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CORPORATE PARTICIPANTS

Guillermo Novo *Ashland Inc. - Chairman & CEO*
John Kevin Willis *Ashland Inc. - Senior VP & CFO*
Seth A. Mrozek *Ashland Inc. - Director of IR*

CONFERENCE CALL PARTICIPANTS

David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*
Jeffrey John Zekauskas *JPMorgan Chase & Co, Research Division - Senior Analyst*
John Patrick McNulty *BMO Capital Markets Equity Research - MD & Senior U.S. Chemicals Analyst*
John Roberts *Mizuho Americas - MD & Senior Equity Research Analyst*
Laurence Alexander *Jefferies LLC, Research Division - VP & Equity Research Analyst*
Lucas Charles Beaumont *UBS Investment Bank, Research Division - Associate Analyst*
Michael Joseph Harrison *Seaport Research Partners - MD & Senior Chemicals Analyst*
Michael Joseph Sison *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst*

PRESENTATION

Operator

Good day and Welcome to the Ashland Inc. Fourth Quarter 2023 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 Investor Relations. Please go ahead.

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

Thank you, Abigail. Hello, everyone, and welcome to Ashland's Fourth Quarter Fiscal Year 2023 Earnings Conference Call and Webcast. My name is Seth Mrozek, Director, Ashland Investor Relations.

Joining me on the call today are Guillermo Novo, Ashland's Chair and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer.

We released results for the quarter ended September 30, 2023, at approximately 5:00 p.m. Eastern Time yesterday, November 8. The news release issued last night was furnished to the SEC in a Form 8-K.

During today's call, we will reference slides that are currently being webcast on our website, ashland.com, under the Investor Relations section. We encourage you to follow along with the webcast during the call.

Please turn to Slide 2. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our financial outlook for fiscal year 2024. 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 reconciliations of the non-GAAP measures to those GAAP measures are available on our website and in the appendix of today's slide presentation.

Please turn to Slide 3. Guillermo will begin the call this morning with an overview of Ashland's performance and results in the fourth quarter and fiscal year. Next, Kevin will provide a more detailed review of financial results for the quarter. Guillermo will then provide additional commentary related to Ashland's financial outlook for fiscal year '24. We will then open your line for questions.

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

Guillermo Novo *Ashland Inc. - Chairman & CEO*

Thank you, Seth, and hello to everyone. Thank you for your interest in Ashland and for your participation today. The results in the September quarter were consistent with our preannouncement that we issued last week.

Customer demand was generally in line with our expectations. Although destocking has stabilized relative to prior year, we continue to feel the impact across several markets.

Pricing remained favorable compared to prior year across all our core segments in the integrated business. However, Intermediates did experience price declines in both the merchant business as well as the internal BDO transfer price.

By far, the biggest factor impacting Q4 earnings was a proactive inventory control actions we took. These actions are above our regional expectations.

Given the uncertainty in the outlook and a different scenario we considered, we took the approach to assume a more conservative scenario for our planning actions. The resulting lower inventory position and improved cash flow will position us better for better operating of resilience across multiple scenarios over the next couple of quarters.

These inventory control actions resulted in lower production volumes, and nearly $60 million in cost impact. The resulting benefit was a reduction in inventory of about $86 million compared to June 30, and a generation of $104 million in ongoing free cash flow during the quarter.

While the $74 million of adjusted EBITDA was below our original expectations, these actions were necessary to meet our commitment to maintain operating balance sheet and cash discipline during times of uncertain customer demand.

Please turn to Slide 6.

Fiscal 2023 was a challenging year. As I indicated, reduced volumes resulting from the unprecedented and extended customer destocking was the largest single factor impacting top line results during fiscal '23. Volumes were down 18% during the year due to these impacts. The lower volumes impacted both sales and gross profit as well as plant cost and unit costs.

And while pricing was favorable for the year, it was not enough to fully offset the significant reduction in volume. But net result for the year was sales, down roughly $200 million or about 8%, and adjusted EBITDA was down about $131 million or roughly 22%.

The lower demand and inventory destocking was clearly very challenging and disruptive for our manufacturing operations. Although the timing of some of the inventory control actions varied across the year, in hindsight, if we average the timing of these actions across the year, the net result would not have changed.

The bottom line of production and manufacturing unit costs for the year increased significantly due to the lower production volumes and resulting lower cost absorption. Disciplined SARD variable expense management helped, but the broader underlying costs were in line with our original plans. The only meaningful cost reduction resulted from the reduced incentive compensation based on the lower performance.

Let me close my fiscal 2023 comments with some reflections. On the positive side, it's good to see that consumer demand remains resilient for the core markets we serve as our customers destocking actions and our demand sit align with their underlying production needs to meet demand. We are seeing this dynamic starting to flow through with many customers. Unfortunately, it's also clear that destocking dynamics will continue to persist for longer across some of the supply chains of the industries we serve.

If we look at the first half of the year, the expectation was that destocking would be shorter lived and demand would normalize sooner. Unfortunately, things did not play out that way. The inventory build across many of the many supply chains in fiscal year '21 and '22 was much greater than anyone realized, and it's taking much longer than expected to work down.

There's still significant uncertainty as to when these dynamics will end. Until the inventory control actions taken by customers have subsided, it will remain difficult for us to gauge the true end market demand.

Waiting for improvements is not a reliable option. Given the continued uncertainty, it is vital that we move proactively to take actions to build resilience, reduce volatility and maximize performance across various scenarios.

We also recognize that while near-term uncertainties of the current environment present challenges, they do not change our exciting long-term opportunity for Ashland. We need to act on both dimensions to improve near-term performance and invest on our long-term profitable growth opportunity. I will discuss these in more details later in the call.

Let me now turn the call over to Kevin to review our Q4 and fiscal year results in more detail. Kevin?

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

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 8. Before I review the detailed results for the quarter, I'd like to provide a bit more color on the customer destocking dynamics we experienced during fiscal '23.

As you can see in the graph to the left, Q1 and Q2 sales were actually tracking favorably compared to the prior year. While some distributors and customers in China and Europe have begun to reduce their order activity, carryover pricing was more than enough to offset these actions.

However, during our fiscal Q3, the persistent customer destocking had expanded to more end markets and customers. These trends accelerated throughout the back half of the fiscal year. As Guillermo has stated, while we have seen some indications that demand has stabilized, we expect destocking to be a factor for at least the next 2 quarters.

Hence, the more aggressive actions we took to reduce inventory during the September quarter.

Please turn to Slide 9. Total Ashland sales in the quarter were $518 million, down 18% compared to prior year. Continued customer destocking dynamics resulted in reduced volumes for all segments.

Pricing was favorable for all segments except Intermediates. Foreign currency had a favorable impact on sales of 2%. Gross margin declined to 24.9%, driven primarily by the $58 million of inventory actions in the quarter.

When excluding key items, SG&A, R&D and intangible amortization costs were $116 million down, from $123 million in the prior year, largely reflecting lower incentive compensation accruals.

In total, Ashland's adjusted EBITDA for the quarter was $74 million, down 50% from the prior year. Ashland's adjusted EBITDA margin for the quarter was 14.3%, down from 23.3% in the prior year, again, reflecting the factors I just discussed.

Adjusted EPS, excluding acquisition amortization for the quarter was $0.41, down from $1.46 in the prior year quarter. Ongoing free cash flow improved to $104 million for the quarter, primarily reflecting changes in working capital stemming from our internal inventory control actions.

Now let's review the results of each of our 4 operating segments. Please turn to Slide 10. Within Life Sciences, demand for our pharmaceutical ingredients remained healthy, though volumes were down a bit versus a strong prior year period. Nutraceuticals demonstrated a nice recovery. Sales to nutrition end markets remain challenged. Overall, pricing for Life Sciences was favorable.

In total, Life Sciences sales declined by 5% to $203 million, while adjusted EBITDA decreased by 16% to $48 million. Inventory control actions in the quarter impacted EBITDA by approximately $6 million. Adjusted EBITDA margin decreased to 23.6%, primarily reflecting the impact of inventory control actions.

Please turn to Slide 11. Continued customer destocking negatively impacted Personal Care in the quarter. For the quarter, Personal Care sales declined by 22% to $146 million, while adjusted EBITDA declined 36% to $36 million. Pricing continues to hold, but margins were negatively impacted by lower volumes, driven by customer restocking, $5 million of inventory control actions and negative mix.

Please turn to Slide 12. Specialty Additives was impacted by reduced demand, primarily related to continued customer destocking, though the architectural coatings end market was less impacted than others in the business. Pricing remained positive in the quarter versus prior year. However, volume declines due to destocking, primarily in construction and Performance Specialties as well as nearly $38 million of inventory control actions by the team negatively impacted profitability in the quarter.

Specialty Additives is our highest volume business and is also the landlord for several large manufacturing facilities that also serve the other segments, and therefore, experienced a larger share of the result of the inventory control actions in the quarter. For the quarter, Specialty Additives sales declined by 23% to $144 million, while adjusted EBITDA declined by 81% to $8 million.

Please turn to Slide 13. Intermediates reported sales of $37 million, down 42% compared to the prior year, driven by lower pricing and volumes. Intermediates reported adjusted EBITDA of $3 million compared to $17 million in the prior year, and adjusted EBITDA margin declined to 8.1%. The inventory control actions impacted earnings by $9 million in the quarter.

Please turn to Slide 14. Fiscal 2023 was obviously a very challenging year. While pricing remains strong throughout the year, customer destocking and the related impacts on revenue and plant loading resulted in decreases in most financial metrics. That being said, it is important to note that in fiscal 2023, Ashland generated strong ongoing free cash flow, which increased meaningfully versus prior year.

Please turn to Slide 15. As of the end of September, we had cash on hand of $417 million, with total available liquidity of roughly $1.1 billion. Our net debt was $913 million, which is about 2 turns of leverage. We have no floating rate debt outstanding, no long-term debt maturities for the next 4 years, and all of our outstanding debt is subject to investment-grade style credit terms.

As discussed, we took proactive inventory control actions to reduce inventory by $86 million in the quarter. Not only did these actions better position us for continued uncertainty, they also supported a generation of $104 million of ongoing free cash flow in the quarter, which was nearly half of our ongoing free cash flow for the fiscal year.

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.

Against a backdrop of global uncertainty, Ashland's balance sheet is well positioned to give us the flexibility to pursue our targeted growth strategy as well as reward our shareholders with a strong dividend policy and continued share repurchase.

With that, I'll turn the call back over to Guillermo to discuss our outlook for fiscal year '24. Guillermo?

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

Thank you, Kevin. Please turn to Slide 17. I'd like to spend a few minutes providing my take on the challenges that we and others in our industry are likely to face during 2024.

From a macro perspective, let me comment on 3 drivers. First, demand uncertainty. There are continuing concerns about the prospect of a global recession and economic slowdown, and there is risk of geopolitical uncertainty across different regions of the world. Of most concern are the potential economic headwinds facing the U.S., Europe and China. We don't yet know if or how these headwinds will impact the buying patterns of our customers and the global consumer.

The question of when destocking will end is front of mind for most companies in our industry. Given the back end of the year recovery expectations, there continues to be uncertainty regarding the timing of the end of the customer destocking and demand normalization.

Based on consumer demand, the good news is that our customer sales volumes are starting to normalize. However, customers in the end markets we serve continue to hold elevated macro levels of inventory, so some destocking may persist longer.

Second is margin management. Maintaining pricing discipline will remain critical throughout the year, depending on demand recovery, pricing pressures will vary across different segments. Although we expect some improvement in raw material costs and cost improvement will take a while to have impact as we work through existing inventory.

Even as volumes demands normalizes, the demand is expected to be below prior years. This will be reflected in higher and more volatile unit conversion costs. Companies will need to work diligently to maintain margins through disciplined actions across the supply chain.

And third is new growth drivers. The commercial success of new innovation platforms is critical to the long-term growth opportunities for the company. We have focused on building a strong balance sheet and financial strength so that in spite of the near-term challenges, we can invest and drive our globalized and innovate growth strategies.

Although we expect most of the impact of these investments to begin in fiscal year '25, we will work diligently to accelerate their impact in fiscal year '24.

All told, given the uncertainty, fiscal year '24 is a difficult year to forecast at this time.

Please turn to Slide 18. To build our plans, we analyzed numerous scenarios. As I indicated, the big variables impacting outlook are volume demand and margins, with demand being the biggest variable.

Primary impact on all the scenarios is the timing of demand normalization. From a volume demand perspective, 3 scenarios provided the greatest insights into actions that we should take. No demand recovery, demand recovery during the March quarter, and delayed demand recovery during the June quarter. Each of these scenarios yield the significant variation in results for the year, and they are discrete outcomes. You cannot average them to a midpoint performance.

Our objective is to build resilience and pursue actions that best position Ashland to maximize performance across each of these scenarios.

Please turn to Slide 19. At a recent innovation day, we laid out our business model and the strategic priorities that will drive our actions, investments and profitable growth expectations. First, disciplined execution across our core businesses, investing in them for the strength and growth of those high-value segments where we have market and technology leadership, and to take the needed portfolio actions to address underperforming business that are not core and where we do not have technology or market leadership.

Second is globalize some of our high-value growth businesses.

Third is to drive innovation across both existing and new technology platforms.

And fourth, to leverage bolt-on M&A to augment our growth capabilities for our big 3 businesses: pharma, personal care and coatings.

Let me start with the first focus area, execute. Please turn to Slide 20. In this environment, just cutting costs will not build the resilience we need. We will take more targeted actions to reduce volatility and performance risk. We will also position our core businesses for more reliable operations to leverage the eventual volume recovery.

During the last year, we have been clear that we need to address some of the strategic structural portfolio gaps with several businesses that are either not a strategic fit or have been structurally underperforming for a long time.

At a high level, we have 2 noncore businesses, our nutraceuticals, which has no integration into our core businesses. And to a lesser degree, our Intermediates business, which does have back integration into our core businesses.

From an underperforming side, we have 3 businesses that we've identified, our MC, our MC-Industrial and our Avoca businesses.

As we stated in last week's earnings update, we are executing on 4 primary portfolio optimization actions to strengthen our base, build resilience and improve profitability. Our plan is as follows: first, divest our nutraceutical business; second, optimize and consolidate our CMC business; third, optimize and consolidate our MC-Industrial business, and finally, rebalance our global HEC production network.

The first 3 actions align with our business model and strategic priorities. The nutraceuticals business is a good business. However, like the adhesive business that we divested last year, there are higher-value owners in the marketplace in Ashland where this business can thrive if it's part of the core business and strategy.

Our CMC and MC-Industrial businesses, even at peak performance, have not delivered the investment economics. We're also not the market leaders or technology leaders in this space, hence the strategic decision to optimize and consolidate. Their performance has also been volatile given their profile of low gross profit margin and high-cost absorption margin.

In order to enhance profitability and reduce volatility in the portfolio, we will narrow our participation to core segments where we can differentiate, improve profitability and deliver value for our customers.

On the other hand, HEC is a very strong business that is core and where Ashland enjoys both technical and market leadership. We have been investing for growth and see opportunities to drive productivity and optimize our global network.

As we take these actions, we will be exploring opportunities to leverage these assets to repurpose and support our core growth initiatives.

Please turn to Slide 21. The portfolio actions we're taking will impact revenue, but we do not expect them to impact EBITDA once completed. Although we're still working on the exact timing, when completed, the actions are expected to have the following annualized impact to Ashland's financial results.

The sales are expected to be reduced by between $200 million and $225 million. We expect lower gross profit impact of approximately $20 million or roughly a 10% margin. With nutraceutical margin being higher than CMC and MC Industrial, which have very low gross profit margins.

Stranded manufacturing at SAR will be about $80 million. The CMC and MC-Industrial businesses have largely been run to absorb costs within the manufacturing network, which makes them more volatile given the low markets.

As we complete our portfolio actions, we expect to offset the gross profit and stranded costs with no negative impact to Ashland's adjusted EBITDA. All else being equal, this will result in additional capital from the nutraceutical sale, increased free cash flow from reduced working capital and CapEx, expanded EBITDA margins of 200 to 250 basis points, increased return on net assets of 150 to 200 basis points, and the ability to better leverage our assets and resources to support core businesses.

We expect to complete the portfolio optimization by the end of calendar year 2024.

Please turn to Slide 22. As I commented, the near-term challenges need to be addressed, but they do not change our excitement about the future. We're confident about our business model and strategy and the opportunities that lie ahead, and we'll invest in our future, which brings me to the second focus area of our strategic priorities that we discussed at Innovation Day: globalize, innovate and acquire to [profitably] grow in the core of Ashland.

Please turn to Slide 23. Each of these components of our strategy are linked to our commitment to invest, a passion to win and a great sense of urgency. We are investing to globalize core of our higher-growth, higher-margin businesses, namely bifunctionals, preservatives, pharmaceutical injectables, and oral solid dose film coatings. We are adding in commercial and technical resources across the globe to accelerate growth in these product lines and expect to invest more than $5 million this year to support these efforts and will increase our investment in fiscal year '25 and '26.

We're also investing in our innovation pipeline. For existing technologies, we're keeping a keen focus on scalable, high-value, high-impact opportunities. And equally, we're investing in new technology platforms to accelerate the commercialization across end markets by getting products into the hands of our customers faster. These technologies can expand our addressable market opportunities within both our core markets as well as new markets.

We will invest more than $5 million in new technical and commercial resources to drive enhanced growth within the new technology platforms. And we are continuing to pursue our strategy to grow organically by acquiring bolt-on technologies to enhance our big 3 core businesses of pharma, personal care and coatings, but we will maintain capital allocation discipline as we pursue those opportunities.

I want to be clear. Now please turn to Slide 24. I want to be clear, we recognize that these are challenging times for our industry, but we also recognize the opportunities that lie ahead. We will maintain a balance to both address the urgency of the moment, and the commitment to the future.

Please turn to Slide 26. Given all the dynamics at play, I would like to provide some high-level bridging items to fiscal year 2024. First, for discrete items. During the year, we will reset compensation expense, including both merit and incentives, which will total approximately $40 million.

We have built our plans and actions around creating more resilient performance across the scenarios we previously commented. The biggest variables being the timing of demand recovery and the resulting plant loading during the year, managing margin performance and accelerating the impact of portfolio optimization actions.

Please turn to Slide 27. Our outlook is based on the following: recovery of core business is likely to be back-end loaded into the second half of the fiscal year. We expect lower pricing in Intermediates, and that the impact of this in fiscal year '24 of our portfolio actions will be layered into our models as we engage with all stakeholders.

Given the overall uncertainty, we do not feel it's prudent to issue a formal outlook first fiscal year of '24. Fiscal year Q1 tends to be our seasonally soft this quarter. Our outlook for Q1 is for sales to be in the range of $470 million to $490 million, and adjusted EBITDA in the range of $55 million to $65 million. This outlook is driven by weaker demand, with October results slightly stronger than our expectations, November building up per our expectations, and with the risk of potential customer year-end destocking actions in December.

Lower production volumes, including some carryover inventory actions, will impact the quarter and lower Intermediates pricing.

For the full year, the color that we can provide is that we expect fiscal year Q2 demand to remain muted given seasonality. Based on the scenarios we model, which are just that scenarios, to prepare the actions that we need to take to drive performance. If demand recovery occurs sooner than anticipated, we can anticipate adjusted EBITDA margins to be above $500 million range for the year. If there is no demand, recovery in fiscal year '24, earnings could be below fiscal year '23, given the compensation we reset. There's a wide range of scenarios, and this is what's driving a lot of the actions that we're taking so that we can drive performance across all these scenarios.

It is important to note that while earnings up for the Intermediates segment are likely to be down meaningfully next year due to lower volumes and market pricing, our core businesses are expected to perform regionally do well. We will provide an updated outlook for the full year at our fiscal first quarter earnings call.

Please turn to Slide 29. In closing, our approach for our fiscal year is straightforward. Build resilience by focusing on clarity of action in the face of uncertainty. We will stay on strategy, maintain operating capital allocation discipline and take appropriate actions to maximize fiscal year '24 performance. This includes optimizing our portfolio, focusing on our core businesses, and perhaps, more importantly, continuing to invest on our long-term growth strategy.

Despite the challenging environment, we remain confident in the quality and resilience of the markets we serve and our future. I want to thank the Ashland team again for their leadership and proactive ownership of their businesses in these uncertain times. Thank you for your attention. And 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, Kevin, just on the inventory control actions, why the number is so big? The $58 million cost reduction inventory in F Q4 versus the $86 million reduction inventory seems high. Is that just under absorption or is there also some write-offs you're taking on the inventory?

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

So one comment I'll make, and Kevin, you can get into the more details. There is a bit of carryover into Q1, as we said, and some of the inventory, also reduction actions are coming through already in October. So there's just also a quarter-on-quarter delta. But Kevin, do you want to give more color?

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

Yes. Guillermo, that's right. There is some timing difference in terms of the overall inventory sizing. We did see $86 million in Q4. So far, in Q1, we've seen more inventory come down and so part of that is just timing.

Every quarter, we have a certain amount of write-offs, and Q4 was no different. So I don't think there's really much to talk about there, but that's always part of the equation for us, just normal ordinary course. So I would say, most of it is going to be timing, presuming we see inventory at the end of the quarter where we ended in October, there's more to come on the overall inventory reduction in this quarter.

Not a lot of cost related to that, though. And we will, in the quarter, naturally see lower absorption because we're running our plants to demand and demand is down. But there is a bit of a timing difference between what we saw in Q4 and what we'll see in Q1 relative to the inventory control piece of the equation.

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

That's helpful. I appreciate that. And just on the stranded costs, can you talk to the $80 million you're going to remove, how are you going to get at those stranded costs?

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

There's multiple actions that we're taking, obviously, as we optimize. The one area, and I understand there's going to be a lot of questions on that. We are engaging all our stakeholders, customers, the groups that are impacted.

So there's a lot of activities, [works councils], things of that nature. So we don't want to go into a lot of detail. But it's going to come from cross actions. We're going to take some cost actions. I think a lot of productivity and plant activities will be a key driver. The optimization of our network is going to be probably the biggest driver. And it is about the absorption costs. As I indicated during my comments, the gross profit side is going to be lower. It's lower. Most of the gross profit is coming from nutraceuticals.

So the other 2 businesses, you can see the volatility that they bring and why we need to take action because there's very little upside and more downside if the volumes don't return.

And to be clear, in both CMC and MC, we are not the market leader. The other players are multiples bigger than us; these are not core technologies. So honing in on really the higher quality segments where we do have technology modifications that we've made that can differentiate and add value for both us and for our customers. Those are the areas that we want to focus on.

Operator

Our next question comes from John McNulty with BMO.

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

So I guess, just to help us to think about what's embedded in the 1Q outlook for EBITDA? It sounds like there's not as much inventory, kind of destocking of your own in there, as there maybe was of the last quarter 2. But can you help us to quantify that so we can kind of think about what normalized is at least right now in this demand environment versus how much is being impacted by the destocking?

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

Yes, great question, John. And just to be clear, I'll use 2023 to sort of level set what everybody is thinking then we can comment on our first quarter. And Kevin, you can comment on any other color later.

But if you look at 2023, we overproduced, inventories were high coming in and we overproduced in the first half. If you look at it because expectations were higher. And by the time everybody realized, hey, the destocking isn't going to be short, it's long run. Most of the actions were taken in the second half.

But if we had produced the demand from the beginning of the year, so that was my hindsight comment. If we just produced the demand, the result would have been the same. The destocking actions were just that we had to reduce client operations to offset the overproduction in the first half.

Now that we have inventory set, we brought them down to where we think it's acceptable. And we target that based on days on forecast, forward-looking forecast. So if demand takes longer, we might be having a little bit higher, if demand picks up, we might have a little bit lower. So we'll manage, but we feel comfortable where we are now that we will produce to demand.

That means that whatever the volume is, is what's going to get produced. And right now, that production volume is below historic levels because the customer volumes have not picked up yet to historic levels.

So the real issue for us is when is their destocking going to end so that their demand, production demand aligns with their selling demand, which right now it's not aligned.

So when those 2 things and they buy raw material, that will really drive our loan. So I would look, rather than talk about destocking anymore internally, we're talking about what is our production volumes. These are real costs now. These are not actions that we're taking. And until volumes do pick up, that's the challenge that your unit cost.

And again, same answer as last question. That's why we're taking action on some of these lower margin, higher cost absorption business where we do not have a competitive advantage because they can bring a lot of volatility in these lower volume environments.

But Kevin, I don't know if you have any other comments?

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

Yes. Just a couple. If you look at the year-over-year delta from an EBITDA perspective, it's really driven by 2 things, John. And they're not exactly 50-50, but let's say, close enough. And that is, we expect revenue in Q1 of '24 to be down from Q1 of '23. And that's probably about half the difference.

And the other half is, in fact, slower manufacturing, producing to demand versus what we did instead of producing what we thought demand was going to be in Q1 of last year. Those 2 items together make up pretty much all the difference between last year, Q1, this year, Q1.

If you look at it sequentially, it's really 2 things. Q1 is our seasonally weakest quarter. So we do expect revenue, and look at the midpoint, to be lower where than where we ended Q3; I'm sorry, Q4 of fiscal '23. And as Guillermo mentioned, resetting incentives would be the rest of those 2 items really drives the delta between Q4 of '23 and Q1 of '24.

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

Got it. Okay. No, that's helpful. That makes sense.

And then I guess just one follow-up question would be on the nutraceuticals business. Can you just help us to understand roughly what the sales and EBITDA currently is for that business on an annual basis? If you kind of take out the destocking that you saw earlier in the year, just so we have kind of a rough baseline for that.

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

Yes. We're starting the process. We'll start sharing more details with the interested parties on this. But roughly, you can estimate around $100 million in sales and the gross profits are in the 20% range.

Operator

Our next question comes from Joshua Spector with UBS.

Lucas Charles Beaumont ***UBS Investment Bank, Research Division - Associate Analyst***

This is Lucas coming on for Josh. So I'm just trying to think about what the normalized environment looks like. So I mean, over the last 5 years, Ashland sort of had EBITDA that's going to range from like mid-400s to basically high 500s on a like-for-like basis, so like excluding sort of the divested businesses.

So without thinking of the outcome of this year, specifically, given all the disruption with volumes, you've exited some volumes in the portfolio. We've had the destocking. I mean, can you just give us your view on like what is your current view on the normalized earnings power of the portfolio once we get back to a normal environment?

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

As I indicated through the scenarios, you can see the wide range of just when demand recovery would happen. So if you say, look, we're normalized and our volumes are more in line with our customers, most of our customer volumes are now normalizing to flattish versus prior year. So that's a big increase for us.

So that would put us in the above $500 million range. If we just look at, obviously, 2022 and '20 and '21 for us, we're not a normal number because we were out of capacity. So volume, we didn't have volume growth and mostly is driven by pricing actions that we took.

But if you look at 2020, as an example, and you look at our growth expectations, long-term growth expectation, mid-single digits, that would put us around that number also in the low to mid-500s would be where we need to be in normalized demand.

The one I would say, is Intermediates, that obviously, and maybe in the future, we'll be talking more about our core businesses with Intermediates to differentiate. But the Intermediates business, although it's performing better than it has historically, obviously, it's still more of a commodity business and has its ups and downs. We've improved it a lot by focusing in on regions where we have competitive advantage, and unique supply positions.

But the real growth for us there is an NMP and it's around the EV battery investments that are going on in the U.S. and Europe. And those probably will be more of a 2025 start-up for what we're hearing from many customers. So that part will be a little bit more volatile right now. But the rest of it should follow the model I just mentioned.

Lucas Charles Beaumont ***UBS Investment Bank, Research Division - Associate Analyst***

Right. And then just sort of focusing on pricing. I mean it sounds like from some of your comments that you're anticipating potentially that the prices will be lower this year. So I mean, are you seeing any declines across the portfolio? Yes. I guess like, what's your visibility on your ability into like holding price into this year? And if you think you can hold it, I just wonder if you could kind of elaborate for us on like what the dynamics there are as to why that's achievable for Ashland, like coming off volumes kind of being down a mid-teens percentage, which for most other businesses, you'd usually sort of see downward pricing pressure there, if that was happening.

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

Well, I mean, you have to look across the portfolio of different segments. As I said, obviously, Intermediates, where we see more volatility, and that's already being seen in the results and we're managing through that. I think, especially in Asia, we're seeing more of that where there's a lot more producers, and that's not our core markets.

But in the rest of the portfolio, Again, one of the reasons we're taking actions on CMC and MC-Industrial, we are not the market leaders there. We're a small player. We see potential for much more volatility there. I mean, if I just look at historic performance, we managed pretty well in the last 2 years to improve the mix, to optimize in the environment we're in. This is a different environment. So the risk is higher, and that's why I think, rather than wait for things to happen, we're taking control of our destiny, and we're going to take actions on that. And that should minimize the impact of that kind of volatility, which is probably what we saw most of it in the past.

And then the rest of the business our core. Historically, we've tended to maintain margins, right? As we communicated in 2022, we did very well on pricing. But most of the improvement did not come from price increase in terms of margin improvement. We increased price to maintain margin. And the improvements were about mix and other things that we were doing in our portfolio, growing some of the higher-end segments and those kinds of things.

So as we move forward, we would maintain that the model that we've had in the past where we are able to maintain margins, we'll see how costs and pricing moves through. And depending on the segment, some have much more differentiation, less price sensitivity, others will probably move more with margin over time.

The challenge that we have this year in the transition goes back to the inventory level. The pricing would have an immediate action and cost improvements will take a little bit more time to flow through because we have to work off the existing inventory that we have, which was purchased at a different cost level.

Operator

Our next question comes from John Roberts with Mizuho.

John Roberts ***Mizuho Americas - MD & Senior Equity Research Analyst***

Many of your Personal Care applications are fragranced. It seems like destocking has been a lot less in the fragrance area. And I assume you watch this because I know you have some ingredients that actually go into fragrances. Is that correct? And why would your ingredients be seeing much more destocking than the fragrance market?

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

Yes. So 2 separate things. I think most of the destocking -- for our fragrance business, the Avoca business I talked about. So that's a different dynamic.

For most of the other areas, it's really more about the destocking and specific customer dynamics. As I said, some of the customers we're already seeing that our demand is trending back. We look at their volume sales, our sales to them are starting to align with that. Others are still having impact on sales in different parts of the world. So it varies by customer. And I would say it's improving, but there's still time for that destocking alignment to happen.

Specifically to fragrances, most of our businesses in fragrances is from our Avoca business. This is a business came from our Pharmachem. And as we've said in the past, that has not been performing well for a long time. We've stabilized and we improved it, but that's still an area that we need to take action on and pivot. These are implementation biotech assets. So our intention is to move and focus them on other areas.

But clearly, the [Sterin I] business, which is the core part of it has been challenged. We lost business in 2019 when one of our customers developing, fermentation technology versus natural extraction technology, and that's been probably the biggest challenge for us.

So I would treat the Avoca different from everything else. The other parts are really more about the market dynamics.

John Roberts ***Mizuho Americas - MD & Senior Equity Research Analyst***

And then at the Investor Day, I think you had a couple of new chemistries, 1 targeting silicones, I think that was biodegradable and 0 VOC, and you had a new pH control buffer technology. When do you think you'll actually tell us what those chemistries are?

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

Well, we're starting to introduce. Officially, we just introduced the super wetter for starting in the coatings area. We're not taking it out to a lot of other markets.

I personally started to visit some of our major customers, meeting with their Chief Technology Officers, taking them through our technology portfolio. I'm not just trying to say here's a good product, you're really presenting the technology, what's the potential to see, engage interest, and how we can adopt these technologies to their specific needs. And I'm very excited that the response has been very positive. So obviously, early days. But so far, it's been very well received.

So the launches right now, I would say, first priority is the super wetter. We continue to launch and develop products on our modified vegetable oil. We are working with customers around our liquid cellulose injectables, as we said, is doing very well. And we're trying to accelerate some of the other projects, the buffer so that we can launch it in calendar year '24 and try to do it in the earlier part.

But we're already engaging beta customers to start doing testing and working with them. So a lot of excitement there. And even, by the way, we're testing, and the customers like it. And so we present it by 1 different performance. What's exciting for us, that we're finding modifications that we can do so that it's not a 1 product launch. These are technologies. So we're launching Gen-1, but we expect to see multiple products coming out of some of these technologies.

So very exciting developments, and that's why we're increasing our investment in these areas.

Operator

Our next question comes from Jeff Zekauskas with JPMorgan.

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

How do you calculate the inventory control penalty? Do you look at last year's level of production and compare it to this year's level of production? Is that the way you do it? Or is there some other way?

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

No. So for us, the question, is how we're controlling inventories...

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

How do you calculate it? How do you calculate it; where does that number come from?

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

Days of inventory. I mean, we look at our forecasts. And this is a very technical number in terms of, hey, we have these plants, how long does it take to ship to different locations around the world? We calculate shipping time, safety stock. So there's a number of factors that we put in. And we say, look, for this product, we should have x number of days of forward-looking demand in inventory.

And that's the issue for us. So right now, we believe we're going to sell 100 units, we'll have, whatever, 20 units in inventory. If the demand comes down, or our forecast comes down, then we have too high inventory and we have to not produce as much. If demand outlook goes up, then we have too low of inventory and we have to produce up. So it's all about days of inventory or how we calculate the inventory levels that we have.

If you look at during ['21], when things were short, what happened was many companies increased the days of inventory targets because of the longer supply chain. So that would add days. Well, before it took me 2 weeks to ship to Europe. Now it takes me a month. Therefore, I need another 15 days of inventory to count for that.

So it's all mathematical, and it's all about days, what's the should level based on days and safety stocks. And then ultimately, it's what's your forecast to calculate those days.

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

So if I understand what you said, you have a hypothetical level of what you think the appropriate inventory is. And what you're doing is you're producing to get down to that number.

So have we reached that number of inventory days? Or are the inventory days that we're going to get to another level lower? And if they are another level lower, how much lower are they than where we are today?

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

I think we're comfortable where our days are today. The issue now for us is that we need to produce to demand so that we don't build more inventory. This is what happened in the first of my comments around the first half of the year. If you look at the first quarter, we had x demand, we had production plans, we produced. And as demand started to come down, our days of inventory went up, right?

So that's where in the second half, we have to reduce. But the average for the year was sort of normalized. As we move forward, if we assume we have the right number of days, and we don't want to increase the days of inventory based on demand, our production will be based on what the actual demand is going to be.

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

Okay. And then lastly, how much will it cost to remove the $80 million in stranded costs? That is, what were the cash costs to remove different cost?

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

We'll share, like I said, we have a lot of stakeholders that we got to engage, and I think it would be premature and unfair to get into details before we've had the chance to really work through some of these issues. But there are going to be normal actions that we want to take. Some will take costs, some might be some investments that we need to move due to allow for some of these adjustments in where we make products and shifting things around. So there's multiple things, but we will share more details at the appropriate time.

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

And Jeff, just for a little perspective, we've done this a lot in the past. And while we're not ready to share number, we would expect it to be less than what we've seen in the past on some of the programs that we've done in terms of overall cash cost to do what we need to do.

But like Guillermo said, we're not ready to get into details of that yet, but that would be our expectation.

Operator

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

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

I was wondering, Guillermo, if you could answer a couple of questions on Specialty Additives. First of all, during your comments, you suggested that the Specialty Additives business had kind of some parent plans or some shared assets that led that to be the most impacted by inventory control actions. So maybe just a little bit of additional color on what's going on there and why we saw the biggest impact from inventory control on Specialty Additives.

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

Yes. I mean if you look at the 2 businesses that we are taking actions on, CMC and MC Industrial, the assets are within the Specialty Additives business. So MC Industrial is mostly in Specialty Additives, the business and the assets. So that obviously has been a big impact. But the CMC business is in Specialty Additives, but it supplies both Life Science, so the nutrition business, which is way down, and also our Personal Care business that was impacted.

So we don't see any value, we're not just moving allocations around and creating more noise but most of that is in Specialty Additives. And obviously, the Specialty Additives has all the big HEC volume, but they're the biggest volume driver of that, obviously, has been impacted by some of the destocking. But those are the 3 biggest drivers in terms of the plant.

So it's a little bit disproportional, impact in Specialty Additives. But clearly, in MC Industrial and HEC, they are the biggest volume. CMC is much more distributed.

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

All right. And then...

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

Mike, Specialty Additives is over half the volume of the core business. So you'd expect it to be a bigger number there. But then, they produce, as Guillermo said, volumes for other parts of the business. So that's what makes that number even bigger than it would have normally been.

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

All right. That's helpful. And then my other question is just regarding what you're seeing in terms of destocking. It sounds like there are some markets where you're seeing destocking continue in other markets where you're maybe more confident that destocking has peaked and is maybe progressing toward an end.

Can you walk through your core markets and kind of differentiate which ones you're feeling better about? And which ones you expect the destocking to continue?

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

Yes. I think coatings is one that we are expecting to see improvement. Customers volumes have normalized a little bit more. They do still have some inventory. And again, we have big customers and it's a more concentrated global industry.

So there, as individual customers align, you'll start seeing that impact. However, as you all know, the last 2 years, we haven't had seasonality because everything was short. But as we get back to seasonality, the coating season really starts in mid to end of Q2 fiscal year ['23] for us, so February and March. So we don't expect any major pickup it will be normalizing at a lower volume during the winter period but that one is clearly improving.

Nutrition was one of the - really nutrition in general, was one of the most impacted segments. We're starting to see some normalization. We should start picking up orders. In some of the areas, we haven't sold much at all for months given the high level of destocking. This is not a high-margin business for us but clearly has had a big impact on our absorption for us.

The Personal Care spaces, I think we're starting to see normalization customer by customer. We have some, as I mentioned, that are already sort of ordering what we see in their sales. So in terms of reported numbers. So that's good news. But we have others, specific ones that have their own challenges that might take them a little bit more time to work through.

And as I said, in the Intermediates is one that we expect a little bit more of a delay, especially around the EV, the timing of EV battery startups, that will be a bit later. We should see some improvement and normalization of demand in the year in the U.S. and Europe, but that's based on existing capacity. The new capacity really starts coming in towards the end of calendar year '24, and really more into '25. That whole chain has sort of developed, delayed by 6 to 12 months from what the original expectations were.

Operator

Our next question comes from Michael Sison with Wells Fargo.

Michael, please rejoin using the call me feature.

Our next question comes from Laurence Alexander with Jefferies.

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

First of all, how much of a net headwind do you expect in 2024 from the restructuring initiatives? Would it be like $40 million, $50 million? Or is it going to be less than that? I mean, as an EBITDA headwind?

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

Yes. I think the issue here is, again, we need to engage groups. So when we do things, if it impacts Europe, you got to works councils so we're not in a position really to talk about that.

I think that some of these things, when we decide or when we can take the actions, the offsets will be pretty quick on some of these areas. As I said, the biggest issue for us right now is that most of these things, specifically in CMC and MC, the margins are low. So minimizing the volatility is really the bigger priority in these areas but those benefits should be quicker.

The HEC network will happen throughout the year because it really involves all our plans and how we redistribute and where we produce things. So that will be across the year but impact-wise, again, from my prior comment, most of the volume really starts in the back end of the year.

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

Okay. Great. And then what's your kind of benchmarking now for the tax rate and interest expense that will flow through the P&L?

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

The interest expense will be pretty much what it was in fiscal '23. We don't have any floating rate debt. So nothing is maturing for several years. So the cap structure on that side should be very consistent.

Tax rate is probably going to be, call it, low to mid-20s. Part of that's going to be driven by mix. And as you're aware, we have a Swiss principle organization that generally generates lower tax rates. So depending on the jurisdiction of the pretax income, and that will ultimately drive the tax rate. But generally, we would expect it to be kind of low to mid-20s.

Operator

Our next question comes from Michael Sison with Wells Fargo.

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

Guys. Can you hear me?

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

Yes, Mike.

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

Yes. Just one question. I wanted to understand the EBITDA margins for the first quarter a little bit. You're going to do about [$480 million] in sales. You did a little over [$500 million] in the first quarter of '23, similar first quarter '22, [460-ish] in first quarter '21, your EBITDA margins were all above 20%. So I mean, I sort of understand some of the issues, but at the same sales level, it doesn't seem to me that the margin should be so low. Are you comfortable there's not structural reasons why the margins are so low for the first quarter?

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

I think 2 areas, and I'll let Kevin on. One is, as we said, it's the loading of production, volumes and carryover from prior year. And Intermediates, I would say, would be the other ones.

But Kevin, if you want to comment in more detail?

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

No, that's exactly right. Mike, historically, even though Q1 is seasonally weak, we would be producing in anticipation of the spring season. We are not doing that now. We are producing only what we believe demand is going to be for Q1. So that's the big difference. If you look at it year-over-year, there's probably a $25 million difference between last year, Q1, this year, Q1, just on the manufacturing loading piece of the equation.

I mean, pricing is going to be pretty much flat in Q1 of this year based on our current estimates. So it's not a pricing issue. It is simply around producing to demand. And as Guillermo said, Intermediates is going to be meaningfully lower in Q1 of this year versus Q1 of last year. That will be the other big difference.

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

And that's an important point, Mike, in the sense of traditionally, everybody sort of generalizes that sales volume equals volume for everything, right? And as Kevin said, that's not necessarily true. Production volume doesn't align necessarily with sales volume. It's about inventories and how we build capacity, peak demands and managing all that. If we're producing to demand, we're taking a much more conservative position. So as demand picks up, the leverage is very big because it's not just going to sell more, we ramp our plants much more. So that's why the uncertainty and our discomfort for taking a guess of what's going to happen in the second half of the year at this point in time, the variability would be very big.

So I think the issue now is understand these dynamics, the scenarios that we've built and make sure that we're taking the actions that improve our performance across the scenarios. So if things remain slower for longer, we will produce, we will have more controlled operations. We don't have to cut inventories anymore.

If things pick up, the ramp rates would be significant. We have a lot of upside. So the actions we're taking will minimize downside and maximize upside potential for us as we move forward.

Operator

(Operator Instructions) I'm showing no further questions at this time. I would like to turn the call back to Guillermo Novo for closing remarks.

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

Well, thank you very much, everyone, for your participation and questions. We look forward to engaging you throughout the quarter. And appreciate all the attention and interest in Ashland. And Abigail, thank you for all your help.

Operator

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