growing with the market. So that's good to see.

But when you look at peak margins, it's really driven by a dramatic fall in base stock, and we have not seen that. We've only had a couple price decreases, which is typical of the growth of the base stock material market, but I would not say that we're in line to have a real big large surge of margin at this point.

<Q – Laurence Alexander – Jefferies & Co., Inc.>: Thank you.

Operator: Thank you. Our next question is from the line of Jeff Zekauskas from JPMorgan. Your line is open. Please go ahead.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Hi good morning.

<A – Jim O'Brien – Ashland, Inc.>: Good morning, Jeff.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Hi. Your adjusted tax rate in the first quarter was a little bit more than 24%, though you're expecting 26% to 28% for the year. Why was the first quarter adjusted tax rate lower than your expectation for your annual tax rate?

<A – Lamar Chambers – Ashland, Inc.>: As we look at our model for the annual estimate of our effective tax rate, there's certain somewhat discrete items that you book in the period that they occur that's incorporated into that total year estimate. As it happened a couple of significant of those discrete items did occur in the first quarter. So that was built into our expectation around the full year tax guidance in the 26%, 28% range, but we benefited from that in the first quarter. So what you should expect to see is the rest of the year will be a little above the first quarter to average out to that mid-20% range.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: These were not prior period adjustments, were they?

<A – Lamar Chambers – Ashland, Inc.>: No, no,

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: No.

<A – Lamar Chambers – Ashland, Inc.>: These were typical adjustments to various tax reserves domestically and internationally and certain credits that flow through on a discrete basis. So nothing non-recurring I guess you'd say, but still booked in the discrete period.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Okay. And in terms of intermediates and solvents prices, can you give us an idea of sort of where I guess Butanediol prices are and whether the comparisons appear to get worse or to get better as we go into the second quarter?

<A – John Panichella – Ashland, Inc.>: Yeah. So I think we said that sales dropped about $9 million primarily due to pricing.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Yeah.

<A – John Panichella – Ashland, Inc.>: And going forward into Q2, we see that about the same. May be I would say that you got to figure on something pretty similar for Q2. We don't think it'll be any worse.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Okay. And then lastly, you have very aggressive capital expenditure targets for 2013, though not really very much has been spent this year so far. Does the increase in capital expenditures have any effect on your margins in Specialty Ingredients, or is it really completely independent?

<A – Lamar Chambers – Ashland, Inc.>: Just as a reminder, our total CapEx expectations for this year is $385 million. We spent about just over $50 million in the first quarter. That's not unusual for our typical timing. We usually spend a little – not quite on an annual run rate in the first two to three quarters actually of the year. But in terms of the impact on margins, as we roll in those new projects, it should have very, very minimal impact, nothing really significant enough; I don't think that would impact your models.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Okay, good. Thank you very much.

<A – Jim O'Brien – Ashland, Inc.>: Jeff, this is Jim.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Sure.

<A – Jim O'Brien – Ashland, Inc.>: Just to expand a bit on that question. The expenditures we're making both for 2013 and the first part of 2014 is to help build toward our expectations for our 2014 plan.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Yeah.

<A – Jim O'Brien – Ashland, Inc.>: So those are critical expansions in our growth markets so that we can beat the demand as we see it going into 2014. So these expenditures are really the linchpin of how we plan to get to our 2014 goal.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Thank you very much.

Operator: Thank you. Our next question comes from the line of David Begleiter from Deutsche Bank. Your line is open. Please go ahead.

<Q – David Begleiter – Deutsche Bank Securities, Inc.>: Thank you. Jim and John, you mentioned in Water Technologies some of the actions underway, including improved sales efficiencies. What exactly is that?

<A – John Panichella – Ashland, Inc.>: So, what we're doing is we're refocusing the business in some of the key markets we think we can grow and we're trying to optimize the resources, so we have a pretty big commercial team there. And so, we're trying to optimize those resources around the model to have them focus on the right segments and really optimize our cost structure around those segments.

<Q – David Begleiter – Deutsche Bank Securities, Inc.>: And John, can you remind us of your near midterm margin goals in that segment?

<A – John Panichella – Ashland, Inc.>: So our 2014 margin goals are, I think, 10-ish% something like that.

<Q – David Begleiter – Deutsche Bank Securities, Inc.>: Very good. And just John, just in the HEC market, anything structural that's occurred there to underpin the weakness or is that just year-end activity?

<A – John Panichella – Ashland, Inc.>: We saw some real significant declines around a couple large customers and primarily in emerging regions. Now there has been some consolidation around some large customers, Sherwin-Williams buying Comex, PPG acquiring Akzo's business. Some distributors that bought out some large competitors that have interrupted some of our orders due to supply, restocking on their part. So, we had those kinds of issues. But generally some weak performance in Asia that we don't anticipate will hold for the remainder of the year, we think that will get better.

<Q – David Begleiter – Deutsche Bank Securities, Inc.>: And Jim, just lastly on the stock buyback, given the drop in today's share price, would you be opportunistic at all in the medium term on share buybacks?

<A – Jim O'Brien – Ashland, Inc.>: Well, as we stated in our call that we look every month at ways to improve shareholder value and we do have a stock buyback authorization from the board and that's something that we consider with the board from time to time. And our primary focus is getting our debt down, but if we need to do something else, we could always make a different decision.

<Q – David Begleiter – Deutsche Bank Securities, Inc.>: Thank you.

Operator: Thank you. Our next question is from Mike Sison from KeyBanc. You line is open. Please go ahead.

<Q – Mike Sison – KeyBanc Capital Markets>: Hey. Good morning, guys.

<A – John Panichella – Ashland, Inc.>: Hi Mike.

<Q – Mike Sison – KeyBanc Capital Markets>: Hey, John, when you think about the outlook that you have for fiscal 2013 for Specialty Ingredients heading into the year, given the start to the first quarter, how far are you off? And given that delta, what do you need to do to hit sort of the long-term growth goal in 2014?

<A – John Panichella – Ashland, Inc.>: Yeah, so – what – we feel pretty good about what we talked about in December, we talked to you about four really primary things that drive the growth. Growth with our large multinational customers, we're pretty on track there. Growth with our new products, we're in pretty good shape there. We were surprised by growth in emerging region, although we don't think that's a long-term trend, we do think that the growth in these emerging regions will return. We just did not have that perform as we wanted in the quarter.

And then we had our segment growth and we discussed in the call today that we had a couple segments that were weaker than normal, and coatings and construction we saw weakness. We're somewhat worried about that short term, but I don't think longer term we see any structural issues that'll prevent those businesses from growing. So I think the four key things we talked to you about on growth while we did not get the expectation or get the results we expected in the quarter, we think we're pretty much on track on those key initiatives and that they'll return over the midterm to kind of the targets we discussed.

<Q – Mike Sison – KeyBanc Capital Markets>: So in the second half of 2013, the growth in Specialty Ingredients should sort of mirror the optimism that you had thought you would have, and then in 2014, we should be back on track as well, potentially?

<A – John Panichella – Ashland, Inc.>: Yes. So...

<Q – Mike Sison – KeyBanc Capital Markets>: In terms of the year-over-year growth?

<A – John Panichella – Ashland, Inc.>: Yes. That's what we're thinking. And you got to let us get through the second quarter, as we discussed on the energy guar, straight guar situation, once that kind of plays out, we're thinking the third and fourth quarter net of energy should be pretty consistent with what we had talked about.

<Q – Mike Sison – KeyBanc Capital Markets>: Okay. And Lamar, I think you noted in Valvoline that there is some competitive pricing that is flowing in, but given the price declines in base oil in January as well as November, would the $19 million plus that you saw in margins sort of expand in the coming quarters?

<A – Lamar Chambers – Ashland, Inc.>: I think what we would try to guide you to or at least share with you is our thoughts around a return to more of our long-term expectations on GP percent, which we've – we sized in the high 20% range. So in this past quarter, we were slightly above that, but in that 28%, 29% range is more our long-term expectation at normal volume levels, and that's what we would suggest you'd be thinking about.

<Q – Mike Sison – KeyBanc Capital Markets>: And that assumes this competitive pricing pressure?

<A – Lamar Chambers – Ashland, Inc.>: Yes, it does.

<Q – Mike Sison – KeyBanc Capital Markets>: Okay, great. Thank you.

Operator: Thank you. Our next question is from the line of Mike Harrison from First Analysis. Your line is open. Please go ahead.

<Q – Mike Harrison – First Analysis Securities Corp.>: Hi, good morning.

<A – John Panichella – Ashland, Inc.>: Morning, Mike.

<A – Jim O'Brien – Ashland, Inc.>: Good morning.

<Q – Mike Harrison – First Analysis Securities Corp.>: John, I was hoping you could discuss what you're seeing in terms of underlying oil field demand, and it sounds like the actions that you're taking in guar to mitigate the risk there suggest that you think you can manage that straight guar business. Can you talk a little bit about whether it's still an option to exit the straight guar business and just focus on derivatized guar?

<A – John Panichella – Ashland, Inc.>: Yeah. So speaking about derivatized guar, we're in a pretty good position there. Those products are very differentiated, and we think demand for those products will continue to grow as we anticipated. So we think that that's a pretty good situation and we don't think that that will change much. So our expectation is that that volume will grow and obviously there has been a big change in the raw material cost itself, but our margins will remain healthy in derivatized guar and our volume should grow.

In straight guar, as we talked about, we have taken a lot of steps to mitigate our risk. There's still a lot of volatility in the market and we're not sure on what's going to happen there, as customers look at what options they have there around the product and the volatility and the way they buy it. So that's still a little bit unclear. Based on the strategy we've taken to mitigate our risk, I think in the next quarter or so that'll play out.

<Q – Mike Harrison – First Analysis Securities Corp.>: All right. Jim, I was hoping you could discuss kind of broadly what you're seeing in terms of demand trends. You mentioned emerging from a soft December, maybe some additional details on where you've seen improvement in January. In particular, I was hoping that maybe you could address what you're seeing in construction-related markets and the leverage that Ashland might have to a U.S. housing recovery?

<A – Jim O'Brien – Ashland, Inc.>: Right. When you take a look at the month of December, two things I think really drove the results. One is, the guar write-off was larger than we had hoped. So from that standpoint, guar is – been written down to the market price, it's behind us, and as John described, we have sales already in place for these remaining inventories. So by the end of February, all that inventory should be gone. So that problem will be behind us 100%, and then you have to look at the quarter – our third quarter, the second quarter of the calendar year, that's when we'll start selling straight-guar product again and those profits will start being accrued into our estimates. So that's one point.

The second is construction market. The other surprise for us in December was this destocking that took place the last two weeks of December, and that was primarily in Emerging Markets like Latin America, the Middle East, Africa, not areas that we would primarily have a focus, but it's a big distributor market for us and basically we got no sales. I mean, it just totally got shut off. So as we now look into January, we're seeing those sales come back to a more normal pace. So for whatever reason, December they either did it because of their own working capital requirements or whatever reasons they had, but in January we're starting to see those sales come back.

Now if you would've had those two events, go more typical for December, we wouldn't be talking about it right now. And as I look into the future, the things that are going to matter for us, for our growth, are China and Latin America does have to turn around; and Europe for a big portion of our business wasn't a problem.

So as I look at the coming quarters, what we need to see continue to happen is a strengthening Asia, a strengthening South Americas, more improvement in Europe. But on construction, Performance Materials is going to benefit the United States, and we saw that already. Performance Materials already has shown some improvement in their composites business because of the U.S. recovery in housing.

HEC, we saw that in the – our business in the U.S. – we had growth in the U.S. where the construction market was strengthening. Where we have to see improvement is in the emerging regions of the world, and I think that will come.

And I think as you listen to other people that have talked in their calls or other economists that have described it, we're starting to see some improvement taking place in Asia, hopefully after the Chinese New Year, that will be helpful to us. And in our month of January, we've seen almost all the sales and we're back on track. So, as I look at next quarter, I think we have a very good chance of making that estimate we described as being pretty much on track to last year, which was not a bad quarter. And the reason why it's not better is we have no HECs – I mean, we have no guar sales. So we put another full quarter of guar sales on to the mix and it will be even better. So that won't happen until the third quarter.

<Q – Mike Harrison – First Analysis Securities Corp.>: All right. And then last question I had is on Water Technologies side. It sounds like you categorized demand as strong in Latin America and sort of weakish elsewhere. Just curious for some more detail on what you're seeing in the paper market in Asia, particularly packaging in China, which seems like it can be a little bit of a leading indicator. Any signs of improvement there? Anything you're willing to hang your head on in terms of a pickup in China?

<A – John Panichella – Ashland, Inc.>: This is John. We have a very small share of that packaging segment in Asia. And so, we have it as a targeted area. We didn't see huge growth in the market nor ourselves in that category, but we do think that it's upside for us within Water Technologies just due to our low share in the segment.

<Q – Mike Harrison – First Analysis Securities Corp.>: All right. Thanks very much.

Operator: Thank you. Our next question is from the line of Dmitry Silversteyn of Longbow Research. Your line is open. Please go ahead.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Good morning, guys. A lot of my questions have been answered already, but I'd just like to kind of revisit a couple of things. On the Water Technologies part of the business, the reduction in SG&A and all of the strategies you have around focusing on global customers and doing a better job in how you structure contracts and how quickly you pass through pricing. What would be, by the end of 2014 or 2013, however, whatever timeframe this business has to show you that it can improve, what would be an acceptable level of results from your point of view? Whether you're talking about EBITDA margins or top line growth or SG&A levels, sort of how do we think about the successes and failures of that business as we progress through the year?

<A – Jim O'Brien – Ashland, Inc.>: The one thing that we have seen in this quarter, when Luis come on board, he has focused really on the team at this phase and how they really build a better sales team to try to drive the top line. We've had a couple of critical hires that he has made from the industry, which I was pleased to see. So I think that from his senior team, we're starting to see and rebuild the senior team I think in a manner that will be constructive. From my standpoint, what I have to see this year is an inflection in the top line. I think they worked very hard in their margins, I think they have a decent mix, they have to drive volume. So the whole focus from my standpoint is, can we grow this business, can we get additional share, and can we drive it in a manner that it creates profitability. Now that's always a very difficult thing to achieve. And I think the only way you could do that is by building a team of a higher performing level to deliver that. So I think that's been done now. So as I look at the next quarter – quarter after that, I have to see increase in top line growth.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Okay. So top line growth, it sounds like particularly volume growth as well as success in getting pricing, sounds to me like that's sort of the measure that we have to look at?

<A – Jim O'Brien – Ashland, Inc.>: Yes. That is the measure.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Second question. What was your end of quarter share count on the diluted basis – fully diluted basis?

<A – Lamar Chambers – Ashland, Inc.>: Yes, it's 80 million shares, 80.2 million to be more precise.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Okay. So slightly higher, but that's probably just because of the stocks doing so well. And then finally, you had about I think $15 million in unallocated and other benefit, if you will, in the quarter. I mean, that's been a pretty volatile number to try to get our hands around. How should we think about that line item going forward? I mean, can you go through the couple of pieces that were a large part of that line item and help us check that a little bit better?

<A – Lamar Chambers – Ashland, Inc.>: The single biggest piece there is our pension income that resides in the unallocated and other, it was about $19 million. So that reflects the return on our pension assets and excess of the interest cost as driven by the discount rate. So that spread, it was kind of reset annually based on our actuarial updates. And so that part is very predictable through the rest of the year. The other kinds of things that flow through that unallocated and other tend to be legacy-related items such as, occasionally we'll have some environmental charges, et cetera associated with discontinued businesses where we retained obligations, and those are a little less predictable frankly. But you should expect to see continued income at the unallocated and other level based on – primarily on the pension results.

<Q – Dmitry Silversteyn – Longbow Research LLC>: But is it going to be the tune of the same $19 million a quarter benefit or is that going to diminish?

<A – Lamar Chambers – Ashland, Inc.>: No, that will be consistent. That pension piece will be consistent through the year.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Okay. Thank you very much.

<A – Lamar Chambers – Ashland, Inc.>: Very good.

Operator: Thank you. And it does conclude our Q&A session. I would like to turn the conference back over to Mr. Jason Hobson for any final remarks.

Jason L. Thompson, Director, Investor Relations, Ashland, Inc.

Yeah, I'd just like to thank you for your time this morning and for your interest in Ashland. If you have additional questions, please give me a call at 859-815-3527. Thank you.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect. Have a great rest of the day.