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Q3 2023 Ashland Inc Earnings Call

EVENT DATE/TIME: JULY 26, 2023 / 1:00PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Ashland Inc. Third Quarter 2023 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Seth Mrozek. Please go ahead.

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

Thank you, Victor. Hello, everyone, and welcome to Ashland's Third Quarter Fiscal Year 2023 Earnings Conference Call and Webcast. My name is Seth Mrozek, Director, Ashland Investor Relations. Joining me on the call today are Guillermo Novo, Ashland Chair and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer.

We released results for the quarter ended June 30, 2023, at approximately 5:00 P.M. Eastern Time yesterday, July 25. The news release issued last night was furnished to the SEC in a Form 8-K. During today's call, we will reference slides that are currently being webcast on our website, ashland.com, under the Investor Relations section. We encourage you to follow along with the webcast during the call.

Please turn to Slide 2. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our outlook for fiscal year 2023. 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 an explanation of those risks and uncertainties and the limits applicable to forward-looking statements. You can also review our most recent Form 10-K under Item 1A for a comprehensive discussion of the risk factors impacting our business.

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

Please turn to Slide 3. Guillermo will begin the call this morning with an overview of Ashland's performance and results in the third quarter. Kevin will then provide a more detailed review of financial results in the quarter. Guillermo will then provide additional commentary related to Ashland's financial outlook for fiscal year 2023. We'll then open the line for your questions.

Now please turn to Slide 5. And I'd like to turn the call over to Guillermo for his opening comments. Guillermo?

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

Thank you, Seth, and hello, everyone. Thank you for your interest in Ashland and for your participation today. Results in the June quarter were consistent with the pre-announcement that we issued in late June. Total sales for the quarter declined 15% compared to the prior year. Our Pharma business continued to perform well and the inflation recovery actions taken last year and early this year continue to benefit overall results. However, the unprecedented reset impact from customer destocking actions across many supply chains continues to materially impact many of the markets we serve.

As we stated in late June, our previous expectations that destocking would conclude during the fiscal third quarter proved to be optimistic. There's still significant uncertainty as to when these dynamics will end. Until the inventory control actions taken by our customers have subsided, it will remain difficult for us to gauge the true end market demand.

Based on information from our customers, sales volumes as well as global retailers of consumer products, we do not believe current customer order dynamics are representative of the underlying consumer demand for the high-value products in which our ingredients are used. While this uncertain environment presents near-term challenges, it does not change our longer-term opportunities or priorities. I will discuss these in more detail at the end of the call.

Please turn to Slide 6. As you can see in the chart on the left, sales declined in each of our segments due to the factors I referenced earlier. As a consequence, we pursued our own internal actions to control inventories. These actions impacted our margins during the quarter and are continuing into the current quarter. Kevin will discuss how these actions impacted each of our segments in a few moments.

On the positive side, it is good to see that consumer demand remains resilient for the core markets we serve. Unfortunately, it's also clear that destocking dynamics will continue to persist for longer across the supply chains of the industries we serve. While there are many global uncertainties in the horizon, the Ashland team is performing well and executing on the actions that are within our control, while not losing focus on the longer-term opportunities for innovation and profitable growth.

Let me turn over the call to Kevin to review our Q3 results in more detail, and then I'll be back. Kevin?

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

Thank you, Guillermo. Good morning, everyone. Please turn to Slide 8. Total Ashland sales in the quarter were $546 million, down 15% compared to prior year. Continued customer destocking dynamics resulted in reduced volumes for all segments. These volume declines were partially offset by sales growth within our Pharmaceutical business and continued inflation recovery, which is carried over from last year.

Foreign currency had a negligible impact on sales. Gross margin declined to 33.3%, driven primarily by lower absorption since we ran our plants slower to be in line with lower sales volumes across the segments due to customer destocking. As a consequence of the continued customer destocking we saw throughout the quarter, we slowed production for a number of products in order to control our own finished goods inventory levels. These intentional actions negatively impacted gross profit by approximately $15 million.

When excluding key items, SG&A, R&D and intangible amortization costs, were $113 million and down from $127 million in the prior year, largely reflecting lower incentive compensation accruals. In total, Ashland's adjusted EBITDA for the quarter was $133 million, down 24% from $174 million in the prior year and in line with our expectations in late June. Ashland's adjusted EBITDA margin for the quarter was 24.4%, down from 27% in the prior year, again, reflecting the factors I just discussed.

Adjusted EPS, excluding acquisition amortization for the quarter was $1.23 per share, down 35% from the prior year quarter. Ongoing free cash flow was $97 million for the quarter, a significant improvement from the prior year, primarily reflecting changes in working capital stemming from our internal inventory control actions and lower sales.

Now let's review the results for each of our 4 operating segments. Please turn to Slide 9. Within Life Sciences, our Pharmaceutical business delivered mid-single-digit sales growth, pricing held up well and mix was strong despite volumes being down compared to a solid prior year period. Overall, Life Sciences sales declined by 4% to $219 million, while adjusted EBITDA increased by 7% to $72 million.

The nutrition and nutraceuticals businesses remained challenged due to continued customer destocking. We took appropriate actions to control inventory levels during the quarter, impacting EBITDA by approximately $5 million. Adjusted EBITDA margin increased meaningfully to nearly 33%, reflecting enhanced segment mix due to strong pharma results and weaker sales in low-margin areas like nutrition and nutraceuticals.

Please turn to Slide 10. Continued customer destocking negatively impacted personal care in the quarter. For the quarter, personal care sales declined by 15% to $146 million, while adjusted EBITDA declined 24% to $35 million. Pricing continues to hold, but margins were negatively impacted by lower volumes, driven by customer destocking, our proactive inventory control actions and a negative mix. Sales into the hair care market, were a bright spot, with sales down only modestly compared to the prior year. Sales to the oral care and skin care markets were more meaningfully impacted by destocking actions.

Please turn to Slide 11. Specialty Additives also felt the impact of reduced demand primarily related to continued customer destocking. Pricing remained positive in the quarter versus prior year. However, volume declines due to destocking, primarily in coatings, construction and Performance Specialties as well as nearly $8 million of proactive inventory control actions by the team negatively impacted profitability in the quarter. For the quarter, Specialty Additives sales declined by 22% to $152 million, while adjusted EBITDA declined by 49% to $29 million.

Please turn to Slide 12. Intermediates reported sales of $43 million, down 41% compared to the prior year driven by lower pricing and volumes. Internal captive sales were about 30% of the year-over-year sales decline, while customer destocking of our higher-value merchant market solvents, including NMP, BLO and THF accounted for nearly 60% of the remaining year-over-year sales decline. Although pricing declines in this business more than offset raw material tailwinds, the continued delinking of our high-value solvents from BDO, which represents a very small part of our third-party revenue, contributed to strong margin performance in the quarter. Intermediates reported adjusted EBITDA of $16 million, a decrease of 52% compared to prior year, and adjusted EBITDA margin declined to 37.2%.

Please turn to Slide 13. As we reported in late June, Ashland's Board of Directors approved a new $1 billion Evergreen share repurchase authorization, which replaced the existing authorizations. Ashland had completed $300 million of share repurchases under the previous authorization during this fiscal year.

As of the quarter closed on June 30, we had cash on hand of about $350 million, with total available liquidity of roughly $1.1 billion. Our net debt was $979 million, which is about 1.8 turns of leverage. We have no floating rate debt outstanding, no long-term debt maturities for the next 4 years, and all of our outstanding debt is subject to investment-grade style credit terms. We are investing in our existing businesses to grow organically and continue to pursue our strategy of enhanced profitable growth through targeted bolt-on M&A opportunities focused on pharma, personal care and coatings.

Against the backdrop of global uncertainty, Ashland has a strong balance sheet with the flexibility to pursue our targeted growth strategy as well as reward our shareholders with a strong dividend policy and continued share repurchase. With that, I'll turn the call back over to Guillermo to discuss our outlook for fiscal year '23. Guillermo?

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

Thank you, Kevin. Please turn to Slide 15. As we look ahead into Q4 and fiscal year 2024, the major question is the volume outlook. As we mentioned earlier, the good news is that customer sales volume tends to indicate continued customer resilience for the markets we serve. Clearly, there is a big disconnect between our customer sales volumes, our sales volumes and our suppliers' sales volumes.

As an example, our suppliers continue to feel a bigger impact of destocking actions from both our customers and our own destocking actions. To state the obvious, the challenge for us, our peers in the industry and our suppliers is continued impact of destocking actions across our supply chain. The big question is, when will destocking end? When will our customers' volume demand be in line with their sales and production volumes?

Please turn to Slide 16. We do not have a clear view on when destocking will end. For our June update, if our Q4 performs in line with Q3, we expect to have sales of $2.2 billion and EBITDA of around $500 million. Although the global consumer remains resilient as evidenced by our customers' sales volumes, preliminary July results indicate continued destocking.

Reported inventory levels by some of our customers would indicate further destocking actions may be expected if demand does not pick up. We currently anticipate about $25 million of internal inventory control actions in fiscal Q4. Global demand trends will drive potential further actions. Risk to the outlook in Q4 comes from extended customer destocking, we continues in specific end markets or regions and the need for added inventory control actions impacting our own absorption. There's a potential of global recession impact on consumer demand, price versus cost balances if something changes, growth in China and the escalation of the Russia/Ukraine War.

As I've said before, this is the time for caution. We will continue to operate with strong capital allocation discipline so that we're in a strong financial position to invest and grow our core businesses. On the positive side, what we see is that our consumer demand remains resilient, and that is more in line with our customers' sales volumes. We will remain focused on the things in our control, driving innovation, maintaining operating discipline, managing pricing, mix, cost, productivity and capital allocation.

Please turn to Slide 17. In spite of the near-term challenges, our long-term growth drivers remain unchanged. First, we're expanding capacity of our key technologies where we have leadership positions. HEC, Klucel, Benecel and Aquaflow, all segments where we were sold out over the last 2 years. We're going to globalize our high-value businesses, our preservatives, our biofunctionals, our oral solid dose coatings business and our injectables business.

Innovation will be central to our growth. And as Kevin said, bolt-on M&A opportunities. We will continue to take actions to maximize near-term performance while not losing focus on our longer-term growth opportunities. In many cases, our focus is on accelerating these exciting long-term initiatives. Innovation will be a central point of our growth focus.

Please turn to Slide 18. I'm pleased to announce that Ashland will host a live Innovation Day at our Wilmington, Delaware headquarters and research campus on September 12, 2023. This event will showcase how technology is playing a critical role in Ashland's long-term profitable growth strategy and highlight the company's innovation playbook and portfolio of scalable technologies. The event will include presentations, prepared remarks and moderated Q&A sessions with members of Ashland's executive leadership team. The event will also include poster sessions and guided tours of Ashland's research and development laboratories for in-person attendees. Additional details and registration information will be provided later this week. We look forward to sharing our exciting innovation-driven growth strategy with you in September.

Please turn to Slide 20. Despite the challenging environment, we remain confident in the quality and resilience of the markets we serve and the future. I want to thank the Ashland team again for their leadership and proactive ownership of their business in an uncertain environment.

Thank you for your attention today. And Victor, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of David Begleiter from Deutsche Bank.

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

Guillermo, as destocking ends, how should we think about operating leverage and earnings power of the company heading to '24?

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

If you look at it, Dave -- well, first, thank you for the question. The big question, as I said, is volume and where the demand is. If you look at the delta between where our customers' sales volumes are and us and all the suppliers in the industry, it's a big delta. So the issue is when we normalize, the destocking goes away, the trend would be to come back up to where our customers' volumes would be and production demand so there's a lot of leverage. All the things that you're seeing negative today will be the positives of tomorrow. So we will go in our next call when we start talking about 2024. We'll try to go through the reset. There's going to be items like incentive comp, things like that, they get reset for the full year. But then the assumption really is going to be based on what the volume outlook is. And I think this quarter, will be important to see how things evolve. But there's a lot of leverage in terms of the volume return, both gross profit as well as absorption.

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

Very good. And just for you and Kevin, how should we think about share buybacks in both Q4 and perhaps next year?

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

Go ahead, Guillermo.

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

No, I was going to say we're going to continue to be very balanced on our approach to rewarding our shareholders. As Kevin said, our primary focus is on that innovation, on growth and those initiatives that I laid out. I think on the CapEx, we're well defined on where we're going. Equally on the globalization of businesses, there are several investments for our oral solid dosing coatings and our biofunctionals in China that we're bringing up in Brazil and in India. Those are areas that we're investing and putting production facilities, but that's all well within our plan and more asset-light to a degree.

So the real question, and we'll talk about it in September is innovation. We have a really exciting portfolio of scalable technologies. They're not just, here's a nice product, cool product, and here's what it does. These are technologies, thinking about them HEC. It's not a product, it's a technology. You can make multiple products for multiple markets. So as we launch these technologies over the next 3, 5, 10 years, there's going to be significant growth potential there. So the question we're asking is, do we need to invest more? Should we be increasing R&D investments should be doing? So that's our #1 priority in terms of our allocation of capital because that's a very high return for our shareholders. But given our cash flows and where we are even today, we're in a good position to do both, reward our shareholders and invest in the business. But Kevin, if you want to give some other color?

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

Yes, just a little bit. We've done $300 million this year so far. Over the last 10 years, we've done over $3 billion of share repurchase. And I think the important point is we can do that along with all of what Guillermo just mentioned, and we've demonstrated that in the past, and you can expect us to demonstrate that into the future as well. We're going to strike a ballot. We don't think it's wise to lever the balance sheet up per share repurchase, but we do think that our shares remain undervalued, and we'll continue to invest in them as well as promote a strong dividend policy now and in the future.

Operator

And our next question will come from the line of Christopher Parkinson from Mizuho Group.

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

Guillermo, on Slide 15, you gave a very helpful breakdown. I want to focus on personal care. Just given everything in your portfolio right here, right now and given the market dynamics with your customer volume trends down mid-single digits. Just a very simple question. How comfortable are you that you ultimately have the right portfolio, specifically in skin and hair across bioactives, biofunctionals, Schulke, I would love an update there. But just in terms of that normalization process and thinking about fiscal year '24 and '25, everything your long-term holders are looking at. Just what gives you the confidence that you ultimately have the right tools to snap back and ultimately gain share in that portfolio and grow over time?

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

So Chris, first, thanks for joining us, and thanks for the question. I think we need to separate what's happening in the short-term and the long-term. And I've been very open about that for the last 2 quarters. They are different dynamics. And I go back to last year, we did very well last year. We drove in on price, and we had a very strong year. Having a strong year last year did not help our innovation or growth opportunities. Equally, some of the challenges in destocking, it's a challenge we need to perform. We need to take actions in the short term, but they do not be tracked from the long-term opportunities that we have. So I really do separate the two. I think the short-term issues are broad based. They're impacting everybody in the industry and all the segments. It's not a 1 product or 1 category thing. And as we see our customers' volume versus ours, it's clearly an indication and all the other suppliers to the industry. This is a destocking event that we have never seen before as an industry, and we will overcome that sooner or later.

On the innovation side, this is going to be a central part of our discussion in September. We're really excited. All the innovations that we're working on, you'll see they're scalable. If you go back to our November '21 Investor Day that we talked to sort of the model of additives and ingredients, if you innovate and then you scale it by developing more products or more applications around markets, we feel very excited about these opportunities that we have.

They're ESG focused, 99% of them that we're launching are going to be greener chemistries, either natural, natural derived, biodegradable. They're going to bring functional performance advantage. This is not just green for green; we can get both performance and advance our ESG solutions. They're very elegant. We're very excited even from a manufacturing perspective. Very clean processes in many cases than some other technologies that we've seen, very little waste, very efficient in how we make them. And most importantly, we can leverage existing assets. We don't have to invest a lot more. A lot of the capacity that we had empty from 2019, we're going to start using for a lot of these technologies.

So I think for personal care, it's all these technologies are going to have a great fit, and I would say not just for personal care, for coatings and for pharma, you'll see that it's pretty broad-based. It's very exciting for us. And this is a separate growth opportunity relative to just our traditional market growth and normal innovation with just improvements to our technologies. These are add-on platforms that can really energize growth for the coming decade for us.

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

Got it. And just as a quick, something you said towards the end of your response. How should [The Street] be thinking about the ultimate portfolio? I mean in November '21, you laid out, obviously, your core businesses. Obviously, pharma, you can just do pretty well. But when we think about substrates of your business that have not been forming up to your standards and/or technologies and the ability to repurpose assets. Can you just hit a little bit more on that? And it seems like you're taking the current situation is a bit of an opportunity to kind of facilitate a transfer more towards those core end markets and away from some of those end markets you've been essentially running for cash. So any color there would be very helpful.

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

No. So if you look at the technologies and the businesses that we have, and I would say, go back again to the Investor Day, we had 2 businesses that we highlighted - they were related, but not integrated to our core Additive and Ingredients. Most of the Additives and Ingredients we have today, all these other technologies that we bring in, we sell across multiple segments. So those are core, and we want to keep that integration.

We have our Intermediates business, which supports our back integration strategy for our PVP resins, but it is a separate business. And I think what we've done is trying to make it better. We can, at any point in time, choose what we want to do. We want to keep it. The last few years has created a lot of value for us, but if we want to change that in the future, we are well positioned to do that. And what's exciting about that business is where the merchant market that we have in the Intermediates is not BDO, we sell very little BDO. As Kevin said, it's NMP-BLO, all of those are going into EV market, into semiconductors, active ingredient production for ag and pharma and coatings. And we're focused on U.S. and Europe as our core markets. We're one of the few merchant players with capacity.

When all the EV investments come in, they need NMP, for example, for battery production and they need local content. We're the only ones with capacity right now. So there's a lot of positivity that is going through. And what we've done is separate; we had a lot of BDO and the focus was to low the BDO plants, we just priced everything like BDO. We've separated. These are separate markets, separate technologies, and we price them accordingly. And you've seen that even in this downturn, that business is actually performing much better than it ever has historically. So we feel very good about that, and we have that optionality.

The second business is nutraceuticals. We've stabilized it. We've improved it. The key issue is, what's the fit long-term into our portfolio. And again, we want to make it more valuable. We're investing to improve the business, and we'll decide what we do there.

In the portfolio of integrated, we are looking at all the businesses that we have, which assets are underperforming, as I said before. If you look at our metrics, sales growth, margin versus many of our peers, I think that's a big change, and we're performing better. The part that we haven't performed as well is return on capital and some of the investments, and we're looking at those areas. We have 2 businesses that are performing below our expectations. Even last year where we had peak performance for those businesses, it wasn't good enough. And that's our CMC business and our MC Industrial business. And we are looking at what we want to do with those businesses because those assets are very valuable. And as you'll hear in our Innovation Day, part of what we want to do is how can we repurpose some of these assets? Many of them are in the U.S., for example. These are very valuable assets.

As part of our capital allocation discipline, it's not just about how we invest new capital, it's also about how we manage old capital. And these plants are very, very valuable. We have very experienced teams in those sites, and we can repurpose it, we can get significant earnings growth, I mean not revenue growth, if we replace all businesses, but earnings growth and returns, and you'll hear about that in the September call. There's a lot of these new technologies that we can use in those assets just like some of the technologies that you're going to hear that we're launching now in September, we're going to be using assets from the business we lost in 2019 so that should be very positive to our returns.

Operator

And our next question will come from the line of Michael Sison from Wells Fargo.

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

Could you maybe just help us think about building up from the $500 million that you're going to do this year? It doesn't have to necessarily be in '24, but if the destocking ends, how do you get that EBITDA back? What else can sort of get you back on track to- we were close to $600 million initially at the beginning of this year. So could you just maybe help us think about walking back upward over time?

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

Right. So Mike, that's the question as I mentioned, it's the volume question, right? And what the implications are for the future? We will talk about that more in specifics in the next call. We have the pleasure of being one of the first ones to talk about 2024. But what I would say is, as we look at the numbers, like I said, there's incentive comp reset. There's a few things that we can call out as we do that. What I would say is this thing of the destocking has evolved in a way that nobody expected over time. It's just longer and bigger than everybody expected.

At the beginning, a lot of the questions we get as well, you took this action and it goes away, you're going to get that all back. I think what we're seeing now is, look, this is more protracted. It's not just the actions we take. We're running plants lower. There's a lot of noise here. I think you're going to look at volume itself rather than what events happen, what they go away. What was our volume this year? I think that's the question we had before of, what's that leverage? And I think the question is, you can do the math, if our volumes were in line with our customers, what would that mean? And it would be a very different number. And I think that's really an indication I would give you is when volume normalizes, what does that look like? And then what you need to estimate is, well, when will destocking end? For every month, what does that mean? And that's, I think, the big question for the entire industry right now. Volume recovery and timing of that volume growth.

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

Got it. And then just a quick follow-up. Pharma has continued to do well. Any thoughts? I mean, how your customers' inventory is there? Could there be a destocking event there going forward? How do you feel about that business at near term?

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

As we said last quarter and we expected this fourth quarter the demand to start to normalize, and we're seeing that. I think what you're going to see is now it's going to go back to normal growth rates as we move forward. I don't think that industry built; they increase a little bit their safety stocks. They can adjust a little bit, but it's not the same level as some of the other industries. And you can see because they've continued while other industries were taking actions, they've continued. So you will see a moderation, but we don't expect to see the level of actions that we've seen in the other industries.

Operator

Our next question will come from the line of John McNulty from BMO.

John Patrick McNulty ***BMO Capital Markets Equity Research - MD & Senior U.S. Chemicals Analyst***

So with the level of destocking that you're seeing and the volume pressure, I guess can you speak to the pricing trends quarter-over-quarter? Have they been kind of solid still? Are they up? Are they down? Can you give us a little bit of color on that?

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

So pricing is holding. If you look at a lot of our customers' earnings commentary, our performance is basically the same thing without the volume. Pricing dynamics, the cost dynamics, in our case, if you look at our margins, were less petrochemicalso I think the petrochemical exposed are going to get much more of a swing up and down as these volumes impact our downstream suppliers. And as I mentioned in the call, our suppliers, we talk to them a lot because they're important to our chain. They're feeling it much more than we are. So we're working with them. But we see the cotton - the cellulosic prices are more stable. They're improving a little. The petrochemicals are coming down a little bit, but not a significant change. In the acetylenics, obviously, we see natural gas coming down. So it's going to vary, but we're not in the same dynamics as some of the other ones where they're holding price and raw materials are really coming down significantly. We're more stable on that side of the equation.

I think the question everybody is saying, well, will these volumes, prices come down. The issue is there is no volume. You're going to drop prices for what? It's not like you can go out and try to get share. There's not a lot of volume out thereso until destocking ends, if somebody has product, why are they going to buy more product at any price? So I think the issue now is work through the destocking. For pricing, we are holding. Our prices tend to be more sticky. As raw material adjusts, we see there's some movement; we're very confident on our margin, our ability to maintain our margins as we move forward. But it goes back to the volume question. That's the biggest issue for the next few months.

John Patrick McNulty ***BMO Capital Markets Equity Research - MD & Senior U.S. Chemicals Analyst***

Got it. Fair enough. And then I guess the other question is I know you had been sold out in a whole bunch of product lines, and you're bringing up some HEC capacity, Benecel, Klucel, et cetera. I guess, just given the destocking speed bump that seems like we're in the middle of, I guess, can you speak to, first of all, as these expansions come on, are they largely accounted for from a customer perspective and a demand perspective? And if not, do you think about delaying some of the start-up of these or pushing it out a few quarters or what have you? I guess how should we be thinking about that?

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

So several things. On that first bullet on investing -- the first two bullets is where we're doing our investments. On the second bullet, these growth globalization, we're not stopping them. They're asset-light. It's about real, real growth independent of some of these dynamics. So investing in China, Brazil and India, we're going to continue doing that.

On investing in the core assets, and some of them, Benecel, it's coming online. So we're managing through that. HEC, and we were basically sold out, so we needed the capacity. HEC, the project is well advanced and it will be coming in next year. We're not stopping that. In Aquaflow, we've slow paced it so it will come in a few quarters because the [Aqua] market is down, and we can push that back a little bit. And the Klucel is ongoing. It's again, very pharma, very high value, and we need that capacity to support our customers so we're not going to stop it. But I think the important point, I go back to the volume question. The destocking is a major challenge for all of us, but it's a short-term issue. What's really exciting for me is that our customers' volumes are resilient. That is the most important message, if I can leave one is, as long as they're okay, we're eventually going to be back to what they're doing. So to your question, are we going to need HEC? Well if the HEC and coatings is the biggest volume, if they're up single digits to plus or minus 2%, 3% in volume depending on the customer and the industry was sold out, not just us, but the industry was sold out, that capacity is going to be needed. Now we got to separate that destocking from what that real demand is. So based on real demand, the capacity will be needed. Based on destocking, we could be off a quarter or 2, and we can't manage that to that level of specificity.

Operator

Our next question comes from the line of Josh Spector from UBS.

Joshua David Spector ***UBS Investment Bank, Research Division - Equity Research Associate - Chemicals***

I was wondering if you could separate some of the line between mix and volumes. So I think one of the challenges here is that Ashland never really saw a big volume uplift over the last couple of years, but we've talked a little bit about a lot of mix improvement. So is there a way to frame maybe how much tons or volumes went from a lower-margin product to a higher-margin product? And is that where there has been some inventory built? And just if I look at this relative to personal care, as an example, my math is your volumes there might be down 25%, 30%, versus 2019, full year basis for this year. So is there some percent of that volume that you've walked away from as a part of the mix improvement, which means we don't get all that volume back, but we might come back at a higher margin because the mix is better?

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

It's very hard to do because of all the different products and technologies so it's not a simple one explanation. We got to go technology by technology. I think if you look at our mix improvements in general, pharma, personal care, architectural coatings are the higher-margin stuff. So that's not where we had a negative view maybe in specific product categories on that. If you step back, the volume destocking has impacted our secondary businesses and our lower-margin businesses more than our high-value businesses. Unfortunately, those are also high absorption businesses so that's where we see the negativity.

Disproportionately, the big impact was CMC. This is one of the questions we had before, what are the ones that we want to repurpose assets? CMC, which goes into nutrition, which was very heavily impacted and it goes into a number of energy and a lot of other markets. The margins there are way below our average for the company and our return is way below the average for the company.

Our MC Industrial, it's mostly construction, mostly in Europe, same thing, heavily impacted and construction in Europe as a segment has been heavily impacted. But again, if you look at margins, way below our average. The absorption impact is bigger than the margin impact in those areas and I would say, Intermediates, our BDO plants, it's a big asset. That's where the majority of the impact was.

The next one would be HEC. We have many plants. It was an impact, but it's not something I'm as worried about. It's not as big as in the other areas. We can manage through it. Volumes will come back quickly in their core markets. CMC and MC, that's where we did a lot of the mix improvement. Last year was a much better year than any year we've ever had, and I'm very open. It wasn't good enough so that's where we really have that strategic work we're doing. Those are the things we're going to talk about in the September Innovation Day - is how can we leverage, these are very valuable assets, building a plant like this like these are $100 million-plus investments so if we can leverage them for other technologies, we can get a lot of the value. These lower-end segments were disproportionately the bigger challenge for us in this quarter. The higher quality businesses are doing fine.

Joshua David Spector ***UBS Investment Bank, Research Division - Equity Research Associate - Chemicals***

Yes. And just on Life Sciences margins within the quarter, I mean, obviously, a bit of a bright spot. Just curious how much of that is just mix of pharma holding in better versus the nutraceutical down versus structural improvement there?

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

Pharma has been good, is good, is expected to be good. We're selling less of nutrition and nutraceuticals. The lower margin stuff is the one that got impacted; therefore, you're seeing more of the mix improvement to the core pharma.

Operator

Our next question will come from the line of John Roberts from Credit Suisse.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

Personal care business looks like it didn't have any earnings hit from your own destocking. Why was that?

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

I'm sorry, could you repeat the question? Is that personal care?

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

Yes. It looked like it didn't have any earnings hit from your own destocking?

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

Yes. One item I would point out. I mean they did get impacted on some areas. We've said it, I think, in the last 2 calls our Specialty Additives business, the way we do it, they own most of the cellulosic plants. So a lot of, like, for example, CMC and HEC absorption impact, it's all captured in SA, in Specialty Additives. So some of that really would flow to other businesses, but the way we do it is just in SA. There is an impact. It's captured in another business the way we do it.

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

It was probably a couple of million dollars that flowed through the Personal Care P&L from an absorption perspective.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

And then are customers pulling back on any of the new product initiatives because of this correction and could you talk a little bit about new win rates?

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

Yes. We're really excited. You'll hear some of the stories. We've been trying to be very transparent with everybody, videos on the conferences and all that, we'll do more of these, but we're getting awards. We're getting a lot of these products qualified to launch a product. A lot of these new innovations, we've started to launch at the end of last 2022 so we're getting that momentum. People are coding them, qualifying them. We're very excited about all of the new technologies. It just takes time.

And what we want to show is visibility of what we're doing so that you as investors have a little bit of indicators that it's not just the revenue, but what's happening with some of these products. But personal care specifically, all the innovations have been very well received, feedback from customers were being one of the more innovative. Players, especially when it comes to ESG, natural, natural derived, biodegradable. Our portfolio itself lends itself to some of these technologies. But that will be a central part of our discussion in September. And you'll see some of the newer technologies that we're looking at that if you look at it over the next decade, really, they can generate significant growth opportunities.

When we say scalable, we're not just launching a nice product that can sell $5 million, $10 million, $15 million. We're looking at platforms that are targeting $300 million, $400 million, $600 million markets that we can get significant share. And if only part of the portfolio impacts, it will really provide a very nice growth engine and more profitable than our current technologies.

Operator

Our next question will come from the line of Jeff Zekauskas from JPMorgan.

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

Great. How are your cash flows looking this year, either cash flow from operations or free cash flows?

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

Kevin, do you want to take this one?

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

Sure, sure. It was strong in the quarter, Jeff, and a lot of that was working capital driven. Unfortunately, part of it is from lower sales, which drives lower receivables. As our terms really haven't changed, but our receivable numbers are going down. For the full year, we're probably looking at 45%, 50% free cash flow to EBITDA conversion. As things normalize, we would expect that number to creep back up to the, call it, 55% to 60% or maybe a little better percent over the course of time, which is more in line with our target. As you'll recall, last year, it was probably in the 20s due to pretty significant working capital build just because of inflation so it has bounced around some just due to the external environment. But we'd expect it to normalize as demand and volumes normalize.

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

And I guess for my follow-up, if your operations were running efficiently, where would your inventories be? So you're at $712 million, would they be at $600 million? Would they be at $550 million? Would they be at $500 million? What's the right number as far as you can tell?

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

Yes. I think the issue is not the dollar value right now. It's the days because it's not how much we're producing or how we're running our plants. It's what's demand. We tend to run based on what our demand outlook, what are the days of inventory we need, very significantly by technology. If you have some of these global assets, for example, HEC that you're producing in certain areas, and shipping around the world. We look at days of how long does it take to ship, what safety stock do you need in the other country? And that gives you a number, and that's basically our days of sales are high. That's really the big issue, and that's what's driving all the production and adjustments.

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

If you normalize everything back to where, call it, demand and volumes were, the number is probably in the $650 million range would be my guess. I mean, that's where you could be plus or minus $25 million on either side of that, probably. But as Guillermo said, and to expand on that a little bit, we do more of our manufacturing in the U.S. than anywhere else, but we're very global. So from a days perspective, we do tend to be a little longer than some of our peers might be. But we think that's about the right number. And again, that's going to vary just depending on what inflation does or doesn't do, et cetera.

Operator

Our next question will come from the line of Mike Harrison from Seaport Research Partners.

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

Just wanted to follow up on the capacity addition that you guys have talked about. In some of those product lines where you are moving forward near term, you guys haven't really given us a whole lot of detail about the magnitude of those additional volumes. So I guess how much additional volume should we be thinking about coming in, in areas like Benecel, where you are moving forward, and that's going to contribute, presumably early in '24?

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

Yes. So this one is coming in at early '24, and the HEC will be finished coming on stream also Q1, Q2 of '24, probably early part of the calendar year. I think the HEC about 10% capacity improvement, 10,000 metric tonnes?

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

That's right.

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

So we can just follow up with you, Mike, and share a little bit more on some of the specifics there. The Aquaflow is a new plant, and we put it in a different site. Some of our customers wanted also just to make sure that they were more from a supply security, more sites since it's an important product for them. So it's not just volume. It's also where we're locating some of these assets. I will say also, all these investments are in existing facilities so we're not building a new, new, new plant. They're just production units within plants. So that will also bring productivity to these plants.

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

All right. And then I apologize if I missed this, but kind of a broad question about whether you're taking any additional cost actions as a response to some of the weakness that you're seeing right now? And I guess maybe more specifically, as you talk about CMC and the MC Industrial business being below expected returns or where you want the margins to be? What specific actions can you take in those businesses that would help near-term? Or is it not that simple?

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

So I think 2 things that we are doing. One is on the structure cost side. We are taking some actions, not just to reduce cost, but also to reallocate resources. As I mentioned, we'd like to increase investments, especially in R&D and marketing commercial resources in some of these new platforms. So rather than add just like we were talking about on the asset side, are there initiatives that are less critical to us that we can shift some of the resources around. So we have been restructuring and realigning some of our businesses.

So we moved, for example, Intermediates now is reporting into the same leaders of Life Sciences business so that the entire chain is owned by 1 group they can see point-to-point what we're doing. We're consolidating some of the management and resources. That's really where we want to shift a lot of the new technologies in Personal Care and Specialty Additives so that we can share some resources more efficiently and free up some resources really to support growth. And then we're putting a team together, we announced that we had added a person who's really looking at the portfolio, really to drive some of these platforms that you will be hearing about in September. And by drive, I mean, is really helping coordinate because a lot of these things cross businesses so that we have clarity on not just introducing a product in a certain segment and selling it, how do we really build a business plan around getting that scale that we want when we need to move forward with these technologies across multiple areas. So that will deliver both cost and allow us to shift resources around.

I think the other part we're still working on is the part that you mentioned is on assets. And clearly, it's not just about shutting things down. These are valuable assets. And the good news is we can leverage. As an example, we are launching in September a new super very high-end surface changing technology that goes around multiple markets, very high end, competes with silicones. We're planning to make this in the asset where we used to make some of the products for oral care that we lost in 2019. So we're very limited assets.

We already launched in personal care, but now we're taking it to other markets, oil, vegetable oil-based polymers. There's a whole category of products that can go into all our segments. Very exciting technology. We're using existing assets, but as we grow them out, we can do some things. You'll hear about technologies that we can make in our CMC or MC assets around [EO free] cellulosics - HEC type products, but EO free. We can look at starches that we're looking at. I mean there's just a ton of technologies that we're looking at. But we need to do that in an organized way. We're not just going to shut down and move things around. There's a real value-creation opportunity if we do this with discipline, and that's what we've got to lay out for all of you in terms of where we're going and then the pace of that will depend on that innovation agenda that we're going to drive.

Operator

Our next question will come from the line of Kevin Estok from Jefferies.

Kevin Estok ***Jefferies LLC, Research Division - Equity Associate***

This is actually Kevin Estok on for Laurence Alexander. Most of them are actually asked, but I guess if maybe you could talk a little bit about maybe like the regional differences in destocking that you're seeing maybe between Europe, Asia, North America and maybe anything on specific customers?

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

Clearly, Europe is still the one that's the softest if you look at coatings as an example, a step down in terms of demand. And where I'm spending my time is looking at our customers, frankly, where they're selling, their demand is more probably reflective of the end market demand. And I think we see that also in their numbers that Europe is a bit softer so there's no surprise there. China has not recovered to the rate that everybody expected. We do see significant variability by customers. For example, in China, the big players are actually doing better than some of the smaller players in terms of their volumes and ability to gain share in this kind of environment.

Pharma is pretty global, and both the big pharma players as well as the generics are pretty uniform around the world. So I think it's really more the customer specific and Europe that we're seeing the dynamics for our business at least.

Operator

And I'm not showing any further questions in the queue. I would now like to turn the conference back to Guillermo for closing remarks.

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

Okay. Thank you very much, Victor. Thank you all for participating. I guess the 2 big messages if I can leave you with one. We all know the destocking dynamics, we will work through them. But the 2 important messages- One, our customers volumes, sales volumes are healthier and really show more resilience of the end markets we serve. We're very excited about that. That's really at the end of the day what's going to drive our own demand in the mid to long term. We'll work through the short term, but that's a really good perspective, I think that the markets are still healthy. And two, that regardless of this short-term situation, the long-term growth opportunities have not changed. We're very excited about them, and that's really where we want to really spend our time and energy so we'll continue to manage the short term to maximize near-term performance without losing traction and momentum on some of these important longer-term initiatives. So thank you for your attention, and we look forward to seeing many of you in September in Wilmington. So thanks, everyone.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.