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Q1 2024 Ashland Inc Earnings Call

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PRESENTATION

Operator

(presentation)

Good day and welcome to the Ashland Inc. First Quarter 2024 Earnings Conference Call.

(Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Seth Mrozek, Director of Portfolio Strategy. Please go ahead.

Seth A. Mrozek ***Ashland Inc. - Director of Portfolio Strategy***

Thank you, Abigail. Hello everyone, and welcome to Ashland's First Quarter Fiscal Year 2024 Earnings Conference Call and Webcast. My name is Seth Mrozek, Director of Portfolio Strategy for Ashland. Joining me on the call today are Guillermo Novo, Ashland Chair and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer. In addition, I want to welcome William Whitaker, Vice President of Finance and Director of Investor Relations, following this month's organization changes to Ashland's finance, strategy, M&A and portfolio teams. William and I will complete the Investor Relations transition following this earnings cycle.

Ashland released results for the quarter ended December 31, 2023 at approximately 5:00 p.m. Eastern Time yesterday, January 30. 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.

As a reminder, during today's call, we will be making forward-looking statements on several matters, including our financial outlook for our second quarter and full year fiscal 2024 results. 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 on 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 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 first quarter. Next, Kevin will provide a more detailed review of financial results for the quarter, followed by commentary related to Ashland's outlook for the second quarter and fiscal year 2024. Guillermo will then provide an update related to Ashland's strategic priorities, and we will then open your line for questions.

Now I would like to turn the call over to Guillermo for his opening remarks. 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. First, I want to acknowledge that Ashland will soon recognize 100 years in business. The company has transformed tremendously since 1924, and looking ahead, we anticipate an exciting future built on our portfolio of world-class businesses with innovation driving long-term sustainable growth.

Please turn to Slide 5. Financial results in the December quarter exceeded our adjusted EBITDA outlook range issued on November 8, 2023 with revenues in line. Overall, sales declined 10% from prior year quarter to $473 million and reflects market demand dynamics consistent with previously communicated expectations.

Demand patterns generally improved as we move through the quarter and with growing evidence of convergence between Ashland sales volume and customer end market demand. Pockets of lower demand during the quarter were more aligned with specific customer or regional dynamics. With generally reduced stress on supply chains, customer order patterns timing have normalized to pre-COVID levels of less than 30 days. I would note that December sales exceeded our expectations. And although seasonally lower demand months, our sales and order book for January and February are also exceeding our expectations.

Pricing in some of the more competitive segments turned modestly unfavorable compared to the prior year as we comp against our inflation recovery pricing actions in the prior year. Maintaining a pricing margin balance will be critical as we navigate the moderation of costs and increased competitive activity. The Ashland's team managed these dynamics very well during the quarter.

The largest impact to our first quarter profitability was absorption-related costs versus the prior year quarter as we prudently manage production and inventory levels. While we are cautiously optimistic about the improving demand trends that we're experiencing in the quarter and into January and February, there's still heightened uncertainty regarding customer demand normalization. Typically, we would be building inventory for the peak season at this time. And currently, we are not doing that build. Ashland will remain disciplined in its production levels targeting to produce to near-term demand.

Production in the first quarter of 2023 exceeded customer demand as evidenced by the inventory build and necessary corrective actions later in the year, creating a difficult year-over-year comparison for the quarter. This is evident by comparing the sales and production volumes versus our prior year quarter. Sales volume and production volumes were down 12% and 24%, respectively, or a 2x relative difference. The overall adjusted EBITDA impact of lower operating rates at our plants versus the prior year quarter totaled $31 million, primarily impacting our Specialty Additives and Personal Care business units. Adjusted EBITDA for the quarter decreased 35% to $70 million, reflecting these dynamics, but were above our expectations for the quarter.

In terms of our longer-term priorities, we're delivering on our strategic priorities to execute, globalize, innovate and acquire to build resilience and improve performance of the core businesses as well as drive long-term profitable growth. We have conviction that our strategy will deliver sustainable long-term above-market growth for the company. Kevin and I will provide a detailed update later on our strategic priorities, but we remain on track and committed to delivering against our strategic and financial goals.

We believe the current share price does not reflect our expectations for long-term growth, margin and capital return improvements with reduced performance volatility. We continue to believe our stock is an attractive use of capital as demonstrated by our repurchase of $100 million of shares during the quarter. Our strong balance sheet enables us to pursue a balanced capital allocation approach, investing in our targeted growth strategy in addition to returning capital to our shareholders.

Please turn to Slide 6. Sales declined in each of our segments due to the factors that I referenced earlier, with the largest relative impact in our Specialty Additives and Intermediates business units. Disciplined production was approximately in line with near-term demand impacting plant loading, profitability and improving ongoing free cash flow for the quarter. However, we are encouraged by current demand patterns, implying a recovery is underway with an expectation of continued momentum into the second half of the fiscal year, narrowing the range of possible demand recovery scenarios.

We continue to position the company for more resilient operations across multiple scenarios. While January and February demand improvements are encouraging, March is the critical month for seasonal demand pickup. We will be tracking March as a more meaningful indicator of demand normalization. We are well positioned for the coming inflection point.

Now let me turn over the call to Kevin to review Q1 in more detail. And I'll come back later to talk about our strategic progress on our strategic actions. Kevin?

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

Thank you, Guillermo, and good morning, everyone.

Please turn to Slide 8. Total Ashland sales in the quarter were $473 million, down 10% compared to prior year, with reduced volumes for all segments. Pricing was favorable for the Life Sciences and Personal Care business units, but offset by softer pricing in Intermediates & Architectural Coatings. Foreign currency had a favorable impact on sales of 1%. Gross profit margin declined to 25.2%, driven primarily by the absorption impact associated with decreased plant loading that Guillermo highlighted earlier. Negative absorption outpaced favorable price versus raw material costs during the quarter.

When excluding key items, SG&A, R&D and intangible amortization costs were $103 million down from $116 million in the prior year, mainly reflecting lower variable compensation expenses primarily related to equity-based comp. In total, Ashland's adjusted EBITDA for the quarter was $70 million down 35% from the prior year. Ashland's adjusted EBITDA margin for the quarter was 14.8% down from 20.6% in the prior year, reflecting the factors I just discussed. Adjusted EPS, excluding acquisition amortization for the quarter was $0.45, down from $0.97 in the prior year quarter. Ongoing free cash flow improved to $66 million for the quarter up from a $21 million use of cash in the prior year quarter, primarily reflecting changes in working capital resulting from our prudent inventory management as well as reduced incentive compensation payouts.

Now let's review the results of each of our 4 operating segments. Please turn to Slide 10. Within Life Sciences, normalized global supply of PVP reduced demand in pharma versus a strong prior year period. Nutraceuticals has maintained a strong recovery versus a weak prior year period, while sales to nutrition end markets remained challenged. Overall pricing for Life Sciences was favorable. Life Sciences sales declined by 3% to $200 million, while adjusted EBITDA decreased by 8% to $48 million. Adjusted EBITDA margin decreased to 24%, primarily reflecting negative sales and production volumes, partially offset by favorable pricing.

Please turn to Slide 11. Weakened demand negatively impacted Personal Care in the quarter, primarily within the skin and oral care segments, partially offset by strength in hair care. Our Avoca business catering to the fragrance market remains challenged. Overall pricing for Personal Care was favorable. In the quarter, Personal Care sales declined by 7% to $129 million, while adjusted EBITDA declined 31% to $22 million. Pricing over raw material dynamics were sustained, but margins were negatively impacted by lower sales and production volumes.

Please turn to Slide 12. Specialty Additives was impacted by reduced demand, though the architectural coating end market continues to be less impacted than others in the business. For the quarter, Specialty Additives sales declined by 15% to $122 million, while adjusted EBITDA declined by 74% to $6 million, primarily reflecting production volume and sales declines. Pricing turned negative in the quarter versus the prior year quarter, but was offset by favorable raw materials.

Please turn to Slide 13. Intermediates reported sales of $33 million, down 39% compared to the prior year driven by lower pricing and volumes. Intermediates reported adjusted EBITDA of $10 million compared to $23 million in the prior year, and adjusted EBITDA margin declined to 30.3%, primarily reflecting lower pricing.

Please turn to Slide 14. Ashland continues to have a strong financial position following another quarter of robust ongoing free cash flow generation. As of the end of December, we had cash on hand of approximately $440 million with total available liquidity of roughly $1 billion. Our net debt was $901 million, which is about 2.1 -turns- of leverage. We have no floating rate debt outstanding, no long-term debt maturities for the next 3 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 $100 million to repurchase 1.2 million shares during the quarter, bringing the total over the last 30 months to $1.05 billion deployed and 11.1 million shares retired. We have $900 million remaining under the current evergreen share repurchase authorization.

We are prudently managing inventory during the period of uncertainty. Inventory levels have decreased $136 million when compared to the prior year quarter and $38 million sequentially, which better positions us to produce the demand. Overall, working capital management supported the generation of $66 million of ongoing free cash flow in the quarter delivering a compelling 94% adjusted EBITDA conversion.

We are investing in our existing businesses and technology platforms 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. Ashland's balance sheet is well positioned to continue to give us the flexibility to pursue our targeted growth strategy as we reward our shareholders with a strong dividend policy and continued share repurchases.

With that, I'll now provide an update on the execute pillar of our strategic priorities in addition to an updated outlook. Please turn to Slide 16. A key aspect of our execute strategic priority captures needed portfolio optimization to address underperforming businesses that are not core and where we do not have technology or market leadership. As previously outlined in our fourth quarter 2023 earnings call, we have 4 primary portfolio actions underway, divesting our nutraceuticals business, optimizing and consolidating our CMC and MC Industrial businesses as well as rebalancing our global HEC production network.

The nutraceuticals process is underway and going well. Nutraceuticals is a high-quality business and continues to perform as evidenced by its recent strong recovery, but outside of our core business and strategy. The process has gained significant interest from higher-value owners, and we expect to sign and close a transaction within this fiscal year.

Ashland's most advanced portfolio action involves optimizing and consolidating our CMC business. We are exiting low-margin business and migrating select CMC volumes into Alizay, France, resulting in a closure of CMC production capacity in Hopewell, Virginia during the fiscal second quarter of 2024. This work stream led to $21 million of accelerated depreciation expense during the quarter.

Other actions to improve Ashland's MC Industrial and HEC businesses continue to be assessed and will be communicated in due course. As we take these actions, we will be exploring opportunities to leverage these assets to repurpose and support other strategic priorities. We continue to expect the portfolio optimization activities to be complete by the end of calendar year 2024.

In summary, all portfolio actions are on track, and we are committed to act with appropriate urgency to deliver on our commitments, including the reduction of all stranded costs that result from these actions.

Please turn to Slide 17. As highlighted on the left, our portfolio actions will have a meaningful impact on the company's profitability as well as capital and operational efficiency to deliver stronger performance. Specifically, once the actions are fully complete, we expect expanded adjusted EBITDA margins of 200 to 250 basis points, an increase to return on net assets of 150 to 200 basis points, a 10% to 15% improvement in network utilization rates and impacted product lines as select SKUs are shifted within the network and a 10% reduction in working capital as well as capital investment avoidance going forward.

We expect a modest reduction in fiscal year 2024 sales from our portfolio actions totaling $30 million to $40 million of lower sales related to CMC and Industrial MC versus 2023. The impact from a nutraceutical sale will be dependent on the timing of closing, but the business is averaging quarterly sales of approximately $30 million over the past 12 months. And lastly, we expect no material sales impact from rebalancing our HEC production network in fiscal year 2024.

Looking ahead to fiscal year 2025, we expect sales to reduce an additional $130 million to $150 million versus fiscal year '24 as a result of the completed portfolio actions with little to no impact on EBITDA. We are committed to eliminating the stranded costs associated with these actions and recapturing lost gross profit, making them EBITDA neutral. There are approximately $80 million in stranded costs and $20 million of reduced gross profit associated with our actions.

The majority of the stranded costs are directly related to manufacturing and will be eliminated after production is consolidated, and the lost gross profit will be offset by improved utilization in the plant network. While we're still finalizing the plans and specific cash costs for some of our portfolio actions, we expect the CMC and Industrial MC working capital release and capital avoidance to approximately fund the onetime cash cost associated with our plans.

Now on to our outlook. Please turn to Slide 18. As we look ahead into Q2 and fiscal year 2024, the major question is the timing and magnitude of the demand recovery. As Guillermo mentioned, current demand patterns imply a recovery is underway with our sales volumes beginning to align with customer end market demand trends. Specifically, January sales are demonstrating a strong month-over-month recovery of approximately 25%, which is roughly in line with January 2023, a period before destocking had intensified.

In addition, February is shaping up to be a promising month based on order pattern. As Guillermo indicated, March is the lynchpin month of the quarter and will largely define the magnitude of the recovery we are seeing in January and February. While these are clearly positive data points, the critical question is how sustainable is this demand normalization? The current trends suggest a demand recovery occurring in our second quarter with potential momentum heading into our second half of the fiscal year. We are encouraged by recent demand activity for our products as well as positive economic, consumer and industry data.

The next critical assumption is margin management. Depending on margin recovery, competitive pressures will vary across different segments. Maintaining pricing discipline will be important during our second quarter, but also throughout the year. We do expect pricing pressures to be partially offset by raw material deflation, but the timing will be important as we work through existing inventory. The Ashland team is keenly focused on pricing versus raw material balance for the year, which serves as a risk and an opportunity for overall results.

We have committed to produce to demand. We're much better positioned to do so than our prior year when in hindsight, production in the first half of the year meaningfully outpaced demand, requiring inventory actions later in the year. We do expect absorption benefits as demand normalizes, which should be much more impactful during the second half of the fiscal year as compared with 2023.

That said, we are continuing to manage production activities to maintain inventory discipline. Taking all of this into account, for the fiscal second quarter, the company expects sales in the range of $565 million to $585 million and adjusted EBITDA in the range of $115 million to $125 million. For the full year, we expect sales in the range of $2.15 billion to $2.25 billion and adjusted EBITDA in the range of $460 million to $500 million.

Based on recent demand trends, we have removed the downside demand recovery scenario that we discussed on our last earnings call from our range of possible outcomes. Key risks and opportunities are listed on the slide, but aside from demand recovery, variability in plant loading and price versus raw material balance will be critical for upcoming financial results.

And now let me turn the call back to Guillermo to provide an update on our strategic priorities. Guillermo?

Guillermo Novo *Ashland Inc. - Chairman & CEO*

Thank you, Kevin, and please turn to Slide 20. Our strategic priorities remain unchanged and continue to guide our actions, investments and profitable growth expectations. The priorities include execute, globalize, innovate and acquire, as we outlined in our Innovation Day during the last earnings call. Each priority is rooted in our passion to win and operate with urgency. Our execute priorities include select portfolio actions. As Kevin shared, we are making good progress on these actions and the resulting impact will strengthen Ashland's performance. Our globalized and innovate priorities are focused on profitable growth. The Ashland team is making progress in both areas.

Please turn to Slide 21. Activities are underway to globalize 4 of our higher growth and higher-margin business lines, which include 2 businesses within pharma, our injectables and our film coatings for oral solid dose tablets as well as 2 businesses in our Personal Care businesses, biofunctionals and preservatives. Taking a closer look at pharma, the injectable business is making good progress across early, mid and commercial stage pipeline activities. The number of Viatel development pipeline projects increased in the quarter, totaling 160 programs.

Projects in development are progressing through the evaluation stages. Viatel UltraPure has already realized first commercial sales within two months of launch ahead of expectations. Similarly, the OSD film coatings business successfully secured new customer wins in key geographies and continues to strengthen customer intimacy as we build local support.

Shifting to Personal Care, the biofunctionals business commissioned a new production facility in Nanjing, China, which I had the pleasure of visiting last week during my China trip. The ability to innovate and purchase materials locally, produce in-country and supply products that are tailored to local preferences is a source of differentiation and advantage in the region. The preservatives business has established labs around the world to enable the same level of service, independent of geography and our focus on developing multifunctional preserve risks. All 4 business lines took steps to accelerate globalization activities and remain hyper focused on implementing their respective business plans.

Please turn to Slide 22. Innovation is a fundamental component of our growth strategy. We have oriented the company around innovation and are investing in both our existing and new technology platforms. As we shared during the 2023 Innovation Day, Ashland has a rich history of leadership positions within existing technologies. We are building the same in our new platforms. As a reminder, the new technology platforms we discussed included are bioresorbable polymers, our transformed vegetable oils, our novel cellulosics, super-wetting agents, liquid cellulose plus as well as multifunctional starch and PH neutralizers, both of which are launching soon.

The new platforms all share similar themes. These technologies are scalable. We are commercializing in several market segments, which increases our overall growth opportunity. They are tunable. We are working with customers to tailor the technology to their specific needs. And the technologies have multiple functionalities. They create value beyond a one-for-one drop-in replacements. Multifunction offers the potential to avoid performance trade-offs in our customers' products.

For the last few months, our leadership teams have presented our new technology platforms to many of our customers in Personal Care, Coatings and Life Sciences. I'm happy to say that they will receive with a high level of interest and excitement. We expect to start more specific collaboration projects with many of our customers.

Our coherent innovation strategy with a hyper focus on execution has yielded near-term updates in our new technology platforms that I'd like to share. We continue to advance the development and sale of these platforms. We commercialize products, transformed vegetable oils and super-wetters that are gaining customer adoption and growing the sales opportunity pipeline. We're excited about the discoveries made for transformed vegetable oils, in architectural coatings and the positive testing in crop care for seed coatings.

Super-wetting agents platform continues to expand as we work to launch within crop care. The development within the pH-neutralized platform is advancing with a planned launch later this year. Sales, development and testing of other new platforms is moving well, and we will share updates accordingly in future calls. We're all excited with the progress made, the continued discoveries and the customer feedback. Although we expect most of the impact of these investments to begin in fiscal year 2025, we will work diligently to accelerate their impact into fiscal year '24, and provide periodic updates on our progress.

Please turn to Slide 23. In closing, our approach to this fiscal year is straightforward, build resilience by focusing on clarity of action in the face of uncertainty. We recognize that these are challenging times for our industry, but we also recognize the opportunities that lie ahead. Recent demand trends are promising, and we are cautiously optimistic.

The Ashland team is poised to capitalize on improving market conditions, but we'll continue with production discipline during this period of uncertainty. We will stay on strategy, maintain operating and capital allocation discipline and take appropriate actions to maximize fiscal year 2024 performance. This includes optimizing our portfolio, focusing on our core businesses and perhaps more importantly, continuing to invest in our long-term growth strategy. We are confident in the quality and resilience of the markets we serve and our future. I want to thank the Ashland team once again for their leadership and proactive ownership of their businesses in a very dynamic environment.

Thank you for joining us. And operator, Abigail, if we could move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from David Begleiter with Deutsche Bank.

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

Guillermo, on the sequential strength you're seeing, can you describe what end markets and what geographies is it occurring in? And just how strong is this in February versus January?

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

We're seeing it across all the segments, as we said last year, the Pharma segment came out of a very strong year. So that's normalizing a little bit, especially on the PVP with some competitors coming back into the market. But the rest of them, we're seeing it pretty broad-based. If I look at December, January and February, December was stronger. We did see some pushback of orders pushing back just end of the year things. But even with those pushbacks, December came in stronger and January continued to strengthen. So it is building up. If you look at daily rates, the January and February are sort of maintaining a consistent daily rate.

But the question really is going to be March. January and February is good that they're up versus expectations and more normalized. But usually, the March, April is really when the season starts from a sales perspective. So when we compare it to prior year, our production remained lower, but the sales are clearly picking up. The one area that we're looking at right now just for clarity is within the quarter, I don't think it's going to impact Q2 to Q3. But some of the issues in Europe with strikes and shipping, are we going to be able to today ship everything and some things might go into February, but that would just mean a stronger February for us so it's a pretty broad momentum.

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

And just in Q2, do you expect any impact? And if so, how much from inventory control actions?

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

So we're going to maintain where we are today. So that is really going to be in our outlook, both for the quarter, but more importantly, I think it's for the second half of the year. It's a 2:1 ratio right now between volume and sales and volume and production. If things pick up and we feel more confident, we're going to dial in the production depending on confidence. We areback to pre-COVID in terms of visibility so the issue that we have now is 30 days visibility. We don't have this order book like last 2 years, we've had 90 days of orders so it was much easier to see what was happening from our customers. Now we have to really count on our models, our forecasting models.

Clearly, what's happened, our models statistically aren't as robust because just the last 2 years, especially last 2 years were down. So we're really trying to read into that normalization. The key points that we look at in terms of our demand outlook. One is most of the customers are saying that the destocking is behind. There's obviously maybe specific customers can have a little bit, but

in general, the destocking is a bit behind us. Two, that we have three months now of visibility that is improving sequentially and continue to gain strength. And three is just what our customers, if you look at our customers' earnings calls right now and their outlooks, it's projection of volumes being flat for at least the markets that we serve being flattish.

Last year, they were flattish, and we were down. This year, they're going to be flattish. We should be getting back to this connection to their own demand. And that's sort of the model that we're using at this point in time.

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

So is there a number versus $31 million in Q1, we can use...

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

I mean last year, Kevin, and you can comment is, we had stronger above sales production in Q1 and Q2 so the situation will flip more in the back end of the year where we took the actions last year. But Kevin, you might want to add more color.

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

Yes, sure, sure. So Dave, based on the outlook that we have for Q2 and the full year, our inventory is pretty well positioned right now, and we wouldn't see any need to take significant inventory control actions throughout the balance of the year. So that's the first thing.

I think the second part, for Q2 versus last year, we started slowing down, I would say, our production later in the quarter in Q2 in some of our facilities so year-over-year, the guide would imply that we're kind of flattish on the absorption piece of the equation this Q2 versus last Q2. I mean there could be a little bit of play in that, but generally pretty flattish overall.

Operator

Our next question comes from Josh Spector with UBS.

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

I actually want to kind of follow up on a similar point there. So rather than year-on-year, maybe if we talk sequentially, second quarter into the third quarter or second half. You expect EBITDA to step up another, say, $25 million or so per quarter. - Is that predicated on your production matching your demand? Or are you making the point that in the second half, you might produce more than demand to try to rebuild inventory? So wondering what needs to happen in your base case for that step up into the second half?

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

We are not forecasting building inventory. So usually, we build inventory now and then we produce to demand because we're maxed out in the back end of the year. So we're still forecasting to demand. If you look at our outlook, the low end is going to be driven more by sales slowing down. The move to the higher end has a much more of a mix of both higher volume sales, and we would start to increase production. So the production impacts would be more of the upside drivers as we go into the year.

And the other thing that I would say is also because of the production, which segments recover are important because the upside on the manufacturing has a big impact in things like our Specialty Additives as an example. So that recovers that will also strengthen the mix impact.

Kevin, do you have any other comments you'd add?

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

Yes. Yes, and I'll go ahead and add a couple of things. Josh, if you look at our Q1 actual, the implied Q2 based on the guide and then think about the midpoint of the full year guide, what that would imply is that Q3 and Q4 would be approximately equal to Q2 of last year from an EBITDA perspective. We don't plan to build inventory. We don't see a need to build inventory. We're going to continue to produce to demand.

I think the important point here is that as demand ramps, and we expect it to continue to do so based on the guide that we're giving, the outlook we're giving that would imply that we'll need to produce more. And there's good leverage, just like you saw negative leverage last year as we took significant inventory actions, particularly in Q4. There's a lot of positive momentum that comes out of that as well.

And then as you go forward, that just balances itself out into a more normal flow. But we would expect much better absorption in the second half of the year for sure than we saw last year in the second half and also, frankly, much better than what we expect in the first half of this year.

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

I appreciate that. And just thinking about the range of outcomes from a sales perspective and what that means. So you made some interesting comments about demand reconnection and your customers' demand flat over a couple of years, you're maybe run rating down 10% to 15% volumes. I guess if you go through the bridge of where things could be at, you talked about maybe 1% to 2% lower volumes because of your exits of certain businesses. I guess, is there anything else that limits that reconnection so customers holding less inventory, any share shifts? Or what's the potential volume regain you could see if you actually see further sequential improvements either this year or just longer term?

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

So let me comment and Kevin, you can add some color. But if you look at the volume drivers for us in terms of share and reconnect. So our first step is just reconnecting to our customers. We have a lot of contracts with customers- so it's really about them not destocking and now that our alignment goes with their volumes. And I think this is where we don't have perfect clarity, and the models that we have are showing improvement, but we're not showing that we're going to necessarily reach where their flat volumes are, but we are showing significant improvement so we're closing our gap between them and us. So there could be some upside there, if things pick up a little bit more.

Other than that, I think we really now get into share gains, innovation growth, what's going to drive those volume activities and that's really where we're focusing on our core businesses, HEC, Aquaflow, Benecel, Klucel, PVP, those kinds of products. And I think if they grow, they are higher margins for us. And where we're taking the sales reductions are more in businesses that don't generate a lot. So we're taking off the absorption noise of those low-end businesses.

So the mix, I think, as we look forward is not just are we hitting the volume growth,- is it are we hitting in the higher value segments? Or are we hitting them in the segments that have the more absorption upside in terms of that recovery impact, and that would be mostly in our cellulosics and Specialty Additives as well as our Intermediates.

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

I'd say that's very fair. And let me just add. In terms of the outlook, we do not anticipate any major share shift, pro or con. There's always some of that, that happens, but we don't anticipate big share gains or anything like that in terms of supporting the outlook. So this is just kind of normal operations that we expect to see a nice pickup in the second half. In terms of what we're projecting versus what we see from our customers, I'd say we're the outlook would presume that we close that gap, but not completely.

I mean there's play in there. I would say at the upper end of the outlook, it's a more complete closure. At the lower end, it's less. In the middle, I think is, frankly, just where we're comfortable with based upon how we see order pattern flowing, how we see demand flowing through as well, et cetera. So said another way, there's nothing extreme in those numbers. There's nothing heroic that has to happen. There's also no presumption that anything particularly negative is going to occur. We're using the facts as we currently have when we see them.

Operator

Our next question comes from Mike Harrison with Seaport Research Partners.

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

You mentioned this consolidation that's going on with your CMC production at Alizay in France and closing some CMC capacity in Hopewell. Can you give a little bit more detail on the timing of those actions? And then is the benefit there just that you have better operating rates in Alizay or is there some near-term plan to repurpose those assets in Hopewell?

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

I think there are several benefits that we're going to get. One is, we will be reducing our exposure on a low-margin business that has a high capital intensity and high absorption intensity. So it creates a lot of volatility with very little upside. And as we said in other calls, 2022 was really one of the best years we've had, and we still had returns on those businesses that would be lower cost of capital. So they're not sustainable long term. So we remove some of that noise.

The second thing is that, as you said, we load Alizay, we can improve our mix, we can take some actions. And the returns that we get will be much better, and those will be parts of the business that we can actually invest in and grow for the future. So it stabilizes the core parts of CMC that we like, that we want to grow and maintain.

And then the last thing is, yes, we are looking at how we can repurpose. -In the depreciation number, solid depreciation number that Kevin mentioned that's not all the assets. We are planning to see how we can repurpose. There are some of the advanced the new cellulosic technologies. We need a plant to make those. We could make it in parts of that plant. We can restructure the CMC plant to do other cellulosic products, and we're looking at how we can better manage our mix that those are all activities that we're looking in at, at this point in time.

So all 3 of those areas would be part of the improvements. And what we'll see is improve margins, improve return on capital, and really our ability to use the capital we have to focus on the better higher quality businesses. So we'll allocate that capital better than to sustain these older businesses that really haven't improved, and they're not going to improve so significantly in the future.

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

And Mike, we would expect to close that CMC unit down by the end of this quarter. The inventory sell-through will take longer as we work with our customers on closing that part out. And we also have processes underway to transfer materials into Alizay and ramp that up, which is a process in and of itself. And as Guillermo indicated, over time, we'll figure out what makes sense in terms of the current CMC assets. I mean suffice it to say, we will be making CMC in those units. And potentially that can be repurposed down the road for something else. And we have a work stream focused on that as well.

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

All right. And then Kevin, you mentioned the lower variable comp and lower equity-based comp that you saw year-on-year in Q1. When does that variable comp maybe flip to being a headwind year-on-year? And I guess for the full year, how much higher should we expect variable comp and merit or cost of living increases to be for the full year?

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

Yes. Merit is already flowing through. We changed merit. We changed merit first of the year. So call it January is when that is flowing through all that's anticipated and contemplated in the outlook. In terms of the Q1, most of that is equity-based comp. A very small portion of that is annual incentive comp. So it's more of the equity piece. I would expect in the corporate side of the equation to return to, call it, more normalized levels Q2 through Q4 time frame.

The year-over-year difference from a merit and incentive comp perspective, it's about $25 million for incentive comp year-over-year and about $15 million would be the merit increase impact year-over-year. So those two things would be roughly $40 million higher this year than last year at target. And so you won't see all of that. A big chunk of that goes through COGS because it's related to plants in terms of both the annual incentive and the merit increase. Most of our employees are actually in the plantsso it will flow through various places in the P&L, but that's the number.

Operator

Our next question comes from Christina Low with JPMorgan.

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

This is Jeff Zekauskas. Is the Intermediates & Solvents business getting better or worse, if you have visibility on that?

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

No, it's been stabler. I mean most of the volume drops have happened last year. Obviously, a big impact year-on-year and quarter-on-quarter in the last versus '23, but still is performing better than it did historically. So I think the two things we need to look at, ithas performed better historically because we have refocused it. We're focused on different regions where we have competitive advantage. Most of the stuff now is going into EV battery, semiconductors, coatings, high-quality segments, U.S., Europe, we obviously do sell still a little bit in Europe in the electronics side, and that slowed down for us because just the competitive intensity.

So if you look at the slowdown, there's two sides to it. There's our markets and then there's the BDO dynamic. BDO, we're not a big player there, but BDO prices have come down a lot more because of the commodity markets and polyurethane fibers all these other markets. So there's an excess, especially in Europe of raw material, BDO prices come down. So a lot of the NMP and BLO producers have a lower cost base right now. So there's a lot more aggressive positioning for loaded volumes and things of that nature coming from Asia. The issue is we've seen it mostly on volume. We're seeing some pricing, but we're still being able to maintain a better position.

I think the issue now is as volumes start recovering, not just in our markets, the EV, the semiconductor space is picking up again in the regions that we're focusing on will be good. But really, as the trend we're seeing applies to other companies later on, in terms of some of the more commodities and BDO prices start coming up, that also will change a little bit of the dynamics in our spaces. So you got to look at both of those the cost implication of BDO and the demand within our own markets as big drivers because it's not a differentiator as other parts of our portfolio.

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

Your unallocated costs were $16 million in the quarter. Is that the normal run rate for you now? And is there any meaningful share issuance? I know you bought back $100 million worth of stock. Are you issuing any shares to different plants?

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

I'll start with kind of the unallocated. Unallocated in Q1 was light, primarily because of equity-based comp. I would say, the more normalized level that we expect to see and what we would have in our outlook, it's more like around $20 million a quarter for the balance of the fiscal year. In terms of the share repurchase, there's been no meaningful change in what we do there in terms of when we buy those shares, we retire them. And so there's no other use that we're applying those to.

So right now, as we stand today, total share count is around 50 million based on the repurchase of those shares. The weighted average for the quarter is higher than that we repurchased during the quarter. But we'll do a couple of hundred thousand shares a year for comp-based things, but nothing has changed with that.

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

And then lastly, I may have been muddled over your earlier discussion. Your revenue forecast for the March quarter is $565 million to $585 million, and your revenues in 2023 in the March quarter were $603 million. And you talked about the orders being much stronger than you expected, though I don't know what your expectations actually were. You talked about how important March was. So in that $565 million to $585 million, we're expecting volumes to be generally lower year-over-year in the March quarter. Is that right? And that's the current pattern for the first 2 months, too, or March is really different?

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

I would say we do expect volumes to be a little bit lower in this March quarter versus last March quarter. And again, that's based on the best look that we have. March could change that. I mean I think we're looking probably low single digits year-over-year from a comparison perspective on volumes. The other dynamic that's coming into play is the price/mix piece. As we said in our comments, there is some interplay there around price, raw materials and volumes. And so we're trying to make sure that we strike the appropriate balance as we do compete for some volume in the marketplace as demand has more normalized right now. So it's really been a combination of all those factors.

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

What was the volume comparison in January?

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

Well, we haven't closed January yetso we've got to see...

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

We don't know yet. It's still...

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

The order book, I mean, look, it was significantly stronger and normalizing a little bit more. I think we need to get back to you with some comments on with February, remember last year, we're also looking at China and all the things that were happening. So we're trying to look at some of those comparisons on a quarter-on-quarter. I think what we're seeing right now is the sequential, the momentum of improvement. I think the biggest challenge right now is to forecast inflections. When things are good and they turn down, it's very difficult to forecast. And now when things were down, we're starting to really see an inflection of changing. I think that's the really bigger focus for us right now.

As Kevin said, there's still things that we can't really be perfect about in terms of not just the year-on-year, but production volumes and other things on how good can this get? And we're just going to be prudent as we move forward in some of our numbers and projections just given the history. And that now we really don't have, as I said at the beginning, we don't have visibility to the orders anymore and our models, our statistical models don't capture recovery, right? So I think we're going to be looking recovery more based on the more recent demand. If we look at 12-month moving average demand versus 2-month moving average demand, our 2-month moving average demand is increasing significantly and strengthening. And now we have 3 data points so I think now we feel a little bit more comfortable on that side.

Operator

Our next question comes from Laurence Alexander with Jefferies.

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

What's the price versus cost differential so far? And how do you think,when you think about the range that you're giving for the year, what are you assuming?

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

So far, it's pretty balanced, I would say. And we're continuing to try and maintain that throughout the year. And that's our view, basically, we think that probably Specialty Additives is going to likely have more price raws dynamic to it just because there's a lot more volume there than on, say, Life Sciences and Personal Care. But that's what we would expect for the balance of the year.

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

I think in Intermediates, obviously, it's been more price the raw materials. We have seen some benefits in natural gas and all that in our costs. But as I said before, the market price of BDO, obviously, impacting our competitors and all that, I think pricing has been a bigger impact for us in Intermediates. I think on the other side, traditionally, if you look at the high inflation time, we increased prices, we didn't increase margins based on pricing. We were able to recover the raw materials. So I think as long as we can maintain that balance, I think, will be okay, and that's where the businesses are trying to make sure that we do.

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

And can you flesh out a little bit just how much, when you think about the growth CapEx that has been delayed, if demand does recover, how quickly we should expect CapEx to follow?

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

I think we're looking at the portfolio actions. The HEC, I mean, as we take action on CMC and MC, the bigger volume now is going to be the HEC side. Some of these network adjustment we're doing we should be in a very good position to be able to grow and support the growth of the business so we would start implementing different actions as demand picks up. For other areas where we put more of the slowdown in CapEx, Aquaflow was one. A lot of that goes into the DIY market that continues to be slower. So we're pacing still ourselves there. Benecel is done. The HEC expansion is done.

So a lot of the big asset projects are basically done except for the Aquaflow. Most of the other activities are to support our higher margin, the more asset-light type investments, those are moving ahead per plan. We just, as I said, finished our biofunctional plant in China. We're converting our plant in Brazil from nutraceuticals to the oral solid dose of coatings and biofunctionals in Brazil, and we're in the process of buying land in India. We should be closing soon and expanding production capabilities there, again, for some more of these more specialized lower like asset-intensive type businesses. So all of those are going to be growing. And the other plant that we just finished was our injectables plant in Ireland. That's also in final stages. So everything else other than Aquaflow, we're pretty much moving on.

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

And then just lastly on the free cash flow...

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

I'll ask a free cash flow question because that's where I was headed.

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

Well, I was going to take it in a slightly different tangent in terms of the restructuring outlays in 2024 versus 2025. But so, however, you want to tackle it.

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

For fiscal '24, the current outlook would anticipate free cash flow conversion, call it, in the 50% to 60% range of adjusted EBITDA. So just in support of what Guillermo just said around, our CapEx shouldn't be outsized necessarily compared to what we would have otherwise expected. We still expect strong free cash flow conversion this year.

Operator

Our next question comes from John McNulty with BMO.

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

If I understand it right, you're not building up inventory kind of ahead of the busier season. But it also sounds like you're not really planning on destocking any further. So are you moving pretty much to a just-in-time type operation going forward? Or is there inventory that you have? And it's not really a fixed cost absorption anymore, but you have enough safety stock to kind of handle that seasonal updraft? I guess how should we be thinking about that?

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

-We carry inventory. We don't carry excess inventory. So we're looking now at more of the near-term demand, our safety stocks. We look at safety stocks that we want to hold in different parts of the world, the transportation time, all those things factor into what would be our target inventories to support our ongoing business, and that's where we're going.

What we didn't do is really look like in the past, we would just have looked at much longer outlook and say we'll start producing for 6 months out because we just want to build up the inventory to meet long-term demand.

Given that outlook is still muted versus historic, we are not building that inventory at this point in time. So we're really looking at more near-term inventories. And as orders increase, then we will take appropriate action. That's why to the comments we said before, if in the back end of the year, what moves us towards the upper side of our guidance range, it's not just higher sales, it is do we have confidence that the higher sales, higher demand is moving that we would run our plants a little bit more aggressively.

Right now, we're being much more cautious. I think what you can hear today is we're more optimistic on the sales, the inflection point, but we are not taking the equal actions in our operating side of the equation from a manufacturing perspective, that's where we'll probably be more conservative at this point in time.

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

Got it. Okay. No, that helps. And then from a capital allocation perspective. So over the last, I guess, 4 quarters or so, you've bought back about $100 million worth of stock, not really anything on the M&A front and for probably various reasons that the markets were kind of closed down for a while. I guess can you speak to how you're looking at 2024? And if you see that pipeline opening up a bit, where there may be opportunities. And then also, do you feel like you have the bandwidth to go after those types of opportunities, given all the self-help work that you're doing yourself? So can you help us to think about that?

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

So in M&A, we haven't stopped. We've been active even in this year. I mean if the right deal came, we are capable of doing it. Most of these are bolt-ons. - There are things that we can do within our financial position and continue to support our organic growth activities. The issues that we've been disciplined, I mean, even in the downturn, some of the properties that would have been in the spaces that we're looking at when a very still valuations that we didn't believe were appropriate for the returns that we would need to generate from those acquisitions.

So we've been active. There's been things, but we've just been disciplined, and we will continue to be disciplined. So as we go into '24, there are opportunities, we have the targets, we are working them. But at the end of the day, we do have a very strong organic growth potential here. So that's our #1 priority. We want to do the M&A, but we don't have to do it to drive some of our growth objectives, and we're going to be prudent on that.

If you look at the M&A, nothing's really changed on the priorities. Pharma and Injectables being the #1 priority for us. Technologies in Personal Care that are more natural, natural derived, biodegradable and expanding beyond rheology and coatings sort of are the big themes. And if you look at our organic growth themes that I cover today, they basically hit those 3 themes. So we got plenty to do, but we will augment them, but we will maintain the same prudence that we have done in the last 2 years.

Operator

Next question comes from Michael Sison with Wells Fargo.

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

Cheers, nice start to the year. Just curious where your network utilization rates are now? And then if you were able to hit the midpoint of your guidance, for the second half of the year, where your utilization rates need to be? And then do you get another 10% to 15% above that as you head into '25 because of your portfolio actions?

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

So let me get some comments and Kevin, you might want to comment also based on some of the portfolio actions we're doing. But if you look, obviously, volumes have been down, absorption is the biggest issue. So utilization rates have been much lower. But if you look at our actions and the specific product line, so CMC, obviously, we're consolidating. So Alizay will be very well loaded as we finish those actions. And that takes away a lot of the noise in the low-end business.

Similarly, we're looking at how we optimize our MC businesses, and that's progressing well. HEC with the network optimization opportunities we have. I do think that one we can get much better loading. I think obviously, we're looking to grow that part of the portfolio. So we want to make sure the volume pickup will be very important, and it will normalize more to below the healthy utilization rates in many of our plants. So a better that network optimization.

Aquaflow is at low utilization rates right now. DIY has not recovered as much, and we have a big position in the U.S. and Europe with those technologies. So that one we're moving slower on the capacity and all that because that we are underutilized at this point in time. The rest, it's a mix of things, smaller units. It's not as big of a worry for us. So I would focus on HEC is really the one that as we look into 2025, that we really want to make sure that some of these actions really optimize are loading, but allow us to continue to drive the organic growth for that business, which is we're the market leader in that business.

But Kevin, I don't know, if you want to have any specific numbers on the portfolio assets.

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

Yes, sure. The 10% to 15% increase in utilization rates is only related to CMC, MC and HEC. And the way to think about that is those utilization rates will offset the lost gross profit, not just from CMC and MC. There won't be any loss gross profit from HEC, but will also offset the lost gross profit from the nutraceuticals business. It's part of why we get the uplift that we get from an EBITDA margin perspective and also from a return on net assets perspective.

I think across the rest of the network, it's a little bit mixed in terms of where we are from a utilization perspective. But we're well positioned to be able to ramp based on the outlook that we have. And I'm really not concerned about being able to do that, assuming that demand continues to unfold as it has here early in the fiscal year. So we feel good about that.

And as Guillermo said, as we move into fiscal '25, we're going to be pretty well positioned to take advantage of continued improvement. And to the extent that DIY architectural coatings, business improves. We're well positioned at Alizay because our utilization rates are pretty low right now for Aquaflow, and we are increasing our capacity there and can ramp that project up based on how we see demand unfolding. And again, HEC, we're commissioning the new unit at Hopewell now. We've been doing that for a while. And as you'll recall, about a year or so ago, we completed the commissioning of our new continuous dryer there, which was a major bottleneck for us in terms of general cellulosic capacity. And so that's now off the table, which is also good and helpful.

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

I think, Mike, the other comment I would make on just capacity utilization, just to reinforce our innovation and growth. For all these new projects, we're basically not making significant capital investments. So our transformed vegetable oils, we have capacity already in two of our plants that as this ramps up, we have plenty to support growth there. Our super-wetters, we're making at Calvert City and assets that were not utilized before. So as that ramps up, that will be positive. The pH Neutralizer, we will be making also in Calvert City and another unit that was underutilized.

We're back integrating into some of our preservative raw materials. Also, rather than building a new plant that we were planning to build in Europe, we are leveraging existing assets in Calvert City that we're going to use there. And as I said, with the novel cellulosics, that progresses we can repurpose some of the assets that we're addressing now with CMC and maybe utilizing bringing them for more higher value. So on the capital side, I think it's not just a capital dollars, the time-wise, we can support some of these growth initiatives much faster than you would normally be able to support it if you require building new plants.

So I think there's a lot of things. This first step of normalization of demand is the critical step for us, and we're not controlling that. That's more of the market recovering market normalizing, and I think we're starting to see that. The rest then is the actions that we take all these portfolio actions, driving, sticking to our strategy. I think that's why we're making the point of, look, once things stabilize, it's what we do that's going to make the difference. It's not now just recovery. It's the hard work of where we're putting our efforts, our resources and our capabilities to drive growth.

Operator

(Operator Instructions) Our next question comes from John Roberts with Mizuho.

John Ezekiel E. Roberts ***Mizuho Americas LLC - MD & Senior Equity Research Analyst***

On the cellulosic restructuring, if you look, gross profit for Specialty Additives and Intermediates were both down 60%-ish. The gross margins are actually lower in Specialty Additives than they are in Intermediates. Any thought to merging those 2 segments, or even just pulling the cellulosic plants out of Specialty Additives, putting them in Intermediates and having them sell to the other segments, the same way you sell BDO from the Intermediate segment to the other segments?

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

I think it's a little bit more critical strategic for us to keep it in line with our businesses. I mean, one, what you're seeing in Specialty Additives is all of the absorption issues of the HEC as an example, and CMC are captured in Specialty Additives. So they're the landlord, so they're getting all the hit. I mean they're the biggest volume in HEC, but in CMC, they're not the biggest volume, but it's in their sites. So there's a little bit more of a distortion that some of the products that are down are in Life Science and Personal Care, and we're exiting it. So we'll resolve those issues moving forward.

But if you look at HEC with the recovery and all that, I think that is a core business. This is sort of the model that we have on how do we build scale with Additives. We have to have one or two applications that give it more scale for manufacturing production and then we're able to sell them out. It's a little bit different than the Intermediates where it's just BDO that we're making it, it is a true, true commodity. There's many producers. We are a very small producer. It just gives us back integration. We're the largest HEC player. So I think there, we need to make sure that we're controlling it and driving it for our core business, which is our Specialty Additives.

John Ezekiel E. Roberts ***Mizuho Americas LLC - MD & Senior Equity Research Analyst***

Since you're just back from China, we had an extended, I think, Chinese New Year shutdown period last year as the Chinese economy was reopening. What are your thoughts on how this Chinese New Year plays out?

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

So I think not just the new year, but I think in general, things have slowed down in terms of our plant in China, specifically HEC. A lot of it is coatings and it stays in China. We don't export much. So it's still offering a well, but the volumes are down. We are well aligned with some of the big players and they've done well in the last year because of just their own chair and commercial activities. But in general, the property market on that, we are seeing a general slowdown in China.

The big question is going to be not so much the Chinese New Year, it's what actions do we see in support of the real estate, the construction market over the coming months. And there is some indication that is something that is at play at this point in time. But clearly, for us, China for 2024, is going to be stable, but we're not expecting it to just recover very quickly at this point in time.

Operator

That concludes the question-and-answer session. At this time, I would like to turn the call back to Guillermo Novo for closing remarks.

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

Okay. Thank you, Abigail, and thank you everyone for your questions and participation, and we look forward to engaging all of you in the coming weeks, and get into more discussions. But I hope as the big takeaway is, one, that we are seeing some improvement in the overall market dynamics, number one; two, that we're focused on our strategy and our actions, and we are going to continue to drive them as we move forward and there's a great future ahead in a lot of these new technologies in for Ashland.

So thank you very much for your time, and look forward to talking to you soon.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.