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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Ashland Inc. First Quarter 2023 Earnings Conference Call.

(Operator Instructions)

Please be advised that today's conference is being recorded. And I would now like to hand the conference over to your speaker today, Mr. Seth Mrozek, Director of Investor Relations. Sir, please go ahead.

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

Thank you, Chris. Hello, everyone, and welcome to Ashland's First 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's Chair and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer. We released preliminary results for the quarter ended December 31, 2022, at approximately 5:00 p.m. Eastern Time yesterday, January 31. 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. 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 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 of 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 fiscal first quarter. Next, Kevin will provide a more detailed review of financial results for the quarter. Guillermo will then provide additional commentary related to Ashland's financial outlook for fiscal year 2023. We will 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. As stated in our earnings release last night, Ashland's results in the fiscal first quarter were consistent with the earnings update we issued last week. During these times of continued global uncertainty, we will strive to provide transparency and timely communication on company results and performance. As we plan for the December quarter, we recognized that several external dynamics could impact demand and performance. The impact of Central Bank actions to combat inflation, the war in Ukraine and the COVID reopening in China. Our forecast was based on a more recessionary environment developing and did not include factors that we could not control or forecast. The drivers of our results for the fiscal first quarter are a great example of how uncertain events significantly impact market dynamics in a very short period of time. I'd like to spend a few minutes providing my perspective on the overall results.

First, disciplined pricing led to price-versus-inflation cost tailwinds in the quarter as we had expected. Our commercial teams moved quickly last year to recover the increased costs we experienced in energy, freight, logistics, raw materials and other input costs. They continued with this discipline in this quarter. On a constant current basis, that pricing carryover and additional new pricing resulted in double-digit percentage price improvements for all segments compared to Q1 of last year. In addition, our 3 consumer-focused segments, Life Science, Personal Care and Specialty Additives realized strong mix improvements, which supported the company's overall margins.

Second, the results in Life Science segment was particularly strong. The team saw strong global demand in our leading pharmaceutical ingredients and was able to capture additional market share at leading pharma customers. As you saw in the video at the beginning of today's call, Ashland continues to expand its leadership position in some of the world's most important pharmaceutical applications. And third, Ashland serves resilient end markets and geographies across the globe. The U.S. consumer and our U.S. customers continued to demonstrate resilience in demand in the face of global economic uncertainty. Many emerging markets also demonstrated growth. The historic long-term resilience of the end markets we serve gives us confidence in our financial outlook for this year and beyond.

In contrast, we also experienced several headwinds during the quarter that yielded overall results that were below our original expectations. First, global macro factors certainly impacted demand in China and Europe during the quarter. The changes in government COVID policies and the resulting acceleration of infection rates clearly impacted demand as well as business and living activities for everyone in China. The speed and impact of these developments was much greater than anyone expected. As a result, sales in China were significantly below our expectations. And although we expected some level of economic downturn in Europe, driven by both recessionary trends and general uncertainty on the impact of the Russia-Ukraine war, demand in Europe was below our expectations.

Second, inventory management and destocking primarily by distributors in Europe and China was real, and it happened quickly. While sales distributors only represent about 20% of Ashland's overall sales, distributor inventory destocking actions were a significant driver and roughly 50% of our revenue gap versus prior year. The vast majority of this was in China and Europe. We also saw certain customers take similar inventory management actions. So these were isolated and we believe very company-specific with no specific market patterns. The weaker demand in China and Europe as well as the destocking impacted mostly Specialty Additives and our Personal Care business. It is important to note that while Ashland's overall margins remained in line with prior year, margins in our Specialty Additives segment were impacted by planned turnarounds, both planned and unplanned during the quarter. We are thankful that our team in China is healthy and are grateful for the resilience they demonstrated following the outbreak of COVID in December. And while the U.S. freeze did impact operations at several plants during December and January, the financial impact will mostly come through in the second quarter. Our teams are working on actions to offset the impact of the unplanned shutdowns and the freeze, including plans to rationalize some of our planned maintenance work company-wide in the third and fourth quarters.

I will discuss this a bit more when we review our outlook for fiscal 2023 later in the call. However, all indications lead us to believe that the China reopening will have a positive impact on demand, but the pace and breadth of the reopening should be an important factor in our financial outlook for the remainder of the year.

Finally, foreign exchange rates again had a negative impact on Ashland's overall results. The impact of the strong dollar continues to be realized on our business overseas, though current exchange rates are improving when compared to our original forecast at the beginning of the year.

Please turn to Slide 6. Before I ask Kevin to discuss our quarterly results in more detail, I would like to sum up the key takeaways. Despite global uncertainty and macroeconomic volatility, Ashland delivered consistent results in the quarter. Sales growth, EBITDA growth, EPS growth were delivered along with nearly flat EBITDA margins compared to prior year. While there were many puts and takes, delivering consistent results is an important component of our long-term strategy.

Please turn to Slide 7. As you can see in the chart on the left, year-over-year sales growth in Life Science was very strong. While the top line for Personal Care and Specialty Additives was below prior year due to the factors referenced earlier. Overall margins for Ashland remain healthy and generally in line with our expectations. 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. I look forward to discussing the outlook for fiscal year '23 and reviewing broader progress by the company later in the call. In the meantime, I'll turn over the call to Kevin to review Q1 results in more detail. Kevin?

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

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 9. Total Ashland sales in the quarter were $525 million, up 3% versus prior year, driven by continued inflation recovery and mix improvements. Sales increased by 7% on a constant currency basis. Gross margin remained consistent at 31.4% as cost recovery and mix improvement actions by the commercial teams offset increased input costs and the turnaround expense at a number of our global facilities, which Guillermo previously discussed. When excluding key items, SG&A, R&D and intangible amortization costs of $116 million were essentially flat compared to the prior year. In total, Ashland's adjusted EBITDA for the quarter was $108 million, up 2% from the prior year adjusted EBITDA of $106 million.

It's important to note that unfavorable foreign currency negatively impacted adjusted EBITDA by $14 million, while the planned facility turnarounds resulted in $12 million of incremental cost during the quarter. Ashland's adjusted EBITDA margin for the quarter was 20.6% and consistent with the prior year. Adjusted EPS, excluding acquisition and amortization for the quarter, was $0.97 per share, up 10% from the prior year quarter. Ongoing free cash flow was a negative $21 million for the quarter, a reduction from the prior year, primarily reflecting an increase in working capital driven by increased inventory balances globally.

Now let's review the results of each of our 4 operating segments. Please turn to Slide 10. As Guillermo referenced at the beginning of today's call, Life Sciences delivered very strong results in the quarter, driven by our global pharmaceutical ingredients business. Pharma demand remained strong, product mix was favorable, the team executed on disciplined cost recovery, all contributing to margin expansion. Unfavorable currency impact was a partial offset to the strong performance in Life Sciences. In total, Life Sciences sales increased by 22% to $207 million, while adjusted EBITDA increased by 44% to $52 million. Adjusted EBITDA margin increased meaningfully to more than 25%.

Please turn to Slide 11. Personal Care sales were down by double-digit percentage in China due to COVID policies. Inventory destocking by distributors, particularly in Europe, also negatively impacted sales. As with Life Sciences, the team continued to realize disciplined cost recovery through pricing and favorable product mix. For the quarter, Personal Care sales declined by 6% to $138 million, while adjusted EBITDA declined 11% to $32 million. Adjusted EBITDA margin also declined to roughly 23%. Unfavorable currency impact was also a headwind to Personal Care results in the quarter.

Please turn to Slide 12. Specialty Additives also felt the impact of reduced demand primarily related to inventory destocking among distributors and certain customers in China and Europe. Sales outside of these 2 important regions were up by mid-single digits versus the prior year quarter. The reduced demand more than offset improved cost recovery and mix for the segment, particularly within the architectural coatings end market. For the quarter, Specialty Additives sales declined by 8% to $143 million, while adjusted EBITDA declined by 39% to $23 million. The cost impact from both planned and unplanned facility shutdowns was about $7 million and represented nearly half of the year-over-year decline in EBITDA. Adjusted EBITDA margin also declined to 16% for the quarter.

Please turn to Slide 13. Intermediates reported sales were $54 million, up 2% compared to the prior year driven by higher merchant market pricing and improved product mix management of higher-value derivatives. Intermediates reported adjusted EBITDA of $23 million, an increase of 21% compared to prior year and adjusted EBITDA margin improved to 42.6%.

Please turn to Slide 14. As we discussed at our last Investor Day, capital allocation discipline continues to be an important component of Ashland's value-creation strategy. The actions we have taken over the past year have improved Ashland's financial position and provide for increased flexibility. Last night, we announced plans to execute a new $100 million share repurchase program under Rule 10b5-1. This program will be executed under the existing $500 million evergreen share repurchase authorization that was approved by Ashland's Board of Directors last year. We expect to begin executing trades under the new program in early February. With the strength of our balance sheet, our growth outlook for the year and the fact that we continue to believe that Ashland shares remain significantly undervalued, now is the right time to begin a new open market purchase program. As of the quarter close on December 31, we had cash on hand of more than $530 million with total available liquidity of roughly $1.2 billion. Our net debt stands at $784 million, which is about 1.3 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 business 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.

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 16. I'd like to take a few minutes to provide some perspective on the current fiscal second quarter and the second half of our fiscal year outlook. For the second quarter, first, regarding demand. Our global pharma business continues to demonstrate strong resilience in our order book for Personal Care ingredients and Architectural Coatings Additives is rebounding so far this quarter. Although most of the regions are experiencing demand strengthening, demand in China remained weak in January. We expect to see the demand pickup following the Chinese New Year. Additionally, during January, we began to see the regional destocking dynamic stabilizing, notably in Europe. While volume demand levels have not returned to prior year levels, the sequential improvement has been meaningful. As we exit January, our sales and open orders were slightly above prior year with price up and volume down. Relative to prior months, both volume and revenue were significantly up even with a weak demand in China.

Second, as previously communicated, the winter storm that impacted much of the U.S. in December and had significant impact in our facility in Calvert City, Kentucky as well as several other facilities in the U.S., fortunately, Calvert City and other locations have been back online and fully operational for most of January. While the storm did not have a meaningful impact on results in Q1, we expect to recognize approximately $15 million of incremental cost in the March quarter. These costs will most directly impact results in Life Science and Personal Care segments of the business. However, we expect the timing of the offset actions will be mostly impacting our third and fourth quarter.

And finally, for the next few months, there continues to be an elevated level of uncertainty globally. What happens over the next 2 months from China's reopening to geopolitical and economic developments in Europe to Central Bank actions across the globe will have important implications for the global economy and Ashland results. All these factors could further influence our modeling and outlook for the remainder of fiscal year '23.

As we move into March, we expect to have increased visibility into many of these factors and the actions that our customers are taking heading into the second half of the year. For the second half of 2023, as we look at the back half of our fiscal year, some of the key issues that we look at are the expected magnitude and impact of the recessionary momentum. Will there be more recent impacts as we move from a high demand and tight supply to a more recessionary environment, and the uncertainty around the impact of China's COVID reopening and potential changes in the Russia-Ukraine war dynamics?

With regards to the recessionary environment, in the absence of new data, we believe that the markets our business serve will continue to perform in line with their historic resilience. Our question is more about how the re-set develops as we move from the 2022 tight supply-demand dynamics into a more recessionary 2023 environment. This reset driven by China's COVID reopening and destocking clearly impacted demand in the first quarter, but should be transitory. Note that several of our key technologies, capacity for the industry and Ashland remain tight, with operating rates above 90%. While I'm not ready to say that destocking is over, trends in January show significant improvement. Unless there are new developments, we expect them to fade off by the end of the second quarter.

The impact of China's reopening or changes in the Russia-Ukraine war dynamic is more difficult to forecast, given the lack of clarity on how they will develop. For China's COVID reopening, we do expect improved demand developments in China. What broader impacts could develop will depend on the pace and the magnitude of the reopening. In this uncertain environment, we will continue to focus on what we can control while planning and building resilience to react quickly to developments, similar to what we did in 2022.

Notwithstanding our current outlook, as we did during the uncertain times of COVID, we will continue to look at a more conservative outlook for our internal assumptions that will drive our actions and plans. Our priorities will be on. While we do not ultimately control demand, we will remain nimble to react to positive or negative developments, and we'll continue to focus on innovation and share gain activities to support growth. We will maintain focus on disciplined pricing, mix and cost management to sustain margins. We demonstrated this ability in a very challenging inflationary environment in fiscal '22, and we will maintain this discipline in fiscal '23 and beyond. We will drive actions to offset incremental costs from unplanned shutdowns and the freeze. We will monitor market developments and take appropriate actions to maintain inventories in line with developing supply-demand dynamics.

Please turn to Slide 17. Consistent with our earnings update from last week, we are maintaining our financial guidance range for sales and adjusted EBITDA margin for the fiscal year '23. As indicated, our current models put our EBITDA outlook below the midpoint of our range. We expect to have better visibility on the impact of China's reopening post-winter Europe and Central Bank actions to combat inflation at the end of the second quarter. Critical deliverables in our models are clear, to sustain price margin management discipline, to offset the unplanned shutdowns and freeze impact in Q3 and Q4 and to continue to invest in our innovation pipeline and capacity to drive growth.

Critical assumptions in our model are: we assume that the reset items like destocking are transitory; we assume that demand in our core markets performed in line with historic recessionary resilience; we assume the demand in China picks up and normalizes with the ongoing reopening. And as we did in '22, we continue to build resilience to react quickly to uncertain and unplanned external developments. Our outlook for the year takes into account the known macro operating environment and Ashland's unique position within that landscape. Speculation on the potential impact of highly uncertain macro factors that are out of our control or ability to forecast are not factored into our models.

Please turn to Slide 19. Overall, the last decade, Ashland's journey of transformation has sharpened our focus as an Additives and Specialty Ingredients company. As we systematically identify and tackle the thorniest problems, we concentrate on areas rich in opportunities to innovate and drive value for our customers, where innovation and expertise in 1 business unit can be leveraged in others. In closing, I want to thank the Ashland team again for their leadership and proactive ownership of their business in an uncertain environment. We have solidified our portfolio as a Global Additives and Specialty Ingredients company with exceptional businesses that have leadership positions in resilient, high-quality, consumer-driven segments. I am pleased by the resilience and execution demonstrated by our people and our business and look forward to the opportunities that lie ahead.

Thank you. And operator, let's open it to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question will come from Christopher Parkinson from Mizuho Securities.

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

Guillermo, can you just give us a little bit more color on your remarks in January, and how you see the quarter shipping up on the destock and kind of focusing on Europe and China? And perhaps, just as important, the U.S. seems to be holding in on a relative basis. Can you just also hit on your expectations there, and where you'd assess inventory levels with your distribution as well as direct customers?

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

Yes. Well, let me start with the general markets, and I'll comment on China and Europe and some of the headwinds we saw, and how they're changing. Overall, if you look at it, we did a lot of analysis in the first quarter and looking into January. For most of the world, the U.S. and a lot of the development, demand actually remained pretty solid, especially if you look at our core customers. It was softer than we had expected overall, so demand, but relative to prior year, they were able to hold up. And if you look at by market segments, it was pretty general. A lot of the destocking actions at our customers were very specific to customers, and in a specific market, one customer brought down inventories, but others did not.

I would say, even if you look at coatings and some of the Specialty Additives business, so we get a lot of questions, in the U.S., we saw softness in the DIY market. But in other areas, we saw strength in some of our major customers. So again, we sell additives. We're not the major high-volume ingredients. So some of the dynamics that happen to us is a little bit different than other players. For China, obviously, the reopening has had a big impact. I don't think we're any different than anybody else. We saw it with our plants. At one point in time, 95% of our team in the Nanjing plant reported infected. So we shut down for an extended period of time. I think that happened to our customers, to a lot of our suppliers and even distributors.

So I think what's happening in China is more about the COVID. There was some destocking, but I assume that even across the chain, everybody had the same problem we did in terms of shutting down operations, and we continue to see that in January. We saw a significant improvement in demands in -- our orders and sales in January, but China was down significantly. So we're hopeful that as we get now on the Chinese New Year, we'll see that pick up.

And then the same thing in Europe, we're seeing it stabilize, especially the distributor destocking, I think most of that should be behind us. And again, the demand at the customer level was customer by customer. So I think if you look at the core market resilience, this is why we're talking about what's the resilience of the market versus these reset items. Obviously, the reset items were the bigger driver and a lot of the underlying dynamics in many of the markets. So our take is that the things have slowed down, but the dynamics are solid in many of the markets. It's just an issue of where each player was in terms of how they were managing last year with tight supply and demand and their inventory positions. That would be transitory as we said.

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

Understood. And just a little bit more of a long-term question. Obviously, there's been a little bit of noise in results due to storms and outages, maintenance, so on and so forth, but you've been pricing well. It seems like you're growing in the right areas in terms of being a beneficiary of mix. And then it seems like some of the inflationary headwinds that the entire platform is facing throughout the last fiscal year are beginning to ease, and in some cases, improved. So could you just give us a very quick update on your latest assessment of the margin potential across the entire portfolio and your confidence there within?

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

Yes. I think the team has been very focused on that area. That is, as we highlighted, a critical deliverable for our models in terms of outlook. Remember, we don't have a lot of capacity. So volume was never a big driver. Obviously, we're looking at it on the negative side, what could happen as if volumes come down a little bit, but they were never a big driver on the upside just because of where we are. Most of our capacity will be coming on in 2024. We need it. Even with the slowdown, the production rates in many of the key technologies are still very high. So we need that capacity to drive growth.

So pricing and margin management is a critical, critical deliverable, and I think we're in a good place because we've captured everything that we needed to, both from the carryover from last year and actions that they took during the first quarter. So the issue really now is how prices develop. I think this is where there could be some noise with the China reopening on how that impacts global demand, and that's probably where there's more uncertainty. I think we see just the reopening will drive better demand in China, but the pace and magnitude, obviously, could have other implications around the world, which we're going to monitor. So I think we're in a good place on that pricing margin side.

The freezes did not impact our revenue or sales. We had inventory where it was more of the financial impact of the shutdown, maintenance and those kind of things that did impact the margins, but the underlying margins, even in Specialty Additives, are expected to rebound. They were fine in the quarter. It was just that added costs that came through. So in the things that we can control, we feel good. I think the issue now is, as we said, we're not immune to the external dynamics. Our biggest issue right now is making sure that we perform in line with our peer group. I mean we're all selling to the same; if you're going to sell into product x, whatever, cosmetics as an example, we sell different ingredients. We should perform in line with our peers that are also focused on these resilient market segments.

And I think we're confident that we are doing that, and our issue is going to be like last year. If you look at our results last year, they were very good, but versus what we expected at the beginning of the year, a lot of different actions. We reacted very quickly to changing dynamics, and I think as has been the case for the last 3 years. It's about being nimble and assumptions change very quickly in this uncertain environment. And I'm confident that the team has performed well and will continue to perform well as we move forward.

Operator

Our next question will come from Josh Spector of UBS.

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

Just on the mix improvement, it's a big, big part of your earnings growth over the last year. You talked about markets remaining tight. They were tight last year. You had limited capacity. Just wondering, given the double-digit volume decline, I think, you saw in some of your segments this quarter, if we see more of a prolonged destocking or a longer period of weaker demand, does that change that mix dynamic? Do you give some of that back? Or how do you react to that?

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

I think in some of the areas, it gives us some flexibility. We have to go back to some markets if volumes come down. That's flexibility that we have. But for the majority of the key ingredients, if you look at the acetylenics line, things are still really tight for the foreseeable outlook. Producers in Europe are still very challenged, and we're in a very strong position there. ATC remains tight in the market even with this lower demand. So it's going to vary by segment and product line, but our critical ones, I think, remain. We see a lot of that strength. Our issue, I think, is going to be looking at if volumes come down and we need to take actions to maintain inventories, we're not going to be building unnecessary inventory just for absorption.

We need to take actions to bring that down. I think what we're holding is, as raw materials come down a little bit, that we can offset that with raw materials. Our outlook is based on that resilient market profile that these markets have historically had, our planning and the actions that we're taking internally around costs, around how we manage our plants is taking a much more conservative outlook and saying, look, we need to be ahead of the curve as we did in 2022, and 2021 and in 2020. Plan ahead, be conservative, but don't start changing our outlooks on speculative information. React and plan and react as needed based on developments.

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

And if I could just ask specifically on Personal Care. I mean it was interesting double-digit pricing. So that stepped up from where you were. I think a lot of other specialty markets, we've seen pricing more level off. I guess, is there any risk that you're losing share going after that additional pricing?

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

No. I think if you look at the numbers, and we're seeing it already in January. Again, our initial view, like everybody else, initial view was, look, quarter was down. It must be the market. We try to align the first explanation to the narrative of the market that markets are down. Therefore, it must be that the markets are down. As we did our analysis, what we saw is, well, no, it's China and Europe distributors with the majority. So 50% probably the gap was China and 50% was distributors. I mean there's an overlap on the two. But it's these reset items, obviously, were the big impact, I would say, versus prior year, versus expectations, we have seen some softening in demand. But if you see in January, the orders have bounced back for Personal Care.

If we look at demand and we put control, upper and lower control limits, we're just not looking at one number. But demand has bounced back to the midpoint of our control limits in terms of demand for Personal Care in January. It contrast that in Specialty Additives, we have seen an improvement, but demand has bounced back into the control limits, but they're more at the bottom end of the control limit. So our view is, pharma remains strong, Personal Care normalizes as we move forward, these reset items get more behind us and performs more in line with historic parameters. And our Specialty Additives, it's going to be a little bit of a mix, depending on the segments that we're on, but it's going to continue to improve, but probably will be a little bit softer than we expected at the beginning of the year.

Operator

Our next question will come from David Begleiter of Deutsche Bank.

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

Guillermo, just on price/cost tailwinds, what were they in Q1? What do you expect for Q2? And what's embedded in the guidance for the full year?

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

Okay. So our assumption is that we will continue to recover any inflationary pressures that we get. We did it last year, I think, in the first quarter. It's more -- it wasn't broad-based like last year, more specific to product lines. Like we said, cost for example, is a significant cost increase for us in the first quarter, and we took action on those items. So I think, as we move forward, it's going to be much more surgical. If needed, we probably will see things slow down from an inflationary pressure, but again, we'll have to react as that moves forward. Most of the inflation has been around energy, especially in Europe and specific raw materials where the supply-demand imbalances had a big impact.

And again, a lot of that has mostly been driven in Europe. So I think we're starting in a good point. We don't have to recover. We're not behind the curve. We're on the curve. And as we said, last year, we took actions to protect our margins. We didn't improve through inflationary pricing. We just did what we need to do to stay whole, and the improvement was driven more by that mix improvement. The mix improvement is not just because of the supply-demand dynamics, that's part of our strategy, of which areas we want to focus on a long term, where are we going to be investing. That mix improvement is driving our portfolio to the areas where we're making all the capital investments in the coming year.

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

And just on your outlook slide, you talked about the potential need for more inventory control and absorbing actions. Could you give a little more color on what you mean by that?

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

Yes. I think although we're forecasting that we're still in demand, this quarter, for example, I think we said in the last call, we weren't going to take significant destocking actions because there was a lot of uncertainty, and we didn't want to get caught into a situation like 2021, where something happens and suddenly things get very tight. So that was sort of our position there. So the issue is going to be more if demand comes down. The one thing that's not in our model is, if we had to reduce production to meet us up, that would be a headwind for us that is not in our model. And we didn't want to highlight it for everybody that, that's just one of the risks.

Everything we're trying to do now is, given what the uncertainty is, make sure that we're transparent. We don't know where it's going, but let our investors decide what perspectives they have on some of these areas. And I would say, absorption would be a potential headwind if things continue to be or get softer as we move forward. That's not our current model right now, but it's something that we continue to monitor. We are not going to rebuild. We're not going to drive absorption by building inventory. Working capital discipline is something that's very important to us that we're going to maintain.

Operator

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

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

Guillermo, I know last year, a lot of the big issues you had were around freight and logistics, and it looks like those channels or those issues have largely been resolved. Can you speak to what kind of cost relief you're seeing there? I know we've seen the availability of things like freight to improve, but on the cost side, I guess I'd be curious how much of a tailwind that actually might be for you at this point.

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

So definitely, we've seen improvement into the last quarter of last year. We were starting to see improvement throughout this quarter. Our first quarter, we continue to see that. So I think that's stabilizing our inventory and that's allowed us to rebuild a lot of our inventory levels. I mean it's not back to normal, it's still that on-time shipments are still catching up, and it really depends on which lines you're talking about, but clearly, a big improvement. On the cost side, we're also seeing some improvement. Just a reminder, our shipments are from Europe and the U.S. out. So some of the ultra-high costs from exporting from China out were not the big driver for us. Our bigger problem was the on-time, the reliability of the supply chain was a bigger challenge. So it is an improvement area, but it's not relative to maybe other companies, it's not the same size, given where our channels of flow are going to.

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

John, those costs continue to ramp through a lot of '22 just based on energy prices, et cetera. So for our Q1, freight logistics was still higher than prior year. Probably, call it, around $10 million, give or take. So that continued to be negative from a cost perspective. But again, obviously, that's slowed down. As the year progresses, those comps should get better.

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

Got it. Okay. No, that makes sense. That's clear. And then I guess with regard to the buyback that you guys have in place, the $100 million 10b-5, I guess can you help us to think about the timing or the duration of that buyback? And how much you're kind of committing to for your fiscal 2023? How should we be thinking about that? And just given higher rates at this point, given the market's unwinding a little bit over the last, whatever, 9 to 12 months in terms of valuations, do you see more opportunities at this point to put capital into M&A? I know it's a target for you, but I guess, can you help us to think about whether it's a more target-rich environment at this point or maybe not?

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

Let me comment on the M&A side, and Kevin, you can comment on the buyback process. I think our focus right now is driven with bolt-ons. I think we're in a good position to do that in terms of our cash position and our overall capital availability. So this does not change the interest or opportunities. I think the reality is, it takes a little bit of time for the valuations to reset, and we're looking at specific opportunities that we continue to work on, but we're going to be patient. Our view is, organic growth has to be the big driver. Innovation, the capital has to be where the engine is, and we want to do these bolt-ons to augment our portfolio. But we don't want to be in the mode of having to do it or going and paying prices that will not create value in the long term.

So we're going to be patient. We're going to be disciplined as we move forward. And I do think the environment will improve as we move into the back half of 2023 from an M&A perspective. So I don't think we're changing our ability or interest to do that. But Kevin, do you want to talk about the process?

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

Sure. So in terms of the value, we are committed to the $100 million. I mean strictly speaking, these plans can be turned on and off, but our intention is to spend the $100 million. In terms of how long it will take, it will be a function of price and the volume of Ashland shares that are traded. The way these programs work is, we will have an agreed grid, price and volume grid with the bank that's executing this buyback for us, and they'll be in the market each day, and the amount of shares that they buy will be dependent on how many shares you're trading and at what price. I would expect us to be able to complete this by the end of the quarter. That would be my expectation, but will remain to be seen. But if not by the end of the quarter, certainly, by early in the June quarter.

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

That's actually a bit faster than we were thinking, so good to hear.

Operator

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

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

I was wondering if you can give a little bit more color on the strong demand that you're seeing in the pharma business. Is this increasing penetration or share of wallet with existing customers? There's new customers, new products, and I guess, maybe what are you seeing in terms of underlying market growth? Really just trying to get a sense of whether this growth that you're seeing there or strength is sustainable through the rest of fiscal '23.

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

Yes. So the underlying market has remained resilient. So it's not that the overall market is growing at the same pace. We clearly have gained share. And this segment, as we said last year, we did not expect a lot of reset there. Significant concerns, still about availability of product, supply chain was a headache prior year, but obviously, the situation in Europe and specifically, in Germany, has had a lot of impact on availability of product, reliability of supply. So as in a broad base, that entire industry has been focused on reliability, given the products and the importance of their products to society and to the welfare of people. That's been the big driver, and we saw that as we move forward.

Now looking out, we expect demand to continue to remain strong. We probably will not see significant resetting of stocks or things of that nature, and I think we will continue to do well as we look out. Will things normalize in Europe? And supply, I'm sure, towards the back end of the year, there could be some improvement, and will normalize some of our growth rates towards the back end of the year. The question is going to be, what's going to happen in Europe, and I don't think there's a lot of certainty. So we've made commitment to our customers and them to us to make sure that we're guaranteeing as best we can, the supply reliability.

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

And then a question on the Calvert City disruption that you had. Is part of the $15 million impact related to winterization or backup power or other measures to help make sure that, that facility is more resilient in future cold weather? And then do you expect any insurance recoveries associated with that outage?

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

Most of it, and Kevin, you can comment a little bit more, but it's maintenance to repair, bring it up to speed and the absorption impact. This plant is not a new plant. It has been in that weather. This weather was not the worse. It was a very unique problem we had in one of unit that had later on implications with others. And that's why the maintenance and the downtime was much more significant than expected. So it was really very specific to a unit that in our compressed air that you think of in freezing weather about liquids and things like that. Air is probably not the area that you're more concerned, and there was just a failure in a specific area that had a downstream effect in boilers and other areas. So that's really the big driver. The plant historically has done very well in this kind of weather. So it's more of a unique situation. But Kevin, if you want to give a little bit more color on the numbers.

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

Yes. The biggest chunk of it is lost absorption. Repair costs are going to be a smaller piece of the equation. From an insurance perspective, we actually maintain pretty high deductible to keep our rates as low as possible. We have historically been very, very comfortable with that simply because we just haven't had that many issues over the course of time. And so we've banked a lot of saved premium as a result of that, but it's probably 3 to 5 of the total impact is going to be repair cost and the rest is going to be lost absorption.

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

And this is where, for the third and fourth quarter, we had plant shutdowns, obviously. Since we had shutdowns, we try to do as much other maintenance as possible, too. So that's what the team is working on - is what work was completed, --and what can we avoid in terms of future shutdowns. And that's why the timing of the offsets will be not in the same quarter, it's going to be more around when we had some of those other activities planned.

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

And sorry, Kevin, just to clarify...

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

Mike, for the Calvert plant specifically, we typically do a kind of a June turnaround there that often typically lasts several weeks. And so part of what we're working on right now that Guillermo just mentioned is, what can we avoid later in the year as a result of what we've been doing at the Calvert City plant to make these repairs, not only these repairs, but also some of the things we would have done in June as well. I'm sorry, go ahead, you got another question?

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

Yes, sorry. I just wanted to clarify on the insurance recovery. Are you saying that the deductible is so high that you're not going to get any recovery? Or it will just be very modest compared to the $15 million?

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

Yes, there's no expectation of recovery. There are multiple categories of deductible involved in an event like this. So you've got the property piece, and you've got business interruption and you've got to hit those limits on both. It's not an either/or kind of thing. So we don't expect any insurance recovery from this event.

Operator

And our next question will come from John Roberts of Crédit Suisse.

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

Well, most of the business saw destocking, do you think pharma ingredients saw any restocking activity? I know you had some logistic issues last year, and do you think there was any timing issues that helped Pharma? Because I know sometimes the shipment would fall one quarter or the other, and these are large high-value shipments that occur.

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

If we look at just January, I mean, we continue to see strong demand. I think it's more of that share gain was the bigger impact. I don't think there was overstocking. It was more our customers ensuring that they have the stock in the right place. I think between COVID and the European situation, there is a lot of uncertainty around supply in some of these areas, and for this type of industry, their risk management has been a top priority. I think in the last call, I mentioned that when I was in Europe in November at one of the big events for the pharma industry, it was very clear that most customers were very focused on for 2023 risk management in terms of supply, given all the uncertainty that existed then, and I think still remains now with some of the developments. But we're monitoring that closely, and we haven't seen any change in January.

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

On Slide 5, under the resilient U.S. demand, you listed architectural paint additives. I believe most of the paint companies reporting so far have had weak architectural volumes. So how do we reconcile that?

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

Again, several things. We did see weakness in the DIY space. I think the contractor space remained more resilient, and we don't necessarily follow 100% dynamics with additives. When you see a lot of destocking, we're not the main ingredients to drive inventory levels and things of that nature. So there's just unique situations. And again, we're working with a lot of our customers. Supply remains tight around the world even with the softening. So we're working to make sure this is not just about a quarter, it's for the whole year of how we work to ensure that they have the right products. The issue without it is, if you don't have them, it doesn't matter what you have with the other raw materials, you can't produce. So they are very focused to make sure that they don't have the same problems they had last year.

Operator

Our next question will come from Jeff Zekauskas of JPMorgan.

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

In your press release, you said that currency negatively affected your EBITDA by $14 million, and I think your currency effect on sales was about $24 million, or $25 million. Why wouldn't the effect on EBITDA just be $4 million or $5 million consistent with your EBITDA margin? Why would it be so large relative to the sales impact? And second, can you comment on the trends in the margins of your Intermediates and Solvents business? Is that business getting weaker or stronger or staying the same?

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

Okay. Well, let me comment on the Intermediates and then Kevin, you can comment on the currency. So Intermediates has held up -- a reminder, most of our Intermediate business is the downstream products, NMP, BLO, BDO. We have the captive, and we have a use and maybe of our merchant business, maybe 20%, a little bit of it varies. 20%, 25% of our merchant business is BDO. So I would say, in BDO, clearly, the markets are long. Prices have been coming down. Internally, for us, our Pharma business has been strong and even in Personal Care, our core business with customers versus distributors continues to hold up.

So volumes, internal captive volumes, were good, Although transfer pricing, not so much in this quarter, but we are forecasting them to be coming down just because markets are longer. That will be a negative for Intermediates, but a positive for our downstream businesses as we go through the year. We don't see that BDO dynamics are going to change that much in the near term. I think it really will require markets to start picking up probably in the second half of the year for things like fibers, polyurethane. There's a lot of these other bigger markets that will drive that part, but that's not the biggest part. But on the margin, we'll see some impact in the next quarter.

If you look at NMP and BLO, there are different products driven by different markets. We are not pricing as maybe the markets were in the past. Just assume it's all a commodity and move it. These downstream products are very valuable. NMP is going into semiconductors and to the EV market for battery production. Huge investments going in, in the U.S. and in Europe. We're focusing our portfolio more in the U.S. and Europe, less on Asia. Demand is going up. There is not enough product. So we are working with all our customers and people that are investing in both regions to make sure that we have the product they need as they ramp up the construction of their plants and increase production.

So the pricing and supply-demand dynamics are a bit different. And similarly, in the BLO market, these are going into active ingredient production for pharma, for Personal Care, very specialized applications in the semi and the electronics industry, too. We're the only Western merchant player, and again, the dynamics there are different. Markets have been tight, and we're pricing each product on their own, not just trying to move BDO. In the past, remember, we were a big BDO house, and it was just moved like most commodity companies. You want to load the asset and just move it through across. We're not a big BDO house anymore. Most of our production is for captive use and to support our downstream. So we have a very different strategy.

And so far, precedent has been holding up what we're trying to see is more of that demand. I think on the margin, we will see softness in BDO. And the other ones, I think we'll have to see how markets develop, especially in Europe. And I think also with the China opening up, a lot of excess product that may be just trying to find homes outside of China now that there's no demand, all that will be pulling back into China as China reopens.

Kevin, if you want to talk about effects.

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

Sure. Just the impact is a little counterintuitive on the surface. As you look at it, our manufacturing footprint is pretty U.S.-centric, especially for our higher-margin products. So not only do you have a lower selling price on a translation basis outside the U.S. because of the strong dollar, we also have higher COGS, and because we're U.S. dollar-based manufacturing for a lot of those products. So you kind of get hit on both sides of the equation. So you have an outsized impact on the gross profit and ultimately, the EBITDA piece of the equation. That's why the numbers don't necessarily on the surface make as much sense. I don't know if that answers your question or not, but it has to do with the fact that we're more U.S-centric on the manufacturing side.

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

And then lastly, you said your planned maintenance cost in the quarter was $12 million. Is that a lot or a little? What are your planned maintenance costs on an annual basis? Is this a year of larger planned maintenance costs or smaller planned maintenance costs?

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

From a plan perspective, it's pretty consistent year-to-year. What can differ, what can vary is the timing. So this year versus last year, we're heavier, we're much heavier in Q1, especially in the Specialty Additives area than we were prior year. But on an overall basis, it's pretty consistent. The impact typically is around $40 million a year in total, give or take. The big variable with that one, Jeff, would be the Lima, Ohio BDO plant. We do that 1 about every 3 years, and that one brings some number up whenever we have to do. But otherwise, it's very consistent from one year to the next in total.

Operator

Our next question will come from Michael Sison of Wells Fargo.

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

Just one question. You talked about adding a lot of capacity this year. How much growth does that provide you over the next couple of years in either sales growth or EBITDA? And depending how quickly that fills up, when will you need to add more?

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

And so we're adding capacity in our core segments. So HEC, which is very tight globally not just for us, but for the industry. So that will come on. We're expanding in Hopewell, and that will be significant capacity increase. For us, we probably won't need new capacity there for several years. We're expanding capacity in our Benecel lines and that's more targeting our mix towards pharma and nutrition, a lot of the plant-based protein-type applications. Klucel, which is pharma-driven and Aquaflow on the coating. So we need the material, the capacity. The next tranche will vary by each of the product lines, but this will cover us for several years. So it's a significant number of important projects. There are other areas where we're not investing where we believe we have plenty of capacity. And as our mix changes and focus changes, we're going to be focusing on strategic areas that are higher growth, higher value, higher differentiation areas.

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

So if demand is there, you'd be able to grow your mid-single digit type of growth for several years?

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

Yes. Like we said, last year and this year, volume is not the growth driver. We don't have any more product to sell. I mean any hiccup and we're short again. I mean even with the softness, HEC as an example, the capacity utilizations for the industry will remain pretty high. So I don't think the reset -- again, a lot of what we're looking at is what's going on in the core demand, is that behaving per historic levels on resilience and things of that nature. We haven't seen any data that changes that. Even if we dig into our numbers, the core businesses have actually been resilient. We cannot make a statement based on what happened in Q1. We cannot say, these segments are falling abnormally versus history.

So really, it's about this reset, and I think this is why the next 2 months are very important, and having a few months, a month or 1.5 months of the China reopening is very important. Also the Europe post-winter to see how the energy situation and supply-demand dynamics in Europe will turn up. Those are big issues because they impact this reset notion that is different. If you look at historic recessions, you went from a normal demand supply into a recessionary environment. We're not coming from a normal position, we're coming from a very tight supply demand where people were behaving in a certain way. So this reset probably is not something we've seen. So it's not normal versus history and that's where we're getting the noise. But as we put that behind, we do believe it's transitory. We should see then the underlying performance of the markets, and the capacity we're adding should put us in a good position starting 2024 to really drive volume growth, which has to be our #1 priority.

Operator

And our next question will come from Laurence Alexander of Jefferies.

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

So just to expand on that notion of the reset. I guess, first of all, is it right that the volume in most of the business lines were down more than 10% in the quarter outside Personal Care and Oral Care? And what do you think, given what you've seen with the European Nation inventory adjustment, what is your benchmark based on your historical analysis for what this portfolio should do if there actually is a U.S. recession? And then I guess just lastly, after 2024, when you have ample capacity, what do you see as a reasonable range of lumpiness quarter-to-quarter given the kind of swings we're seeing in inventory positions?

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

I think just to go through in the order that you mentioned, we still see demand holding up. If we look at underlying historic demand, we're not immune. When you start a recession, you could get some slowdown, but in general, we are in Personal Care. We're not in home care in our markets. Those tend to be resilient. You could see markets go down in single digits to stay up in the middle digit. So that's really where we see a lot of the history. We're tracking right now absolute versus relative. We want to make sure that in the absolute that we're staying flat to our longer-term goal of 200 to 300 basis points over market, which would put you in the middle single digits, and you're going to vary in that level of range.

And relative, we're looking at our peer group. And many of you coming in, you know the companies that we're trying to compare to, which is our additive ingredients company and that tend to be very resilient. And I think we're seeing our performance pretty much in line with what many others in this area. Again, if we both sell a different ingredient into the same product, we should both feel the same relative performance relative to demand. So I would say, Pharma, Personal Care, obviously, is the more resilient. Architectural Coatings, there's a little bit more reset. It's higher volumes at the beginning of the transition, but our history has been that, that recovers very quickly because of just it's much more of a consumer-driven type portfolio. And I think so far, we're seeing that in the recovery in January. I think, as I said in the numbers, pharma continues strong. We're seeing underlying demand in Personal Care normalized. And in the Specialty Additives, where coatings is our biggest market, it is not (technical difficulty)

Operator

I'm afraid, Mr. Novo has left the call for a second. Mr. Willis, will you be able to take over?

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

Go ahead, Kevin. Why don't you finish up? I think we lost Guillermo.

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

Yes. So just looking at the current situation, the bigger volume issues, revenue issues for that matter were China and Europe. I mean China in its own way, compartmentalized. A lot of that, we believe, is COVID-related. Early in this quarter, January certainly is less COVID, probably more Chinese New Year. So as we finish out the quarter, I think Guillermo mentioned this earlier, we'll have better visibility about what we believe is going to be the future trend in China. Guillermo, you're back.

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

Yes. Yes, I'm back. I don't know what happened. Sorry about that.

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

Technology. Yes. I was just mentioning, China and Europe, we're really where the volume and revenue were for us, and again, as you mentioned, the distributor impact was a huge chunk of that. And I think as we get through the quarter, we'll have better visibility about what that's going to look like going forward.

Operator

And this will conclude the Q&A session of the call. I would now like to turn the conference back to Mr. Guillermo Novo for closing remarks.

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

Okay. Well, thank you, everyone, for your participation and questions. I hope you're seeing, I think, the core things that the company is focused on and controlling around pricing, around innovation, about driving our core business. The team is performing very strong. I think as we look at this transition, this reset part is creating some challenges, and we're working through them. But I think still a lot of the fundamentals as we look forward, we feel confident that we have a strong portfolio, and our portfolio itself, I think, is one of the big changes that we've had in the last few years that position us well servicing very resilient, high-quality markets that should provide us significant growth opportunities and a degree of stability, not immunity, but stability relative to other areas. So we will continue to communicate openly and transparently during this period of higher uncertainty, and we look forward to connecting with all of you in the coming weeks. So thank you for your time, and thank you, everybody. Bye.

Operator

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