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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ashland Global Holdings Inc. Second Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker for today, Mr. Seth Mrozek. Thank you. Please go ahead, sir.

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

Thank you, Terry. Good morning, everyone, and welcome to Ashland's Second Quarter Fiscal 2020 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 March 31, 2020, at approximately 5:00 p.m. Eastern Time yesterday, May 5. The news release issued last night was furnished to the SEC in 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. The slides can also be found on the Investor Relations section of our website. We encourage you to follow along with the webcast during the call.

Please turn to Slide 2. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our outlook for fiscal year 2020. 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. Please also note that we will be referring to certain actual and projected financial metrics on 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 a review of Ashland's priorities in the current environment and provide an overview of results in the second fiscal quarter. Next, Kevin will provide a more detailed review of financial results for the second fiscal quarter. Guillermo will then discuss the Ashland portfolio and the business unit realignment that was completed during the quarter, in addition to the strategies for each of the business units. Guillermo and Kevin will then review the scenario planning that Ashland has implemented in the wake of the COVID-19 pandemic. Finally Guillermo will close with key accomplishments that have been achieved over the past few months, in addition to providing his thoughts on important next steps. We will then open the line for your questions.

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

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

Thank you, Seth, and good morning to everyone. Before I begin, I'd like to thank everyone for your participation this morning. I hope that everyone is safe and healthy in these unprecedented times.

Since the emergence of the coronavirus in China in January, the Ashland team has worked tirelessly to address the impact of the pandemic. First and foremost, this has meant protecting the health and safety of our employees. Second, we have continued to supply our customers and the critical industries we serve. And third, we have worked to ensure that Ashland is well positioned even in the event of prolonged impact from the pandemic.

Despite all the challenges presented over the last few months, we have maintained a strong focus on advancing our strategic initiatives to restructure Ashland. We have heightened our sense of urgency in executing our transformation as it is doing more than just positioning us for future growth and performance. It is also helping us navigate better through this COVID-19 environment. We have operationalized our new business unit model, and the teams have worked to improve performance across the portfolio. The teams have also refreshed their respective strategies in order to best serve our customers and profitably grow our businesses. We are continuing to drive our self-help actions to improve Ashland's cost structure, performance and cash generation. Kevin will provide additional commentary regarding these efforts a bit later in the call.

Please turn to Slide 6. In summary, Q2 results were generally consistent with our expectations as we experienced a limited impact on demand from the COVID-19 pandemic. While sales were down year-over-year, more than half the decline was due to past known issues, which we are continuing to address. And while the global industrial markets were generally weaker during the quarter, our more resilient consumer-focused businesses performed well. This reflects the more defensive nature of our portfolio. But the Q2 results are not only reflective of the customers and markets we serve, the entire Ashland team demonstrated tremendous leadership in helping us navigate through a challenging global environment. Our global incident management team demonstrated rapid engagement and active management to address real-time issues in health and safety protection, production and supply chain management. They leveraged our COVID-19 learnings from China and applied these best practices across the company in all regions, ensuring our plants operate with minimal disruption and helping implement our work-from-home protocols. We continue to take action to reduce costs, working capital and capital spending in order to conserve cash and maintain flexibility in this environment. I'm incredibly pleased by the team's response during these times, and I'm confident we are well positioned to weather the current storm and emerge a stronger Ashland in the months to come.

Let me now pass the call over to Kevin to review our Q2 results in more detail. Kevin?

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

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 8. Total Ashland sales in the quarter were $610 million, down 9% from the year ago period due to lower sales in all 3 business groups, represented 1 point of this decline. SG&A and R&D costs again declined significantly in the quarter as we realized the positive impact of the cost reduction program as well as new cost actions. In total, Ashland's adjusted EBITDA was $142 million, equal to results in the prior year quarter. Adjusted EPS was $0.84 per share, up $0.01 from the prior year. Adjusted EPS, excluding acquisition amortization, was $1.12 per share, up 4% from the prior year. Adjusted EPS, excluding acquisition amortization, is a new financial metric we are introducing this quarter. While it had been our historical practice to quantify the per share impact of acquisition amortization on after tax earnings, we are now taking the additional step of reporting our per share earnings excluding this noncash expense. We are making this change based on our own internal analysis and feedback from many of our investors. We believe this metric provides a better understanding of our underlying results as it excludes the impact of past acquisitions on current quarter results. Please note that in the 8-K we filed last week with the SEC, we disclosed earnings for the 4 quarters of fiscal 2019 and the first quarter of fiscal 2020 in this manner. We will continue to utilize this metric going forward in our quarterly reporting.

Please turn to Slide 9. As you can see from our financial reporting, we completed the business unit and reporting segment realignment during the March quarter. Going forward, we will be reporting and discussing results for our 3 business groups: Consumer Specialties, Industrial Specialties and Intermediates and Solvents.

First, I'll begin with Consumer Specialties. Sales were $343 million, down 9% from the prior year quarter. Much of this decline was due to the Pharmachem and oral care business losses we experienced last year. More specifically, sales for the life sciences business unit declined by 6%, while sales for personal care and household declined by 13%. Excluding those known business losses, the life sciences and personal care and household businesses performed well. Price/mix was favorable during the quarter, which drove strong improvements in both gross profit margin and adjusted EBITDA margins. Adjusted EBITDA margin in life sciences improved to 28%, while in personal care and household, adjusted EBITDA margin improved to 25%. In total, Consumer Specialties' adjusted EBITDA margin improved by 220 basis points to 26.5%.

Please also note that as a part of the business unit realignment process, we were required to conduct goodwill impairment testing at the new reporting segment level. The outcome of this testing was a noncash impairment expense of $356 million in the personal care and household business unit, reflecting impairment related primarily to Avoca and our oral care business.

Please turn to Slide 10. Turning to Industrial Specialties. Sales were $240 million, down 7% from the prior year quarter. Sales for the Performance Adhesives business unit declined by 4%, while sales for the Specialty Additives business unit declined by 8%. Much of this decline was due to reduced demand in construction, automotive and several performance specialties end markets. Stronger-than-expected coatings demand in North America and EMEA was offset by weakness in Asia, especially China. Price/mix was favorable during the quarter, though unfavorable fixed cost absorption drove margins below prior year levels. Adjusted EBITDA margin in Performance Adhesives improved to 24%, while in Specialty Additives, adjusted EBITDA margin declined to 21%. In total, Industrial Specialties' adjusted EBITDA margin declined by 80 basis points to 22.1%.

As part of the business unit realignment, we also conducted goodwill impairment testing for Industrial Specialties. The outcome of this testing was a noncash impairment expense of $174 million in the Specialty Additives business unit, reflecting impairment primarily related to our global construction and energy additives businesses.

Please turn to Slide 11. Turning to Intermediates and Solvents. Sales were $37 million, down 16% from the year ago period. Please note that I&S sales now reflect intercompany sales of BDO to Consumer Specialties, which totaled $10 million in the March quarter. These sales are recorded at market pricing and are eliminated in the consolidation of total Ashland sales. Lower volumes were mostly driven by lower intercompany demand resulting from lower care -- lower oral care demand and inventory management initiatives within Consumer Specialties. The lower sales also reflected lower market pricing. Merchant volumes increased by 1% in the quarter. Price/mix was unfavorable. Gross profit and adjusted EBITDA declined during the quarter.

I will now turn the call back over to Guillermo for his thoughts on the Ashland portfolio and our new business units. Guillermo?

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

Thank you, Kevin. As you all know, Ashland has undergone a dramatic transformation over the past decade. I thought it would be helpful to take a step back and review the portfolio in its current state through the lens of our new business unit structure.

Please turn to Slide 13. As Kevin referenced in his financial review, Ashland now consists of 3 business groups: Consumer Specialty, Industrial Specialties and Intermediates and Solvents with 5 operating segments: life sciences, personal care and household, Specialty Additives and Performance Adhesives and I&S. Across the portfolio, we hold strong leadership positions, particularly within our core franchise businesses: pharma, personal care, coatings and solvent-based pressure-sensitive adhesives. The demand in these core businesses tend to be more defensive or semi-defensive in nature given the markets we serve. Given the additive or niche nature of these businesses, they are more innovation-driven with greater ability to sustain differentiation. The growth dynamic in some of these end markets also tend to be less tied to overall GDP growth, both in the U.S. and globally. These defensive or semi-defensive end markets represent a significant part of our sales and even greater contribution to profitability. We also serve industrial end markets, which are more impacted by cyclical economic GDP-related dynamics. These end markets include transportation, building and construction and energy, though they represent a smaller percent of our overall portfolio. With roughly 40% of the production volume consumed internally, I&S remains focused on providing the back integration benefits to our consumer business while maximizing value through merchant sales.

Please turn to Slide 14. In terms of end markets, much of the portfolio skews to the defensive or semi-defensive position. The portfolio exhibited these characteristics during the second quarter even as uncertainty and disruptions from the COVID-19 pandemic impacted the globe. We are confident that our strong leadership position in these end markets position us well for the uncertainty that lies ahead.

I'd like to spend a few minutes now discussing the profiles and priorities of the 5 businesses. Please turn to Slide 15.

Let me start with Consumer Specialties business group, which includes our life science and our personal care and household units. Within life sciences, we maintained a strong pharmaceutical franchise. This is a large and important business line, and our intention is to invest to grow this franchise. We have deep customer relationships, and our team is actively working to expand our leading oral solid dose excipient platform. We are also investing to expand our market position in the biopharma space with several exciting developments in the injectable space. We're pursuing both organic and inorganic growth avenues to strengthen and grow in this business. Our food and nutrition business leverages our broad additive portfolio to help us grow and gain scale. Our current focus is on pursuing strategies that improve our profitability and allow us to continue to grow globally. As we have discussed in prior calls, our nutraceutical business is a U.S.-centric business. Our objectives here are clear. First and foremost, we want to stabilize and improve this business following the business losses we experienced last year. Second, the team is working to define the long-term strategy for this business to position it for profitable growth.

Like life sciences, in personal care and household, we maintain a strong personal care franchise. Our leadership position is highlighted by the rich ESG-driven innovation portfolio centered around natural and naturally derived products, biodegradability, responsibly sourced raw materials and products addressing clean beauty formulation needs. As an example, the team is working to expand our highly successful biofunctional and natural-based sustainable technologies into new and innovative personal care applications. And to further improve profitability, we're working to rebalance our portfolio to focus on our high-end value -- differentiated products.

Next, we want to elevate our focus within household. First, we're stabilizing the Avoca business, which was also impacted by business losses during the last fiscal year. Second, we're working to expand our focus on home and personal hygiene, where we see great opportunities in the years to come. Finally, within personal care, we want to leverage our biotech capabilities across the broader Ashland portfolio. We have tremendous capabilities and expertise in extraction, fermentation and purification which can be expanded into other end markets and geographies. This will allow us to grow our product offering and leverage our capabilities into adjacent high value markets. These capabilities will also be of great value to our Life Science business as we expand our biopharma activities.

Please turn to Slide 16. Our next business group is Industrial Specialties, which includes our Specialty Additives and Performance Adhesives business units. Our Specialty Additives business has its strong foundation in our coatings franchise based on rheology control. While we enjoy leadership positions across the globe, the team is working to strengthen our share in high-growth regions such as Asia, especially with our high-performance products. To fuel additional growth, we're also working on innovative solutions for industrial coatings applications, while also expanding our product and technology portfolio. Similar to food and nutrition, the other industries we serve, namely, construction, energy and performance specialties, the team is pursuing opportunities to leverage our existing product portfolio to expand our scale via broad market access to drive growth and improved profitability. And finally, working to improve the overall margin profile of our specialty additives by continuing to upgrade our product mix towards high-value applications and markets. We continue to look for opportunities to broaden our additive portfolio.

Our Performance Adhesives business primarily serves customers in North America. We maintain a strong pressure-sensitive adhesive franchise with leadership positions in high-performance solvent-based pressure-sensitive adhesives. The team's priority is to expand our solvent-based pressure-sensitive adhesive position in Asia, where growth opportunities are appealing given the long-term growth and demand. We also supply structural assembly adhesives for building, construction and automotive applications.

While more GDP sensitive, these products are built on a differentiated technology platform. We're working to grow our composite adhesive portfolio as vehicle lightweighting continues to be a long-term trend within the transportation industry. We see opportunities to grow this business globally as we follow our customers. We also have a strong position in the U.S. construction market. Finally, we're pursuing additional growth opportunities within laminating adhesives and coatings to accelerate profitable growth in this business.

Please turn to Slide 17. The final business unit is Intermediates and Solvents. This business produces butanediol or BDO and related derivatives. BDO is produced at our facility in Lima, Ohio, and is a key raw material used in the production of many specialty polymers within our special -- Consumer Specialties business units. Roughly 40% of the volume produced at Lima is used internally for these applications. With the sale of the Marl BDO assets, our merchant business is now more focused on downstream derivatives, mostly NMP and BLO, used in industries such as pharmaceutical, agricultural and electronics, mostly for batteries and semiconductors. Given I&S's role in both back integration and stand-alone value creation, we will continue to assess our long-term strategies for this business.

Please turn to Slide 18. Some key takeaways from our new business model structure. We are one of the largest specialty additives players with global scale and infrastructure. Our new business unit model facilitates clear BU ownership and accountability for both strategy and operating performance. Additives tend to be a complex and profitable space in the specialty materials industry. The challenge here in this space is in building scale. As I just reviewed, we have leadership positions in many large core businesses and can leverage both global scale and infrastructure of our specialty additive-centric portfolio across many important markets and geographies. We have room to improve our margins, new products, mix improvement, productivity, reducing costs and redeploying resources for growth. Innovation is at the center of our culture, our capabilities and our strategy. We see a healthy portfolio of opportunities, ESG-driven, performance-driven, productivity-driven and expansion-driven. We are resetting our priorities and redeploying resources to go after them. Despite all the challenges we faced in these uncertain times, Ashland is very well positioned to capitalize on a wide array of exciting and critical new opportunities to improve our performance and drive profitable growth. We will leverage our new structure to help us both navigate through this period of uncertainty and build the foundations to achieve our long-term goals.

Please turn to Slide 20. With that, let me shift back to the here and now. Kevin and I will take you through some of the work we have been doing to ensure we're well positioned to continue addressing the COVID-19 challenges the world is facing. Let me take you through some of the scenario planning work and our key takeaways. We had each business build bottoms-up scenarios with focus on 2 variables. The world's ability to contain COVID-19 and the impact of all the economic policy response on stimulating the economy. We went through a number of scenarios, but 1 thing is certain. There remains a tremendous amount of uncertainty in the global marketplace with respect to how the virus will be contained and how effective long-lasting government response will be to combat the impact. Based on our portfolio, we are more confident that our overall demand should remain stable. We view the biggest risk coming from supply chain and operating -- operational disruptions across our value chain, impacting our suppliers, us or our customers.

Please turn to Slide 21. Several takeaways. At the enterprise level, we should benefit from our more defensive portfolio. Most of the demand impact-driven scenarios will impact our business differently. Responding to them will require business-specific actions. Supply chain risks could impact more of our businesses and is a high priority focus for us. Under all scenarios, and especially in the current -- if the current environment persists for a long period of time, our self-help actions are critical to both strengthening our company at this time of crisis as well as repositioning us for the future. We will stay focused on executing our plan with urgency. Given the high level of uncertainty, it's almost impossible to predict the future based on any of these scenarios. As a result of the high level of uncertainty, we shifted our focus from just scenario planning to stress testing. Rather than predicting the future, we're looking at stress cases to ensure corporate financial stability and to identify levers to improve our performance. Our focus is to ensure we're prepared and can respond quickly to both the threats and opportunities we cannot forecast. Planning ahead but building resilience and agility. Let me ask Kevin to take you through some of the stress tests and actions. Kevin?

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

Thanks, Guillermo. Please turn to Slide 22. First, I'd like to address our key takeaways from our stress testing. Our stress cases looked at significant demand impact in the event of a prolonged economic downturn or failure to contain the spread of COVID-19. Accelerating self-help actions help improve all scenarios, as Guillermo indicated. We would expect more muted demand impact within Consumer Specialties, and would anticipate more stressed demand impact within Industrial Specialties, namely transportation, building and construction and energy. Although our portfolio is generally more defensive, we recognize that our business units will be impacted differently.

Our responses to demand changes would be business unit specific and supported by additional corporate actions as necessary. Supply chain-driven impacts could have broader company impact but would likely have a shorter duration. We are also confident that our new BU structure, business unit structure, allows for enhanced flexibility and tailoring our actions to how the global pandemic continues to unfold. They are key to building resilience and agility. In the event of a prolonged impact, although we could see demand-driven EBITDA erosion due to volume loss and cost absorption issues, we would expect to harvest cash from working capital as was the case during the 2008, 2009 downturn. This cash generation, combined with our substantial available liquidity, makes us confident that if a longer-term downturn comes, we're prepared to weather that. We have identified and would also take further actions to reduce cost, conserve cash and focus on continuing to maintain a strong balance sheet and liquidity position.

Finally, we are building contingency plans to access when and if necessary, including plans that are specific to each of the business units and further corporate-level actions that can be implemented if necessary. We recognize that we can prepare for these stressed cases, but we cannot forecast them. As such, we're focused on operating to maximize performance based on base case planning though ensuring stability in the event of a downside. And we are building resilience and agility through our new structure as well as identifying leading indicators and triggers that could signal increased risk or upside opportunities.

Please turn to Slide 23. As we plan and prepare for uncertainty, we are focused on the things we can control, focusing on our restructuring, reducing cost and driving growth. Our self-help actions are ever more important and urgent in this environment. We have identified new cost savings opportunities well in excess of $40 million on an annual basis and are targeting run rate savings of approximately $40 million by the end of this fiscal year. For the additional savings above $40 million, we plan to retain optionality to redeploy these savings to support our growth initiatives or if needed respond to unexpected developments.

We are also executing near-term inventory management initiatives which are expected to impact fixed cost absorption by at least $25 million in the second half of fiscal 2019. These initiatives will help to generate additional cash in the second half of the year while also rightsizing our inventory position. We expect the dollar impact of the cost reduction and inventory management activities to largely offset one another in the second half of the year. I will now turn the call back over to Guillermo for his final remarks, and please turn to Slide 24.

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

Thank you, Kevin. In summary, I'm confident that Ashland is well positioned for these uncertain times. We have a strong foundation for success built upon high-value technologies, leading market positions in critical industries with deep customer relationships. We also have a structure that is optimized to enhance the opportunities available to each of our focused business units. We're pursuing self-help actions to reduce working capital, capital spending and operating costs to improve profitability and generate cash. We will maintain a strong balance sheet with more than $1 billion in available cash and liquidity, a portfolio with resilient cash flow and a capital structure that provides ample flexibility even in the most stressed scenarios. Finally, we're committed to maintaining our dividend even in these uncertain times.

Please turn to Slide 25. I want to provide some high-level commentary on our forward-looking insights. We continue to expect muted but stable environment in our defensive end markets. We anticipate weaker demand and more uncertainty for much of the Industrial Specialties portfolio. In particular, uncertainty remains on how demand in the more seasonal end markets, namely coatings, building and construction will respond in the second half of the year. Given these dynamics and actions, we're -- the action customers are taking to mitigate supply chain risk, we anticipate that there will be some order timing shifts across quarters. While we expect to realize incremental benefits from lower raw material prices, price and raw material changes are likely to remain relatively balanced. As Kevin mentioned previously, we expect the net impact of cost improvement actions to largely offset any short-term negative impact from inventory management initiatives. To be clear, we remain keenly focused on continuing to demonstrate improved momentum for the business despite the challenges presented by COVID-19 pandemic.

Please turn to Slide 27. In closing, I once again want to thank the Ashland team for their leadership and proactive participation in an uncertain environment. We are fortunate to be a premier specialty materials company with a high-quality business that has 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 very much. And Terry, can we open the call for Q&A?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Okay. We have our first question from Chris Parkinson.

Christopher S. Parkinson ***Crédit Suisse AG, Research Division - Director of Equity Research***

I hope everybody is doing well. On the pharmaceutical front, can you just comment and remind us of your Klucel capabilities, growth trajectory and just the potential for new capacity over the long term? And can you also speak to the potential for pharma supply chains potentially coming back to the U.S. and Europe. I believe there's some preliminary bills even on the House and the Senate floor on the matter. But just what are you hearing from your customers?

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

A lot of our focus right now has been on the here and now, just managing our supply chain, very open discussions so that we can ensure supply, both from our side and their side. So I'm really pleased with how the supply chain teams and the business teams are handling all that. On Klucel and all our more differentiated cellulosic products, we are supporting, obviously, a lot of the growth and capacity. We have invested in the recent past on capacity expansion, so we're very well positioned. But obviously, hopefully, as this continues to grow, we will continue to support through added investments.

Regarding the industry coming back or shifting around the world, closer to home in the U.S. and Europe and other parts of the world, I think, obviously, there's a very active discussion going on. This is going to take a little bit of time. But in essence, given our footprint is heavy U.S., Europe driven, we're well positioned to supply all the customers as they change their supply chain. So that can only be upside for us.

Christopher S. Parkinson ***Crédit Suisse AG, Research Division - Director of Equity Research***

Great. And can you just -- can you quickly speak to some of the non-pharma substrates within consumer? And just -- could you just maybe hit on key initiatives in skincare, so bio-based products, rheology modifiers and coatings. Just what's your perceived market positioning in those lines, market share opportunity? And then just what are the secular tailwinds behind those businesses?

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

So thanks for the question, Chris. The -- so on the personal care, as I mentioned in the call, biofunctionals, our skin applications have been growing very, very strongly, a very successful portfolio. Not just top line growth. These are very profitable products for us. So we're very excited about that. One of the things that we've done is, as we restructured the businesses, we're realizing how much capability we have that we haven't really coordinated as much. So if you look at what we do in Avoca for the fragrance segments, which is a lot of extraction, also from natural products, we have Vincience in France, that is our core biofunctional. We have Zeta Fraction. We have a lot of capabilities. And also, I would say, in Pharmachem. So we're bringing that all together, not just to expand the product offering that we can bring to the market, but also look at different cost structures leveraging. For example, production at Avoca is much more high-volume focus versus some of the other facilities are more niche focused, how quick can we get into other products. So I think there's a lot of things that we're doing in the short term, but there's a lot of things that I think it's too soon to articulate all the specific plans, but we see a lot of opportunities to grow both in the pharma and the personal care space in that area. I would say trends, tailwinds and headwinds in the personal care. I think skin is continuing to do very well. Our rinse off products are doing very well. Hygiene, especially if you look at our rheology modifiers, a lot of growth, with hand sanitizers with a lot of hygiene-type products. That's why we see a lot more opportunities to leverage our formulation capabilities in that space. I would say headwinds, it hasn't really changed that much. Sunscreen, obviously, with people not going out as much has been a softer part of the market, although for us, it's not the highest margin part of our portfolio. And I would say, hair, the styling, salons closed, those kinds of things have been -- continue to stay a little bit softer there.

Operator

Next question comes from John Roberts.

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

The new alignment makes a lot of sense to me. Is the capital intensity similar between the Consumer and Industrial segments? And is the return on capital roughly similar between the two?

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

What we're looking at -- the portfolios of products, obviously, are a little bit different across. The acetylenics are much more on the consumer side of the portfolio. The cellulosics, it's a little bit more balanced. But volume is more on the additive side of the portfolio. But then if you look at beyond those two, it really varies by business. As I was saying, the functional additives tend to be lower capital intensive, much more specialized capital, but not the same level as other areas. So the rest of the mix starts to change as you go beyond those -- the acetylenics and the cellulosic part of the portfolio. And we are taking as part of the work that we're doing, a lot of these plants now, each business has ownership for their core, for the plants that they're the core driver of. So we are reviewing our capital needs. What do we need for maintenance capital? Where do we need to really invest for growth? Which are our growth priorities? Some businesses are going to be -- we're going to prioritize more than others. So we're working through all as part of the strategy review that we've done.

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

And then you disclosed the intersegment sales from I&S to Consumer, why aren't the cellulosic sales by consumer handled as intersegment as well? Or is the consumer segment actually manufacturing cellulosics or guaranteeing those assets?

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

Yes. Because when we look at cellulosics, there's a big core production, but then there are derivative productions like, we make the cellulose, but then you go into Klucel, Benecel. So each business might own their production units, but they are integrated. And I think the difference is for us, the core of our portfolio, as I mentioned, is additives. So that's what we are -- that's the core of the franchise. And that's about scale. So I do think in the additive side, we're still going to have some level of integration across the products. And what we do is then maximize the mix of where we allocate the capacity that we have across the different portfolios. So some of our segments are clearly a growth more differentiated segments that we're supporting. But then we need to have the rest of the markets that we serve so that we can balance capacity and as we add capacity, that we can also manage the loading of some of the new plants.

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

John, the way to think about it is Lima provides a raw material to the Consumer business, whereas the other businesses are making finished products either for the Consumer or the Industrial businesses. That's really the biggest difference.

Operator

Next question comes from David.

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

This is Dave Begleiter. Guillermo, just how should we think about decremental margins in the back half of the year for both Consumer as well as Industrial?

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

So if -- there are 2 issues that we're going to have. And as we said, the businesses are going to perform differently. I think the pricing core margin, we don't expect significant changes, maybe a little bit more erosion in parts of the specialty portfolio just as supply-demand rebalancing happens across the industry. But in the more differentiated, more defensive ones, we probably expect that core margin to be stable. So the impact for us is going to be loading and the impact on cost absorption. And we're going to be tracking closely the demand side, but also some of these self-help actions we're doing on the inventory side that are impacting it. And we'll just -- we plan to do it this year so that we can start next year at the right base.

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

Very helpful. And just on the $40 million of additional cost savings, is that all permanent structural? And if it is, are you taking additional temporary discretionary spending cutbacks as well?

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

So right now, I would say, most of that is SG&A driven. It is -- as Kevin said, it's what we've identified and what is significantly higher than $40 million. But we want to make it clear that this is not just a story of cutting costs. It's about rightsizing our business to the business models that we have and to the size of the company that we now are. But the longer-term intention is about growth. So we want to make sure that we're shifting some of that -- those savings into the new areas that we want to grow. There might be a lead and lag. And obviously, with the current situation, you might see our costs go down a little bit more on a run rate basis. But I want to make sure that longer term, as you look at your modeling, we do want to redeploy that for growth. We still have to do more work on the COGS side of the equation, production side. Obviously, right now, our focus is on the inventory, on managing demand, but there are opportunities there, too, that we're going to be going after, but those are going to be much more business unit, strategy-specific discussion rather than a more broad-based approach.

Operator

Next question comes from Mike Harrison.

Michael Joseph Harrison ***Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

Guillermo, I was wondering if you could talk a little bit. You mentioned the opportunity that you're seeing in industrial coatings. And as we think about your architectural franchise, you guys really benefited, if we go back several years from the transition, especially in emerging markets, from solvent-based coatings -- architectural coatings to water-based architectural coatings. To some extent, that's happening a little bit in industrial coatings as well, that transition from solvent-based to water-based. So is that part of what you guys are positioning to capture? Can you maybe talk about the opportunity that you're seeing there in some more detail?

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

Yes, exactly. If you look -- especially if you look at our existing product portfolio, technology portfolio in the rheology space, we see a lot of opportunities. You look at not just the cellulosic, but at some of the higher-end synthetic rheology modifiers, our Aquaflow line, a lot of new products coming in. These are for higher-end coatings, usually, both in architectural. But as the industrial market continues to grow, these are -- we see opportunities for those rheology modifiers. And I will say is -- as one of the leaders, and I would say, probably the leader in rheology control in coatings, we have a lot of capabilities. One of the things we're trying to look at is how do we expand our additive portfolio because we could do more with the infrastructure and the capabilities we have. So part of the strategy is expand the rheology franchise, but also leverage it to get into other additives as we move forward.

Michael Joseph Harrison ***Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

All right. And then the other question I had on those slides that relate to the path forward is within personal care, you referenced you're -- rebalancing of the portfolio of lower-margin buy and resell. And I was just wondering, can you give us a sense of what portion the buy and resell business accounts for of the personal care business right now?

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

We haven't really shared that level of data in the past. And obviously, as we rebalance, we got to work through a lot of these things with our customers, with where we want to do. So I'd rather hold off any specific comments at this point in time. I think the important point is as we make adjustments, it isn't about profitable growth, we are focusing on improving the quality of the portfolio and driving growth. And we are taking hard -- difficult decisions. You see it in the inventory side, but we will be doing the same with different parts of our portfolio to ensure that we're dedicating our resources and capabilities to the strategic segments that we believe we're going to win in the future.

Operator

Next question comes from John McNulty.

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

Just a follow-up on the working capital side. I know it was something, Guillermo, you had targeted even last quarter as an area where you thought there was some headroom. And I guess, in this kind of a downturn, I would expect the working capital release, if you will, would be even bigger, I guess. Can you -- did you size that? Like how big in terms of working capital relief do you think you can get? And how much of it is just from getting Ashland right to kind of where you thought it should have been in the first place? And how much of it is tied to the recessionary environment and just the natural kind of release of working capital from that? How should we think about that?

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

Okay. So let me give some high-level comments, and I'll have Kevin give you some of the details. I think the one area we do have -- we see that our overall inventory levels are high and we are taking action to do that. The issue is it's different product lines. It's business by business that we need to do this. And obviously, with the COVID situation, we've been a little bit more cautious on how quickly we do this because inventory, we want to conserve cash, but it's also been an important part of being able to supply our customers. So we are moving. Probably we're being a little bit more cautious in how we're managing this going forward. But I think at this point in time, we have much more clarity of how we're going to run our plants and where that's going to come. But Kevin, maybe you want to comment a little bit more there.

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

Sure. Sure. The $25 million I mentioned has reduced fixed cost absorption. We would expect and typically have seen about a 2x cash generation for that type of activity. So we'd expect to generate an incremental $50 million in cash from reduced working capital as a result of that. And we've baked in some other reduced fixed cost absorption into our overall forecast and estimates in our base case around reduced demand, which would be incrementally positive to that $50 million. So net-net, we would definitely expect to benefit from that from a cash flow perspective.

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

Got it. That's helpful. Yes, that definitely helps to clear it up. And then I guess the other thing, Kevin, you kind of commented that there is some work to be done on the manufacturing side. Obviously, the COVID stuff makes it a little bit more complicated. But I guess, can you share some of your thoughts in terms of where you see some of the more obvious things that can be either dialed back or improved in terms of efficiencies and maybe some of the numbers that might be behind those?

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

No. I think as we finished and we just completed our strategy reviews with all the different business units, I think we have clarity of which are the priority areas, not everything is created the same. So I think prioritizing and changing where we're allocating our resource and capital. And I think in our manufacturing environment, what areas are going to get to the capacity that we have and areas that are tighter, which are the ones that we want to prioritize, where we want to invest. I do think, looking at our footprint, we know the areas that are going to grow, we're going to continue investing in. As an example, within our cellulosic franchise, that is one that we're going to be growing. So we're planning that out on where we want to grow. But then we have all these other smaller product lines, and I think there is opportunities to optimize our footprint and network in those kinds of products where we have multiproduct facilities to make sure that we're being as efficient as possible.

And I will comment, the part that we're also being careful is, as we said in the call, this is not going to be one reaction to a COVID-19 drop. We probably will feel things very differently in different parts of our portfolio. And we want to be surgical about what we do. This is not just do across the board cost actions and things like that. What you'll see is probably we will take actions on reducing on one side, and we might be taking actions to increase on the other.

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

One thing I think that I think is important to add here is within 4 months of the calendar year, we completely reorganized the company. We have a business unit structure that previously didn't exist. We've gone from horizontal to vertical. Each business unit has a fully formed leadership team. Each business unit has completed its first round of strategy work in terms of how they want to grow, what their cost structure wants to look like. It's really been not only a tremendous amount of effort, but a tremendous accomplishment really for the entire team during this short period of time. And never mind the fact that a lot of this work has been done while people are working in their home offices. And I think it's important not to lose sight of that because we're really just now at the beginning of what should be a long and exciting road for these businesses.

They have a lot of opportunity ahead of them. They still have a lot of work to do. But they've made tremendous progress in an incredibly short period of time. And coming from the guy who's been here for a really long time, I've found it pretty remarkable at how each business has really dug in, formed their teams and made a ton of progress in the face of something we've never seen in our lifetime. And that's been really encouraging for me, and I think really for the entire executive team. So I just wanted to make that point.

Operator

Next question comes from Laurence Alexander.

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

I guess, just a request for some clarifications. I think on the reference to loading with respect to David's question. I think in the past, that was about a 500 to a 1,000 basis point decremental factor. Is that still the way you think about it? On the bio -- on the reference to fermentation, are you thinking about building out your own fermentation capacity or just working with other people's toolkits? And then I guess just lastly, given the amount of uncertainty, the realignment in the middle of the fiscal year, what are the actual kind of KPIs or goals that your division heads are being judged on that makes a material difference to their outcomes this year personally? I mean in terms of incentive comp? Or what are the goals that you are judging them on in the 6 months that are left?

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

Okay. Let me comment on some of them. And maybe, Kevin, you can comment on some of the loading areas. But obviously, I would say in loading, it's going to vary by the product line. So cellulosics and acetylenics is where we see the loading issues as we move forward. But as we said, the acetylenics, it's mostly around self-help actions. The demand is actually holding up on that part of our portfolio. And I would say we -- the cellulosics, it's going to be about the mix. We'll get maybe an impact on the loading on the high volume. But obviously, some of the higher mix -- higher quality mix will continue to grow. So we'll see some noise between the absorption and the mix as we move forward. So it's not going to be that simple to just give a number in terms of what the net margin what that's going to be.

On your second question on the biofunctionals and -- as we look at -- leveraging our capabilities, we already do extraction. If you look at all of the Avoca for the clary sage, all the carrier for fragrances that we do, that is all natural-based extraction capabilities, have high volumes. So this is a very efficient high-end operation. And although we got an impact on the Avoca side, we are looking to leverage those assets into other applications, oil extraction and purification type things. We do fermentation in our Pharmachem sites.

So the issue right now is we have some specific growth initiatives that we're already working on. I would say, specifically in biopharma -- in biofunctionals and personal care. So the issue now is how do we expand that into more products for different segments and how do we look at leveraging these new -- these capabilities we have that we really did not integrate. Can we get into some of the more higher volume applications that are differentiated, that are -- that might be interesting for us? So there's more work ahead but the capabilities are there.

Equally, in the pharma space, we already have a position in the injectable space. It's small. We did an acquisition about 2 years ago in this space with a lot of trials. If you look at the pharma side of the equation, there's not going to be 1 big change overnight. These are all initiatives that take years to develop. So we have a pipeline. Our objective right now is to expand that pipeline, bring in new technologies. What we can do organically, but look inorganically at opportunities of what we can do there. So in our pharma franchise, we're already big, and it's very high quality. So the focus is expand that portfolio so that we can continue to have strong growth rates, above-market growth rates over a continuous period of time, and with our critical mass, that obviously has meaningful impact on us. But Kevin, do you want to talk about the absorption?

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

Yes, sure. There will clearly be some noise in the EBITDA margin for the business as we execute on these inventory control measures. And we'll try to be helpful and carve that out for you as we do it, so that you'll understand the impact and have a better understanding of the underlying performance of the business. So we'll call that out for you as we work through the balance of the year. You asked about the realignment in KPIs. I mean we tried to simplify that for each of our business units. And their primary focus is EBITDA driven. That's how they get paid. And at an overall level, we're also very focused on cash, both generating it and conserving it. And again, setting COVID aside, I think one of the things that we're already very much more focused on is internal capital deployment. That's a huge focus for Guillermo and I in terms of how we're going to invest in these businesses. Guillermo mentioned that earlier. Rightsizing takes on many forms. And while the businesses are focused on EBITDA growth through selling more or spending less, which are their 2 primary levers, we're focused at a corporate level on how we're going to allocate scarce resources within our businesses, which obviously are not all created equally. And certainly for the situation we're in now with COVID, we've identified a number of capital projects that we can slow down or stop to conserve cash throughout the balance of the fiscal year. And a focus going forward is going to be to operationalize that so that we can create much tighter control over capital deployment internal to the business. It's not been a huge issue in the past, but it can be a source of more growth capital for us while not spending any more money. And so that will definitely be a continued focus going forward.

Operator

Next question comes from Jim Sheehan.

James Michael Sheehan ***SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst***

So you referenced earlier about stay-at-home orders having effects on hair salons and your haircare business. Wondering if you could comment on how that might be affecting your skincare products? I know the cosmetics demand is way down. What is your overall exposure to skincare? And also if you could give us a sense of the size of your biofunctional products business.

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

So in the cosmetic side and probably even higher than just skin, when you hear a lot of all high-end cosmetics are getting impacted. So there are parts of that space that we're not directly involved in, the lipstick, eye. So there are some areas that's not our biggest space. So it impacts us less than others. In the skincare, I would say, in the high-end cream, there is some impact, but we're seeing very robust demand in a lot of the other products. People are staying home, but they still use a lot of those products at home.

As I mentioned, the biofunctional area has been a big growth area, bringing in new differentiated products really at the center of the whole ESG-driven agenda of products, and we're really pleased. We have not disclosed our growth or a lot of details. Obviously, this is a very competitive space. I don't think we're going to disclose that level of information now or probably in the near future. But it's sizable and it's growing. I mean if you go back last few years and quarters, it's been very high growth rates, 10%, 20%, 40%, 30%. I mean these are -- every time we come with a hit, it is significant, and it does move the needle in terms of both growth and profitability. And the volumes, just to be clear on some of the -- these are very different volumes that we're talking about relative to some of the other assets that we have.

James Michael Sheehan ***SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst***

Very helpful. And just on the strategic comments you made today, thanks for the additional color and detail. I'm just wondering about capital allocation priorities after the coronavirus. What will be your emphasis on M&A? And maybe you could talk about lessons learned from the Pharmachem acquisition.

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

So our #1 priority is organic growth, getting our house in order and getting organic growth going. So on the organic side, obviously, several different businesses are at our core. And as I mentioned, if you look at franchise businesses that are not only core to our growth, but they also enable a lot of the new products that then we can sell in a lot of other spaces. It's going to be pharma, personal care, coatings and the solvent-based pressure-sensitive adhesives. We have opportunities to grow in new products. And some of it might be needing new capacity and some of it might be geographic.

So I would say, expanding our pharma franchise would be a top priority. The oral solid dose we can do more organically. There could be some bolt-on things that we can do. The biopharma injectables were basically building our beachhead so that then we can do more things. That one, over a longer period of time, obviously, we can grow it, but that's an area that we will be looking at a little bit more. That's probably one of the more interesting areas.

In personal care, I would say it's mostly organic. And there could be smaller bolt-ons on specific products and technologies that we look at, but heavy organic growth. For coatings. But I would say for all of the additives businesses, Asia is an area that we're going to be spending a lot more time and effort. A lot of our footprint is in the U.S. and Europe. We want to make sure that as this world rebalances itself, that we're well positioned in Asia. It's the fastest-growing region, and we do see a lot of growth opportunities for our portfolio there. So I would say that would be another priority, be it solvent-based adhesives, new additives, capacity producer. And obviously, there's a lot of things that we can do in that space. But those would be the big priorities that we would have with a bias towards organic.

Well, I think that's all for the questions we have for today. I wanted to thank everybody for your participation, your questions, your interest. And I look forward to connecting with you. I can't -- we can't promise we can do it physically in the near future, but hopefully, we'll continue to connect and add value to the conversations with all of you. So thank you very much for your time and attention.

Terry, thank you for all your help.

Operator

You're welcome. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.