LSEG STREETEVENTS

EDITED TRANSCRIPT

Q4 2024 ASHLAND INC. EARNINGS CALL

EVENT DATE/TIME: November 07, 2024 / 2:00PM UTC

CORPORATE PARTICIPANTS

- **William Whitaker** *Ashland Inc - Vice President of Finance and Director of Investor Relations*
- **Guillermo Novo** *Ashland Inc - Chairman of the Board, Chief Executive Officer*
- **John Willis** *Ashland Inc - Chief Financial Officer, Senior Vice President*
- **Alessandra Faccin** *Ashland Inc - Senior Vice President and General Manager, Life Sciences and Intermediates*
- **James Minicucci** *Ashland Inc - Senior Vice President - Strategy, Mergers and Acquisitions, and Portfolio Management*
- **Dago Caceres** *Ashland Inc - Senior Vice President and General Manager, Specialty Additives*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Michael Sison** *Wells Fargo - Analyst*
- **James Cannon** *UBS - Analyst*
- **John Roberts** *Mizuho Securities - Analyst*
- **Mike Harrison** *Seaport Research Partners - Analyst*

PRESENTATION

Operator

Thank you for standing by. My name is Hermione, and I will be your conference operator today. At this time, I would like to welcome everyone to Ashland Incorporated fourth-quarter 2024 earnings Call. (Operator Instructions)

I would now like to turn the call over to William Whitaker. Please go ahead

---

William Whitaker *Ashland Inc - Vice President of Finance and Director of Investor Relations*

Hello, everyone, and welcome to Ashland's fourth-quarter fiscal year 2024 earnings conference call Webcast. My name is William Whitaker, Vice President of Finance and Director of 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.

In addition, I want to welcome our three general managers, which will cover the performance of their respective business units. Alessandra Faccin, Senior Vice President and General Manager of Life Sciences and Intermediates, Jim Minicucci, Senior Vice President and General Manager of Personal Care, Dago Caceres, Senior Vice President and General Manager of Specialty Additives.

Ashland released results for the quarter ended September 30, 2024, at approximately 5:00 PM Eastern Time yesterday, November 6. The news release issued last night was furnished to the SEC on 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'll be making forward-looking statements on several matters, including our financial outlook for full year fiscal 2025. 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 that cannot assure that 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'll be referring to certain actual and projected financial metrics of Ashland on an adjusted basis, which are non-GAAP financial measures. We will refer to these measures as adjusted and present them 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 reconciliation of those 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 4. Guillermo will begin the call this morning with an overview of Ashland's performance for the quarter and year. Next, Kevin and the general managers will provide a more detailed review of financial results for the quarter followed by a portfolio optimization update. Guillermo will then provide an update on Ashland's financial outlook and priorities for the years ahead. We will then open the line for your questions.

I will now turn the call over to Guillermo for his opening comments. Guillermo?

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

Thank you, William, and hello, everyone. Thank you for your interest in Ashland and for your participation today. For today, I'd like to focus my update on three topics. First, provide an overview of our Q4 performance. As you will see, market dynamics and business performance was generally in line with expectations.

The EBITDA performance gap for the quarter was driven by some operational challenges in one of our US. plants that impacted production and difficult market conditions for Specialty Additives in China.

Second, as we planned, Ashland has gone through a lot of portfolio changes through the year. We downsized CMC and MT industrial businesses and sold our nutraceutical business. We will share the underlying performance of our core portfolio in fiscal '24. We'll also see the impact of the portfolio reset and the actions we're taking to offset the associated earnings impact.

Third, we will provide an update on our guidance for fiscal '25. You will see known bridging items that will impact our fiscal '25 performance baseline. This includes items like improved absorption, price erosion carryover, the planned exit of our Avoca business, compensation resets and our planned restructuring and productivity actions. From this baseline, we will build our fiscal '25 outlook. As you will see, we are taking a more cautious view of developments in China.

Please turn to Slide 6. Let's start with Q4 performance. For the quarter, customer demand was generally consistent with our expectations. Our Q4 sales were up 1% from the prior year at $522 million. Inclusive of portfolio improvement actions and partial ownership of nutraceuticals, adjusted for the full quarter impact of the nutraceutical business and portfolio optimization actions, revenue increased 8%.

Sales volume increased for the third quarter in a row, up 4% versus last year. Pricing was generally stable sequentially and down low single digits versus prior year when excluding the impact of our Intermediates business, which was down high single digits. The resulting overall outcome was sales in line with our outlook range, adjusting for nutraceuticals.

Production volumes were up significantly versus last year as we compare against last year's inventory reduction actions. Overall, adjusted EBITDA for the quarter increased to $124 million, up 68% versus prior year. As I indicated, our major headwind for the quarter was generally isolated to our Specialty Additives business unit where manufacturing challenges related to the start-up of our HEC productivity investments resulted in under-absorption versus expectations. The investments were part of an HEC optimization strategy, and other production units at the site were not impacted.

Adjusted EBITDA margins increased 950 basis points, highlighting a strong margin recovery from last year. From a portfolio perspective, we completed the sale of the nutraceuticals business at the end of August, and we have also started the process of exiting our Avoca business. We repurchased shares in Q4 that will neutralize the EPS impact of a complete Pharmachem exit.

Please turn to Slide 7. Sales volumes, excluding the portfolio optimization actions, was up high single to low double digits in Life Sciences, Personal Care and Specialty Additives. Improved organic volumes were partially offset with the portfolio optimization and lower pricing in some product lines.

All businesses generated strong margin recoveries versus the prior year. The largest improvements were in Specialty Additives and Intermediates, which had the biggest inventory control actions during Q4 last year. Three of our four business units delivered adjusted EBITDA margins in the high 20s with an overall margin of 24%.

Looking at the businesses, Life Science, pharma business inflected positive with sales up 6%. The year-over-year headwinds from the share shift in VP&D moderated and demand for our cellulosic excipients was robust. For VP&D, we started to reestablish our share positions in Asia and Latin America. The nutraceuticals divestiture supported margins during the quarter, and we will see the full benefit in fiscal 25.

Personal Care had another strong quarter across most markets and regions as double-digit sales growth continued. Strong demand continued in our largest Personal Care end markets, skin and hair care. Personal Care continued to generate high-quality EBITDA margins at 29% for the quarter.

For Specialty Additives, overall sales volumes continued to recover versus last year, up 5%. Demand was generally in line with expectations in most regions with some demand softening in China. Excluding low-margin portfolio optimization actions, the underlying performance of the core was strong, with sales growing mid-single digits. The regional recovery continues to be very mixed with pockets of increased price competition partially offsetting the volume recovery. Please turn to Slide 8.

Next, I'd like to briefly review our financial results for fiscal year '24. Organic sales volumes were up for the year, characterized by a slower start with -- a second half recovery. Portfolio optimization actions reduced lower margins, more volatile sales. There was softer pricing overall with the largest decrease in intermediates and disciplined price versus volume management in the core businesses.

Normalization of VP&D supply chains in pharma and related share shift weighted on Life Science results with the trough impact in Q2 and Q3. The overall result for the year was a sales decline of 4%.

Now shifting to profitability. Normalized production levels during the second half and raw material deflation improved overall cost position. Product mix continues to improve as we focus our strategy on high-value business lines. Last year saw an increase driven by the reset of incentive compensation after a challenging fiscal 23.

First half inventory control and softer pricing were offsetting headwinds, resulting in a flat year-over-year adjusted EBITDA of $459 million. Our team stayed focused on managing their business in a more intense competitive environment. We used the year to enhance our business portfolio while advancing our innovate and globalized strategy.

We are also moving forward with our plans to exit the Avoca business, the last piece of the Pharmachem acquisition. In summary, the overall recovery trends remain positive, but more moderate than expected. Looking ahead, we're forecasting challenging market conditions in fiscal 25 and are executing accordingly.

We are increasingly concerned about the Chinese economy and the spillover effect into other export markets, which I will cover in more detail in our outlook. During the year, we developed plans to reduce our cost, improve productivity and strengthen our competitive position. Kevin will discuss in more detail, but ultimately, the actions will improve our competitive position in core technologies and offset the remaining portfolio optimization EBITDA impact.

And now let me turn over the call to Kevin to review our Q4 in more detail. Kevin?

John Willis *Ashland Inc - Chief Financial Officer, Senior Vice President*

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 10.

Total Ashland sales in the quarter were $522 million, up 1% compared to prior year. Year-over-year quarterly volumes increased 4% as demand recovered within the Personal Care and Specialty Additives segments. These volume gains were partially offset by unfavorable Life Sciences volumes. Sales volume in Life Sciences was lower due to the CMC and nutraceuticals optimization initiatives. Overall, portfolio optimization initiatives reduced sales by approximately $24 million or 5% during the fourth quarter, including a partial quarter of nutraceuticals.

Regional results continue to be mixed. When compared to last year, sales trends in North America are improving. Absolute weakness in Latin America and Middle East, Africa linger, but with moderation on sequential improvement and an easing prior year. Demand was stable in Europe, but off a lower base in the prior year. Overall demand in Asia was generally stronger with a specific weakness in China coatings.

Gross profit margin increased 940 basis points to 34.3% in the quarter. Several factors contributed to this improvement, primarily a sales and production volume recovery as well as better mix. This was partially offset by unfavorable pricing versus raws, primarily in pharma as well as coatings.

SG&A, R&D and intangible amortization costs were $111 million, down $5 million from the prior year, primarily reflecting reduced amortization. In total, Ashland's adjusted EBITDA for the quarter was $124 million, up 68% from the prior year. Ashland's adjusted EBITDA margin for the quarter was 23.8%, up from 14.3% in the prior year. Adjusted EPS, excluding acquisition amortization for the quarter, was $1.26 per share, up 207% from the prior year quarter.

Now I will turn the call over to our general managers to review the results of each of our 4 operating segments. Alessandra?

Alessandra Faccin *Ashland Inc - Senior Vice President and General Manager, Life Sciences and Intermediates*

Thank you, Kevin. Good morning, everyone.

Please turn to Slide 11 for Life Sciences. Pharma reached an important inflection in the quarter by returning to growth. Pharma demand was resilient for our market-leading cellulosics excipients, where share gains have more than offset softer market conditions throughout the year. Our VP&D pharma business was down versus the prior year, but improved sequentially as the team executes on share gains opportunities.

Crop care demand recovered in the quarter and the comps are easing going forward. In crop care, we accelerated the rollout of our new super-wetting technology platform, launching a biodegradable, silicon-free multifunctional wetting agent for crop care formulations in September.

Life Sciences globalized business lines, injectables and OSD coatings both grew at double digits in the quarter. For injectables, our investments in people, production and technology continue to accelerate our growth in this highly attractive end market. As Guillermo mentioned, we divested the nutraceuticals business, which was down double digits prior to the sale. We also executed our exposure to low-margin nutrition business in the quarter.

Overall, Life Sciences sales declined by 5% to $192 million. The portfolio optimization initiative reduced Life Sciences sales by approximately $15 million or 7% during the fourth quarter. Adjusting for the full quarter impact of nutraceuticals and portfolio optimization, sales volume grew by 13%. Adjusted EBITDA increased by 17% to $56 million, primarily reflecting higher production volumes, improved mix, partially offset by lower pricing and the nutraceutical divestiture. Adjusted EBITDA margin increased 560 basis points to 29.2%.

Please turn to Slide 12 for Intermediates. Total merchant and captive sales were $36 million, down 3% from the prior year quarter. Merchant sales totaled $24 million, down from $25 million in the prior year quarter, driven primarily by increased merchant BDO volumes more than offset by lower NMP pricing. Lower NMP results are primarily due to weaker demand in the electric vehicle battery end markets and delayed battery plant start-up.

Captive internal BDO sales were $12 million, flat compared to the prior year quarter. Intermediates generated adjusted EBITDA of $10 million or a 27.8% adjusted EBITDA margin compared to $3 million in the prior year. The profit increase reflects significant higher production volumes and improved mix, partially offset by lower pricing.

I will now turn the call over to Jim to review the results of our personal care business, Jim?

James Minicucci *Ashland Inc - Senior Vice President - Strategy, Mergers and Acquisitions, and Portfolio Management*

Thank you, Alessandra. Good morning, everyone.

Please turn to Slide 13 for Personal Care. Nearly all end markets experienced improved demand, marking the second consecutive quarter with double-digit sales growth. Skin Care and Hair Care generated the highest growth as compared to the prior year with regional strength in both Asia and North America. Asia delivered strong revenue growth driven by share gains and our positioning with local customers amidst a softer market backdrop. In addition, North America performed well versus prior year, driven by robust consumer demand.

As we shared in the last earnings call, oral care sales in the quarter were negatively impacted by key customer order patterns. For the full year, oral care sales were up mid-single digits, and we expect to lap the order timing dynamics by the second quarter of fiscal '25.

The performance impact from Avoca moderated, reflecting the start of our actions to sell or exit the business. Personal Care's globalized business lines, biofunctionals and microbial protection, both grew at double digits in the quarter and delivered outsized mix impact. Microbial protection accelerated the regional asset network program and biofunctionals continued to make good progress on customer expansion efforts. Pricing was stable in the quarter with modestly favorable raw materials.

Personal Care sales increased by 11% to $162 million. The portfolio optimization initiatives reduced Personal Care sales by approximately $3 million or 2% during the fourth quarter. The team executed very well, delivering an adjusted EBITDA of $47 million, up 31% versus prior year, primarily reflecting the impact of higher sales and improved mix. Adjusted EBITDA margin increased 430 basis points to 29%.

I will now turn the call over to Dago to review the results of our Specialty Additives business. Dago?

Dago Caceres *Ashland Inc - Senior Vice President and General Manager, Specialty Additives*

Thank you, Jim.

Please turn to Slide 14 for Specialty Additives. Overall, sales volumes were up 5% versus the prior year, led by a continued recovery in coatings and performance specialties. Low-margin construction exits and moderating energy weakness partially offset our overall sales volume growth.

Performance specialties demand has broadly recovered very well versus the prior year. We are seeing strength in areas such as adhesives, instant printing as well as emission control and catalysts. Our regional coatings recovery continues to be mixed with improving sales in rest of Asia and stability in North America and Europe. Overall, pricing for coatings was lower with the largest impact in China.

For the quarter, Specialty Additives sales were in line with the prior year at $144 million. The portfolio optimization initiatives reduced Specialty Additives sales by $6 million or 4% during the fourth quarter. Adjusted for portfolio optimization, sales volumes were up 9% versus the prior year.

Adjusted EBITDA more than doubled to $29 million, primarily reflecting the impact of significantly higher production volumes, partially offset by lower pricing. As Guillermo mentioned, our results were lower than expected on HEC operating issues of approximately $5 million while commissioning productivity investments. HEC production at the site has normalized starting in early October. Adjusted EBITDA margins improved nearly 1,500 basis points versus the prior year to 20.1%, including a 350 basis point headwind versus expectations from the discrete operating issues.

I will now turn the call back to Kevin. Kevin?

John Willis *Ashland Inc - Chief Financial Officer, Senior Vice President*

Thanks, Dago. Please turn to Slide 15. Ashland continues to have a strong financial position. As of the end of September, we had cash on hand of $300 million with total available liquidity of $896 million. Our net debt was just over $1 billion and about 2.3 turns of leverage.

We have no floating rate debt outstanding, no long-term debt maturities for the next two years, and all of our outstanding debt is subject to investment-grade style credit terms.

As Guillermo noted, we continue to believe Ashland's stock is an attractive use of capital and deployed $150 million in the quarter to repurchase 1.7 million shares. Our balanced and disciplined capital allocation approach has deployed roughly $1.3 billion to share repurchases during the last 4 fiscal years. We have $620 million remaining under the current share repurchase authorization.

As we've demonstrated, we will not hesitate to act when we see value in share repurchase activity. We are continuing to invest in our existing businesses and technology platforms to grow organically while pursuing our strategy of targeted bolt-on M&A opportunities focused on pharma, Personal Care and coatings.

Please turn to Slide 16. Ashland prudently managed production and inventory levels throughout the quarter. Our actions should better position us for more resilient performance going forward. Overall, ongoing free cash flow was healthy for the quarter and the year at $88 million and $270 million, respectively. Ongoing free cash flow for the full year grew by 24% with an ongoing free cash flow conversion of 59%, up from 47%.

Our progressive dividend policy remains an important part of our capital allocation strategy and is reflective of our confidence in the company's long-term profitable growth and cash flow generation outlook.

With that, I will now provide an update on the execute pillar of our strategic priorities and the business portfolio reset of fiscal '24 performance. Please turn to Slide 17. First, we committed to 4 portfolio actions to start the year. CMC and MC industrial optimization and consolidation, divesting nutraceuticals and rebalancing our global HEC production network. We completed 3 of the 4 and made significant progress on the fourth.

CMC and MC industrial optimization and consolidation is complete with carryover volume impact into fiscal year 2025.

Our latest advancement is the sale of our Nutraceuticals business to Turnspire Capital Partners. The total expected value, including net proceeds and cash tax benefits is approximately $130 million. Our actions improved margins, RONA and consistency of earnings. Adjusting fiscal 2024 for the full year impact of our actions to date reduces revenue and adjusted EBITDA by approximately $164 million and $30 million, respectively.

Most of the EBITDA impact is due to the lost gross profit of nutraceuticals and associated stranded costs. In summary, as we look at our 2025 planning, our starting point, which adjusts for completed portfolio changes is approximately $429 million of EBITDA.

Starting last quarter, we added another portfolio action of selling or exiting our Avoca business. Our share repurchases in Q4 offsets the full year adjusted EPS impact of our nutraceuticals divestiture and the future exit of Avoca. We have eliminated approximately $50 million in stranded costs to date and will offset the remaining $30 million EBITDA impact.

Please turn to Slide 18. To this end, we are initiating a $30 million restructuring plan with an expected impact of $15 million in fiscal '25. We are also advancing a significant manufacturing productivity initiative within our HEC and VP&D networks. Our target is $60 million of annual savings with $5 million in fiscal '25, ramping significantly in fiscal '26 and beyond. Overall, we continue to expect our portfolio optimization efforts to be EBITDA neutral, and these initiatives go well beyond that to improve our overall performance.

I'll now turn the call back over to Guillermo to discuss fiscal '25 outlook and priorities. Guillermo?

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Kevin, and please turn to Slide 20. As we look out to fiscal '25, overall uncertainty remains high with changing -- macro dynamics potentially having very different impacts on our industry and markets. While changes always create opportunities and risks, given the high level of uncertainty, we feel it's prudent to take a more conservative outlook and focus on building resilience to minimize risk and capitalize on opportunities.

Some of the known dynamics impacting the global economy include elevated but moderating inflation, mixed demand recovery and uncertain policy transitions. As a result, we have very different regional expectations. In the US., we expect consumer segments to remain strong and see potential upside from a strengthening construction and real estate market.

We expect Europe to remain stable off a low base. Risk in the region stems from geopolitical dynamics, structural manufacturing challenges and lower consumer confidence. We are assuming a meaningful downturn in China. Uncertainty remains very high due to the oversupply, a distressed property market and waning consumer confidence. These factors impact our view of supply-demand balances locally and in other export markets.

As a result, our assessment of the overall macroeconomic environment suggests muted demand and increased competitive intensity. We recognize that this view may be cautious, but we feel that it's a prudent perspective for our planning. We have taken actions to position Ashland to perform in a more uncertain environment. We have a strong balance sheet and cash flow, which will afford a disciplined, balanced approach to capital allocation.

Our core markets are focused on serving resilient customer-focused end markets. The recent portfolio actions will reduce our business volatility. We are taking actions to drive several high-impact self-help opportunities to improve our cost position, strengthen our competitive position and drive results. We are well positioned to manage through a prolonged slowdown in China.

Sales in China represent 10% of the company. Our largest exposure is in the coatings business line. Most of our coatings activities in China are driven by local supply from our Nanjing HEC plant and local towing operations. Our HEC improvement activities are globally focused and will enable us to rebalance our global supply network as needed.

Please turn to Slide 21. In line with my earlier comments, we are taking a more cautious position on our financial outlook for fiscal '25. Given our portfolio optimization actions, our starting point for the year is our portfolio reset for 2024 and known bridging items that will impact our fiscal '25 baseline. The math for our fiscal '25 baseline is as follows.

First, we start with the fiscal '24 EBITDA business portfolio reset of $429 million. For Kevin's comments, this is based on our fiscal '24 actual results of $459 million, less $30 million impact from the nutraceutical loss gross profit and portfolio optimization stranded costs.

Second, we adjust for known changes impacting our fiscal '25 performance. We add back about $45 million of fixed cost absorption and add about $20 million of expected restructuring and productivity improvement realization. We then adjust for $20 million of negative price carryover and $15 million of EBITDA erosion from the Avoca business. Lastly, we expect $10 million of reset variable incentive compensation. This puts our fiscal '25 baseline at $449 million.

From this number, we then build our outlook for fiscal '24. Factors impacting our outlook include, we're starting the year in a stable position. Our outlook does not reflect potential changes to the current economic policy. Overall volumes are expected to increase mid-single digits. Our portfolio optimization actions should reduce the volatility and support continued mix and margin improvement throughout the year.

Raw materials are expected to remain stable. Momentum in our globalized and innovate strategies are expected to be maintained.

Our outlook assumes more negative developments in China coatings. Overall results will be driven by the balance of performance in China versus our performance in other regions. In light of the elections, some of the above assumptions may change, and we will update our outlook accordingly. Taking these factors into account, our outlook for 2025 is sales of $1.9 billion to $2.05 billion, adjusted EBITDA of $430 million to $470 million.

Please turn to Slide 22. Although there's a high level of uncertainty, we have clarity on the issues we need to focus on while delivering controllables and staying on strategy. Our priorities for the next year follow our strategic pillars of execute, globalize and innovate to enable profitable growth in the coming years. If we look at execute, we have a unique set of internal opportunities to strengthen our core businesses and improve performance. Maintaining disciplined price volume management is also critical.

As we address the challenges of today, we will continue to invest in our globalize and innovate strategy, which are critical long-term growth catalysts. We will continue to improve our operating and planning processes and systems to enable our business teams to better navigate and manage our business portfolio.

Please turn to Slide 24. As you may have noticed in our earnings release, our Investor Day in December was rebranded to a strategy update. We recognize in the challenging market conditions, improving near-term performance and focused execution and controllables is critical. To that end, we are preparing a focused agenda for this event with an emphasis on fiscal '25. The date has not changed, December 10, beginning at 9:00 PM Eastern Time in New York.

We are looking forward to sharing the details of our execution-focused initiatives and 2025 commitments. You'll have the opportunity to hear directly from Kevin, our GMs and me with a moderated Q&A session. We will also host a live breakout discussion on key business lines and technology platforms so you have opportunity to interact with Ashland leaders driving these efforts.

In closing, I want to restate the key takeaways. From a market perspective, Q4 was generally in line with our expectations. We are finalizing our portfolio transformation. We have a healthy and well-positioned portfolio focused on high-quality markets. We expect fiscal year '25 to be another challenging year, and the focus will be on maintaining a balanced management of our business, especially around share and price, delivering on our self-help actions and building resilience to drive performance in a challenging environment while maintaining capital allocation discipline.

Despite the near-term challenges, we remain very excited about the long-term potential of our business portfolio. We continue to invest and advance our long-term growth catalysts. I want to thank the Ashland team once again for their leadership and proactive ownership of their businesses in a dynamic environment.

For now, operator, if we can go to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Michael Sison, Wells Fargo

Michael Sison *Wells Fargo - Analyst*

Hey, good morning. In terms of your outlook for fiscal '25, I think there was a little bit more negative than we had thought versus sort of the walk to the positive. So I guess, can you maybe give us a little bit of thoughts on where the upside could be? And then longer term, what type of EBITDA do you think Ashland should get to? We've sort of been stuck here below $500 million for a little bit. So just maybe a longer-term view on that as well, Guillermo.

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

Yes. Mike, thanks for the question. First, if we look at the year, I mean, we've shared more data and more modeling points than we've done in the past. Obviously, we recognize there's a lot of changes within Ashland of all the portfolio changes. And also, I think there's a lot of just structural global changes that are happening, especially around Europe with just manufacturing competitiveness and some shifts there and now more importantly, in China.

So that baseline where we're starting at $450 million sort of takes everything into account and then we can start moving forward.

If you look at the range that we've looked at, our model has not changed. We believe the portfolio can deliver mid-single-digit growth, the margins that we've been talking about. So if you just do some scenarios, if you take the midpoint that we're giving and put 5% growth or 3% to 6% growth, that will take you to the higher end of our portfolio.

Most of our businesses and most of the regions are performing in that range. What we're bringing back down is we think that China is going to go through a prolonged period, and this is not something that's going to change overnight and that we need to factor in that it's going to become a more hypercompetitive market. There's going to be a lot of oversupply and that we should be prudent on that. If we're wrong, there's more upside. If we're right, we're prepared.

So that's what's bringing it down to us.

What would take it to the downside is that the global economy doesn't perform as well and then the growth isn't as high, but you get the negative side in China. That's the part how -- we've laid it out. And I think it's more about being more prudent about our outlook. So we would expect -- if you think of all the cost savings, right now, one of the headwinds is the portfolio optimization. We sold the nutraceutical business in August. That impacted gross profit loss and some stranded costs.

We have taken action from an EPS perspective to neutralize it through share buybacks, but we are committed to trying to get our EBITDA back to a good portfolio range. If you look, the last two years, the sales drop versus the EBITDA drop, the EBITDA has been flat, and we have had a significant reduction as we shed some of these businesses. So I think we're managing through that well, but we have to recognize,, we have almost $30 million that we're committed to take off, but it's a timing issue. And we'll get about $10 million next year and then the rest in '26.

So as you look at '26, you're going to get full offset of all the portfolio actions and then all these productivity actions, which we were hoping would be upside to our plan. I think given some of the pricing dynamics, they will hold us in the range of performance that we want and we'll move from there moving forward. So we expect '26 to really get back into the ranges that we have been talking about, back over $500 million.

John Willis *Ashland Inc - Chief Financial Officer, Senior Vice President*

And Mike, I think it's also important to note that in terms of the optimization items that we've talked about, this $90 million, we have very clear visibility into the vast majority of that $90 million today. It's about timing and execution around the activities that have to happen. And some of these are fairly complex, and they do involve our manufacturing footprint and how we're managing through all of that. But again, we do have very clear visibility into the vast majority of the $90 million that we're talking about.

Michael Sison *Wells Fargo - Analyst*

Great. Thank you.

Operator

Josh Spector, UBS.

James Cannon *UBS - Analyst*

This is James Cannon on for Josh. I just wanted to follow up on -- I think in the release, you talked about some incremental pricing pressure offsetting volumes versus, I think, in the outlook that Guillermo just gave, he talked about mid-single volume growth. Are you expecting further pricing pressure to offset that? Or does that volume growth comment imply like organic growth overall?

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

So overall, we are expecting organic growth. I would break it down into 2 separate issues. Put China aside. In the overall portfolio, we expect overall growth. Outlook seems strong to us across most of the regions. We do see some pressures on pricing around the world, more specifically for our call in the fourth quarter. There's still a lot of negotiations in the VP&D business in pharma as an example.

We've been able to reposition in Asia and Latin America. The price is already reflective and the volumes are coming back. We're in the middle of negotiations in Europe, which is another big market for us. I don't want to comment about that too much because they are in progress, but that should all work out through now through January, we should have most of those negotiations down. So we expect it's going to be a trade-off of price versus volume, and we're managing through that.

I think if you look at the China side, there's two dimensions to it. One is what's happening in China. And although it's been stable from a volume perspective for us, we have seen price erosion there. I think the part that we're looking at, and it has not happened. This is more of our outlook is saying, look, if you look at China, and maybe I'll ask Dago to make some comments here, but most of the business in China in coatings specifically is 40% is repaint, 60%, 70% is new construction.

In the US and other parts of the world, it's the other way around. Majority of the market is repaint versus new construction. So if you step back and you look at China, the repaint market will probably remain stable. The question is going to be, if there's a significant downturn in the property market and in construction, how much is that market contracting and how fast will it recover?

Our view right now is to reignite the property market is going to require two things: one, restructuring all the debt; and two, consumer confidence. If there's too much wealth of individuals in property, property is not moving up. So to convince people to buy, it's also going to be -- so those two things aren't going to happen overnight. The stimuluses that can come, I think it will help Personal Care, will help other things in normal spending. These are bigger spending items.

So we're assuming that the next two years probably will be a transition.

And this is where we expect some changes happening. And they're not clear to us how they're going to play, but we're looking at both price and volume adjustments in that market, and that's what we are sort of factoring into our outlook at this point in time.

These are bigger spending items. So we're assuming that the next two years probably will be a transition and this is where we expect some changes happening. And they're not clear to us how they're going to play. But we're looking at both price and volume adjustments in, in that market and that's what we are sort of factoring into, into our outlook at this point in time.

Okay. So, and then just Dago, if you could comment a little bit on what you're seeing on the dynamics in China from home supply.

Dago Caceres *Ashland Inc - Senior Vice President and General Manager, Specialty Additives*

Thank you, Guillermo. Yes, what I would say is that definitely new construction drives the coatings market in China more than repaint and remodel. That's clear. And from that perspective, as long as the property sector remains depressed, well, we're going to see soft demand, and that's what we're seeing today. Of course, with soft demand, you have oversupply and then you have pricing pressures.

I think to Guillermo's point, I actually was in the region a couple of months ago, and the stimulus package was welcomed. I think it's a step in the right direction, but we don't believe it's going to have an effect in 2025. I think it's going to be more 2026 and 2027. Why? Because these are really structural issues that China is dealing with.

So we're taking a conservative approach. We've talked to customers. We do see demand softness, and that's why we are forecasting the way we are.

James Cannon *UBS - Analyst*

Okay. Thank you.

Operator

John Roberts, Mizuho

John Roberts *Mizuho Securities - Analyst*

Thank you. We're about halfway through the December quarter. Is there anything you can talk about in terms of bridging December quarter EBITDA to September quarter results?

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

I think right now, the quarter -- and we'll see what the recent elections do to some of the demand behaviors from customers. We are seeing the quarter starting a little bit softer, some of our customers, especially in Europe, indicating that they're taking more inventory control actions. So I think this will be more -- is some of the volumes going to shift in December to January, depending on the actions they take.

So that's the one signal. Most of where we're hearing it is in Europe. We're not seeing a lot of changes in the rest of the world. And China is the one that we are looking at. And I think depending on some of the dynamics right now, I would expect starting end of this quarter and most likely, more heavily into Q2, that's when we're going to start seeing some of the bigger changes.

John Roberts *Mizuho Securities - Analyst*

And then is there a dollar amount of buyback that we should think about for 2025? Or how should we think about that?

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

I think let me comment and Kevin, you might want to comment more. I think we've shown that we have a strong balance sheet. We have the capability, we are very bullish on the long term, as you heard. I mean, our globalized segments are growing at double digits. We have a lot of innovation so nothing has really changed in the long term.

It's -- we have to go through this transition of the Ashland changes of our portfolio in a dynamic of structural changes in Europe and China, and we'll work through that. That does not change our long-term perspective. So if valuations create opportunities, we've shown that we will take action, and I don't think that has changed.

But Kevin, can you comment a little bit?

John Willis *Ashland Inc - Chief Financial Officer, Senior Vice President*

Sure. I mean I think we demonstrated in fiscal '24 that we're very bullish on the company and on the stock. We repurchased nearly 4.3 million shares, spent approximately $380 million to do that. Very comfortable with what we've done there from an execution perspective.

The beauty of maintaining a strong balance sheet is that we have the flexibility to do a lot of different things. We can invest in the business. We can continue to repurchase shares. We can support a strong and growing dividend. And you should expect us to do in the future, the things that we have been doing in that regard.

So we do have the flexibility to do that.

As we look at fiscal '25, there's no reason that the company shouldn't generate north of 50% free cash flow conversion to EBITDA. And that will help support the activities that we've been doing and that we will continue to do.

Operator

Thank you. Your last question comes from the line of Mike Harrison, Seaport Research Partners.

Mike Harrison *Seaport Research Partners - Analyst*

Hi, good morning. Dago, I was wondering if you could give us a regional breakout of what the coatings business looks like. I just think it would be helpful if we understood how big the China coatings business is. And maybe also talk a little bit about your expectations for other regions, particularly North America, if we're seeing some relief on mortgage rates.

Dago Caceres *Ashland Inc - Senior Vice President and General Manager, Specialty Additives*

Yes. Thank you for the question. So what we're seeing today, I would say the market in North America, it's pretty stable. Now with the interest rates coming down and some of the predictions that we see out there, we expect the growth rates in the 3% to 4%. That's what the American Coatings Association is saying.

Europe has its challenges, but Europe is growing well for us, I would say. So I would say Europe, looking into 2025, I will also consider it a stable market. There are some interesting pockets of growth for us last year. So Middle East, Africa and India, that's a very interesting one. India is a country that continues to grow, and we feel optimistic about that one.

Rest of Asia, I would say it's also stable for us, slightly growing. I think really the issue keeps going back to China, where we have this structural fundamental issue, and that's what we have to deal with in 2025. But overall, the rest of the market, I would say, are stable. We are producing ahead of the paint season. we don't expect anything other than really dealing with the China issue.

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

And Mike, to your question, China is about 25% of the coatings business. So if you look at our footprint, we have a very well-balanced footprint, plants in Europe, in the US and China. So until now, most -- all of our production in China stayed in China. So part of our options, obviously, as we rebalance, and this is all the work we've been doing on our HEC network is that we can rebalance and change where we export, what we ship from where.

But we're going to wait and some of these comments that we're seeing have not happened yet. These are our expectations. We're looking forward, and we're taking this more conservative view. But we have flexibility to respond depending on what happens.

I think the bigger question right now is going to be with the recent elections, what does that do to trade policies? -- for us, the one business that probably sees a lot more impact because of some of these dynamics.

Mike Harrison *Seaport Research Partners - Analyst*

All right. And then just making sure that I understand what was going on with the operational issues that you incurred during the fourth quarter, it sounds like that was related to fixed cost absorption within Specialty Additives. And I guess my question is, if we're going to see some prolonged weakness in China coatings in particular, could we potentially see some lower utilization rates and some weaker fixed cost absorption in the first part of fiscal '25? Is that something that's potentially baked into your guidance?

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

First, what happened in the US it's a plant. We're investing to making some changes for future productivity so that we have more flexibility on what we make where as we move forward. We had issues in the start-up, and -- it's an absorption issue. The plant did not run as expected during the month -- during the quarter.

And then not related, we had another issue, just an equipment failure as we were starting up. So it just prolonged a little bit longer the delay. So it is an absorption issue and the plant is running and we'll run to the normal production plans that we have. So the expectation is we'll recover some of this into the year.

The issue in China is all our production in China is for China. So depending on what happens there, that's the one area that we will adjust, and that is factored into our guidance range upside, downside. It has not happened, but we are factoring if we needed to do that in the scenarios that guide this range.

Mike Harrison *Seaport Research Partners - Analyst*

Alright, thanks very much.

Operator

There are no other questions, I will now turn the call back over to Guillermo for closing remarks.

Guillermo Novo *Ashland Inc - Chairman of the Board, Chief Executive Officer*

Well, thank you, everyone, for your participation. I know that there's a lot of data and a lot of outlook comments that we have. We look forward in a few weeks that we'll see everybody in New York and also calls in the coming days. So I'm sure that we'll have a chance to go in more detail and give you a little bit more color.

I do want to end to say -- although we're taking a conservative view on one region of the world and specifically one business that gets impacted the most, the majority of the portfolio, we're very excited where we're going. Everything that we have been executing has been working for our plans. And the future really is now about staying focused.

We've got to deal with the reality of the current situation in terms of the business. But we need to perform both in the long term, stay focused, we're investing, we're growing and manage the near term, and that's what we'll do. Look forward to talking to you in a few weeks. Thank you.

Operator

Ladies and gentlemen, that completes today's call. Thank you all for joining. You may now disconnect.

DISCLAIMER