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Q2 2022 Ashland Global Holdings Inc Earnings Call

EVENT DATE/TIME: APRIL 27, 2022 / 1:00PM GMT

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PRESENTATION

Operator

Hello. Thank you for standing by, and welcome to Ashland Inc. Second Quarter 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

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 Global Holdings Inc. - Director of IR***

Thank you, Josh.

Hello, everyone, and welcome to Ashland's Second Quarter Fiscal Year 2022 Earnings Conference Call and Webcast. My name is Seth Mrozek, Director, Ashland Investor Relations. Joining me on the call today are Guillermo Novo, Ashland Chair and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer. We released preliminary results for the quarter ended March 31, 2022, at approximately 5:00 p.m. Eastern Time yesterday, April 26. The news release issued last night was furnished to the SEC in a Form 8-K.

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

Please turn to Slide 2. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our outlook for fiscal year 2022. 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 a more complete explanation of those risks and uncertainties and the limits applicable to forward-looking statements. You can also review our most recent Form 10-K under Item 1A for a comprehensive discussion of the risk factors impacting our business.

Please also note that we will be referring to certain actual and projected financial metrics of Ashland on an adjusted basis, which are non-GAAP financial measures. We will refer to 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 results in the second fiscal quarter. Next, Kevin will provide a more detailed review of the financial results for the quarter. Finally, Guillermo will close with key priorities and steps to advance our strategy as discussed during our Investor Day in November of last year.

As you saw at the beginning of the webcast, Ashland recently launched a new award-winning innovative thickener for skin and sun care. It is nature-derived and biodegradable. For consumers, it provides a desirable skin feel that offers an alternative to poorly perceived carbomer. Natrathix bio cellulose enables our customers to create more natural skin care creams, lotions and gels, including organic and inorganic sunscreen formulations with the texture, skin feel and sustainability that our consumers desire.

Guillermo will provide additional commentary related to Ashland innovation and our product development progress, sustainability goals and environmental and social and governance commitments. Guillermo will also provide his thoughts on important next steps and our financial outlook for fiscal year '22. We will then open the line for questions.

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

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

Thank you, Seth, and hello, everyone. Thank you for your interest in Ashland and for your participation today.

As you will hear during the call, Ashland's financial results for the second fiscal quarter were consistent with the earnings update we issued on April 12, demonstrating strength and resilience in a world of uncertainty and accelerating change. Customer dynamics remain strong across our core end markets, and we're making significant progress in taking appropriate actions and pricing to recover costs across all segments.

Supply chain challenges have not improved, especially with respect to ocean freight. Although we were able to invoice the backlog of carryover orders from last quarter, given strong demand, we ended the quarter with a larger backlog of orders that we have not yet been able to fill. Given the tightness in markets globally, our teams have taken steps to improve the mix of high-value products we're selling, which is further driving margin expansion. We continue to invest in future-forward, sustainable innovations to drive profitable growth, accelerating the pace and the impact of new product introductions.

In short, Ashland has undergone a tremendous amount of change. We're a different company today, and the results this quarter and the steps we are taking are enabled by the company we have become. Our ability to respond and operate quickly and nimbly is a result of the intentional changes we have made to the company over the past 2 years.

Please turn to Slide 6. Let me share with you some of the second quarter highlights. Sales of $604 million grew by 19% compared to prior year. Against a backdrop of strong global demand, all businesses contributed to our growth. Adjusted EBITDA grew by 41% to $163 million, as all our teams pursued cost recovery and mix improvement while maintaining cost discipline. Adjusted EBITDA margins reached 27%, an increase of 420 basis points compared to the prior year quarter. And our return to shareholders continue to grow, with adjusted EPS up 79% to $1.50 per share, reflecting the impact of both the earnings growth and our share repurchase program during the quarter.

Please turn to Slide 7. As I noted previously, growth for the company was broad-based, with all segments returning double-digit sales, growth compared to prior year. Life Science performance remained resilient, driven by strong demand for high-value pharma ingredients. Personal Care demand continues to recover, and the business drove discipline, price recovery and mix improvement, while the results of Schülke & Mayr portfolio have exceeded our expectations for the first year.

With Specialty Additives, the team has leveraged tight global supply to drive both mix improvement and cost recovery. For Intermediates, growth in sales was driven by higher volumes and transfer pricing for captive BDO sales as well as higher pricing and improved mix for our merchant business. Merchant market sales for Intermediates represents approximately 8% of Ashland sales.

Ashland sales for the quarter grew by 19% to [$604 million] (corrected by company after the call), and adjusted EBITDA grew 41% to $163 million. I'm very pleased by the progress made by the Ashland team during the quarter and look forward to discussing our outlook for the remainder of the fiscal year and reviewing broader progress by the company later in the call.

In the meantime, I'll turn over the call to Kevin to review our Q2 results in more detail. Kevin?

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

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 9.

Total Ashland sales in the quarter were $604 million, up 19% versus prior year. Unfavorable foreign currency negatively impacted sales by 3% in the quarter. Gross margin improved by 500 basis points to 36.4%, reflecting cost recovery and mix improvements by the commercial teams in the face of significant cost inflation. In total, we saw approximately $48 million of inflation in the quarter versus the prior year across raw materials, energy and freight, and as expected, we were able to recover these costs.

Excluding key items, SG&A, R&D and intangible amortization costs increased to $119 million in the quarter, primarily reflecting the addition of the Schülke & Mayr business, the elimination of the INEOS transition services agreement and accrued incentive compensation.

In total, Ashland's adjusted EBITDA for the quarter was $163 million, a 41% increase compared to the prior year adjusted EBITDA of $116 million. Ashland's adjusted EBITDA margin for the quarter was 27%, a 420-basis point improvement over the prior year, again, reflecting the items just discussed. Adjusted EPS, excluding acquisition amortization for the quarter, was $1.50 per share, up 79% from the prior year, reflecting both the increased earnings and a lower diluted share count following our recent share repurchase activities. I'll summarize those repurchases in a bit more detail in a few moments.

Ongoing free cash flow was negative $5 million for the quarter. This essentially reflects an increase in working capital, primarily inventory and accounts receivable, given the inflation in raw material and other input costs we have seen globally. We expect ongoing free cash flow conversion to be positive in the second half of the fiscal year though working capital levels will remain elevated, assuming continued inflationary trends.

Now, let's review the results of each of our 4 operating segments. Please turn to Slide 10. I'll begin with Life Sciences. The team executed well in the face of continued supply chain disruptions and raw material inflation. Sales were $204 million, up 10% compared to the prior year quarter. Currency negatively impacted sales by 3%. Life Sciences' gross profit improved by 14%, and gross profit margin improved to 35.8% as cost recovery and mix improvements more than outpaced overall cost inflation during the quarter.

In total, year-over-year Life Sciences cost inflation was approximately $15 million, including $4 million of BDO transferred to the business at market price. And adjusted EBITDA improved 16% to $58 million, and adjusted EBITDA margin in the quarter improved to 28.4%.

Please turn to Slide 11. Personal Care sales were $172 million, up 26% from the prior year quarter. Sales to core Personal Care end markets were strong, reflecting cost recovery and enhanced mix amid the backdrop of improved demand for our ingredients globally, following the changes in consumer behavior caused by the pandemic. The Schülke & Mayr business was also a meaningful contributor, adding $25 million of sales to the quarter. The acquisition closed partway through the fiscal third quarter of last year, so Q3 will be the last quarter where comparisons will not be on a like-for-like basis. These gains were partially offset by the exit of roughly $10 million of low-margin product lines.

Importantly, the organic growth of the Personal Care business was 16%, excluding the impact of the acquisition and the exit product lines, which follows 8% organic growth in the fiscal first quarter. We're very pleased by the progress made by the Personal Care team, demonstrating the resilience of the business in the face of challenging global macro headwinds.

Gross profit increased to $67 million and gross margins increased by 320 basis points to 39%, reflecting the cost recovery and mix actions despite continued cost inflation experienced by the business. In total, Personal Care adjusted EBITDA increased by 29% to $49 million. Adjusted EBITDA margin was strong at 28.5% despite $10 million of cost inflation in the quarter.

Please turn to Slide 12. Specialty Additives had yet another nice quarter, with sales up 15% to $182 million. Demand for architectural coatings, additives and other additives remains very strong, though shipping and logistics issues continue to be a challenge. We continue to see a normalization in DIY volumes and the shift to higher contractor paint volumes.

As was the case in the last quarter, the global cellulosics network is sold out, and we are adding capacity to meet this demand. The team has taken the opportunity to improve overall product mix in the face of global supply tightness. Outside of coatings, sales to other end markets and Specialty Additives grew by double digits, reflecting improving demand for performance specialties growth platforms and stronger energy volumes.

Enhanced pricing was an important contributor to sales growth and an offset to approximately $18 million of raw material, energy and freight inflation in the quarter. As such, gross margins increased by 140 basis points to 28%, and adjusted EBITDA grew by a healthy 20% to $48 million. Adjusted EBITDA margin also expanded by 110 basis points to 26.4%.

Please turn to Slide 13. Intermediates reported another very strong quarter as pricing has continued to rise across all product lines. Sales were $66 million, up 78% compared to the prior year. Nearly half of the year-over-year sales increase, or approximately $20 million, was related to captive internal product sales primarily to the Life Sciences and Personal Care end markets. As a reminder, captive internal sales are recognized at market-based pricing and are eliminated in the consolidation of total Ashland results.

Merchant sales increased by 57% in the quarter, again, driven by higher pricing across all product lines. Intermediates margins were up meaningfully during the quarter. The segment reported adjusted EBITDA of $30 million compared to $7 million in the prior year and adjusted EBITDA margin in Q4 was over 45%.

Please turn to Slide 14. As we discussed at our Investor Day last November, capital allocation discipline continues to be an important component of Ashland's value creation strategy. To that end, earlier in the quarter, we closed on the sale of the Performance Adhesives business to Arkema. We received gross proceeds of $1.65 billion. Net proceeds will be in the range of $1.2 billion to $1.3 billion, following the payment of taxes and fees related to the transaction. Most of the taxes related to the transaction will be paid out during Q3 and Q4 of this year.

When the cash was received, we immediately repaid approximately $625 million of floating rate debt, the majority of which is revolving and could be reborrowed at any time. This tactical debt repayment will yield approximately $10 million of cash interest expense savings on an annual basis. Since August of 2021, Ashland has reduced its net leverage from about 3.6 turns to 1.3 turns of EBITDA.

Following the closing of the sale, we also initiated a new $200 million open market share repurchase program and executed on approximately $155 million of repurchases during the March quarter and completed it in early April. This program is in addition to the $450 million accelerated share repurchase program we commenced in September of last year and closed just this past February. Between the 2 programs, Ashland has repurchased approximately $6.75 million of the company's shares, which represents about 11% of the company's equity. Finally, at the time of the Adhesives sale closing, we contributed another $35 million of cash through the environmental trust that we created last year.

With all the work that has been done, I'm pleased with the capital discipline being demonstrated. We've committed $150 million to $200 million of organic growth capital investment over the next 3 years to increase capacity of our high-value ingredients and additives portfolio. During the quarter, we continue to execute on these growth plans. Total capital expenditures in fiscal '22 should be in the range of $150 million to $170 million. The business is performing well and the balance sheet is in great shape, giving us the flexibility to make organic investments, pursue attractive bolt-on M&A acquisitions similar to Schülke & Mayr and continue to reward our shareholders with capital returns. Guillermo will spend more time discussing our overall outlook for fiscal '22 and our underlying assumptions in his closing remarks.

With that, I'll turn the call back over to Guillermo to discuss our priorities and outlook for fiscal '22. Guillermo?

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

Thank you, Kevin.

Please turn to Slide 16. As I mentioned at the beginning of the call, Ashland is making excellent progress while operating in a world of significant uncertainty and accelerating change. Our teams continue to demonstrate operating resilience and are delivering strong results. Against a backdrop of global supply constraint and shipping challenges, we have demonstrated proactive pricing discipline to recover costs in a widespread inflationary environment while also improving our mix management. And while supply chain challenges have not improved, we have improved our global planning to better anticipate how we can be more responsive and efficient. Our plants continue to run well, and we have started to rebuild inventory levels. We still need to make more progress in this area to build up safety stock levels across our warehouse network.

We are maintaining our strategic focus and capitalizing on things that are within our control. This quarter, we saw strong margin performance driven by cost recovery, mix management and disciplined cost management. And while free cash flow generation was below prior year levels, this was due largely to the impact of rising inflation on working capital balances. Our increased focus and discipline in innovation is paying off. We're accelerating the velocity and our investments in innovation and growth, especially for sustainable ingredients and additives. We're aligned with the evolving product requirements of our customers and the consumer and are well positioned to capitalize on these emerging trends across the globe. We have strengthened our internal innovation portfolio management to both accelerate the pace of new product launches and ensure that these launches create the most value for our customers and for Ashland.

Finally, as Kevin explained in detail, we remain committed to a strategy of disciplined capital allocation. Beginning this year, we're expanding capacity in numerous high-value products globally and we'll continue those investments over the next couple of years. Ashland has the flexibility and discipline to execute our growth strategy and reward our shareholders.

Please turn to Slide 17. Amid COVID, environmental and geopolitical disruptions, Ashland is a company at an inflection point. Our transformation goes beyond the traditional business metrics to focus on innovation and conscious stewardship, not only through our segment in the value chain but for our suppliers, customers and end users in turn. Under our purpose to responsibly solve for a better world, we have taken several actions and made progress under our ESG initiatives. For environmental matters, we have taken important steps related to our raw material sourcing, operations and product development. Regarding science-based targets, we are validating our emissions data to ensure we have accurate targets for approval and expect these targets to be submitted for approval by the end of 2022.

We have established several internal and external programs to support our social improvement agenda. In March, we established our Responsible Solvers program that brings together the company's global philanthropic commitment to science, technology, engineering and math, or STEM education, with additional STEM funding and a paid employee volunteer program. Closely aligned with our purpose, the program is designed to put the power of the Ashland people and products in the hands of the communities where our employees work, live and play. Our customizable program allows Ashland manufacturing sites and regional teams to create and support programs that address their specific communities and culture's most pressing local issues. We continue to make excellent progress in our ESG-related strategies and plan to provide updates each quarter. This is a step change that underscores the company's resilience and hones our competitive edge.

Please turn to Slide 18. In April, under our Responsible Solvers program, we announced an innovative supplier partnership for sustainable, profitable growth with local farmers and small villages in India. The program is enabling us to meet customer demand and increase the volume of guar harvested annually through educational STEM programs and scientific solutions for sustainable farming, while respecting the sourcing relationship and local cultures of small village farmers in India. The pilot began with 250 small farms, and we are scaling to 5,000 farms by 2025.

These relationships are critical because Ashland uses guar to formulate specialty ingredients for Personal Care, Life Science and coatings applications, including products like Natrathix bio cellulose for skin care that you saw in the opening video. These initiatives have increased farmers' yield by approximately 30%, thereby increasing their income, lowering their production costs, expanding the local economy and positively impacting the environment.

Also in April, we announced our continued support to the Nature Conservancy Plant a Billion Trees by 2030 reforestation initiative. We also made a commitment to fund their STEM youth engagement, Nature Lab, which helps students learn how nature works while inspiring them and bringing greater equity to environmental education. We are confident that by standardizing our global program and localizing its focus, Ashland can both increase employee engagement on critical issues and focus community impact where it matters most in every region of the world.

As we increase our innovation speed and impact, we are beginning to be recognized for breakthrough innovations. As an example, in April, Ashland had a very successful presence at the world's largest global cosmetics show in Paris. In addition to repositioning the business and furthering our loyalty of our customers, Ashland's Natrathix bio cellulose was awarded Bronze for the Best Functional Ingredient among nearly 200 entries.

Please turn to Slide 19. New product innovations are an important tenet of our profitable, sustainable growth strategy. By narrowing our focus to markets and applications where we can have the largest impact, we are solving challenges in niche areas where our innovations really matter. As a deliberate, focused company, we know exactly where we fit and where we unlock the highest margins because we bring the greatest value to our customers.

This year, we will introduce a record number of innovations, and we are reaping the benefits of our focus and speed to market. Nearly 90% of our new innovations are natural, natural-derived, biodegradable or sustainable in use. By maintaining discipline in both project and portfolio management, we are increasing the number of new product introduction as well as their expected value of impact. By meeting the evolving needs of our customers and the consumer, we expect the future revenue and margin contributions from these and future launches to improve the growth trajectory and profit contribution for Ashland.

Please turn to Slide 20. Ashland is a company comprised of problem solvers, integrating issues like climate change, inclusion and diversity, corporate transparency into our business model allows us to play a critical role in some of the greatest challenges on our plan. These challenges are reshaping our markets as we speak, and our solution expertise and our Responsible Solvers program add real value. Our new product introductions demonstrate just one of the ways we're unlocking profitable growth. These innovations are also allowing us to create value for both our customers and for Ashland.

We appreciate the awards and recognition we have received as they reinforce that we are on the right path. We see ESG as a business opportunity beyond doing the right thing, and here, we're demonstrating this through the execution of high-performing, sustainable innovation, enabling our customers to get ahead of mega trends and respond to the ever-dynamic needs of the global consumer.

Please turn to Slide 21. As we approach each of our priorities in a disciplined way, we recognize their overlapping nature. Under our new business model, we have empowered our organization. We have driven decision-making to those closest to the customer. Each business leader and their regional teams own their business and circumstances, but all share these disciplines. Leaders adopt their priorities to circumstances that unlock profitable growth while maintaining operating discipline. Our priorities remain focused on growing our business while maintaining its quality, driving profitable growth opportunities, margin and free cash flow expansions while leveraging ESG as a core value and enabler.

Please turn to Slide 23. Looking to the future is never easy. Doing it in this current environment is extremely challenging, to put it mildly. Tailwinds have not changed. Demand remains resilient. Customers still need to rebuild inventories and COVID reopening is having a favorable impact across many parts of the world. Plants continue to run well, and raw material availability has started to improve. Our pricing actions have positioned us well relative to the past and current inflation pressures, and we are ready to take further action as needed. Although the supply chain reliability remains a challenge, we have started to see some improvement on the trucking side.

The headwinds have changed from an "if" an impact to "how much"? There is a Ukraine war. China has moved to COVID lockdowns and inflation, especially energy-driven inflation, has increased, and it is accelerating. It's very difficult for us to forecast the direction and impact of the war in Ukraine, COVID lockdowns or inflation.

Please turn to Slide 24. We understand the key performance variables that are likely to impact our performance. On the revenue side, demand in our market is expected to remain resilient during our fiscal year, and we do not expect significant improvement in supply chain reliability. As such, our ability to supply will most likely drive our revenue performance, how well our plans run and our ability to rebuild safety stock to offset the low ocean freight reliability.

On the profitability side, inflation is probably a given driven by energy and broad-based drivers. Issue is how much and when. The biggest risk for our fiscal year performance will be fiscal year fourth quarter because we will have less time to offset any cost inflation with pricing actions. Pricing, mix improvement and productivity will continue to drive our margin performance.

Please turn to Slide 25. Given all the dynamics I've discussed, based on the information we have and the actions we've taken, we remain confident in the financial outlook we provided at the beginning of the fiscal year. We continue to expect sales in the range of $2.25 billion to $2.35 billion, representing 9% of sales over the prior year at the midpoint. We also continue to expect adjusted EBITDA in the range of $550 million to $570 million. Based on known information today, our model puts us above the midpoint of that range for the full year.

However, similar to what we saw in the first half of fiscal year 2021, we recognize that there is still a lot of uncertainty from the Ukraine war, COVID lockdowns in China, inflation and shipping reliability. Our outlook presumes that we do not see significant additional inflation in raw materials, freight and energy as such dynamics would require additional pricing actions beyond those that are already planned, for which we would need to recognize a lag in timing for the realization.

Let me be clear. As we did in 2020 when COVID emerged and uncertainty was high, we are being pragmatic and focusing on the things that we can control and forecast. For what we cannot control, we will focus on planning and building resilience. We do not see a lot of value in being overly optimistic or pessimistic based on external factors that we cannot control or forecast, as this would only create more noise in our planning process.

As external developments become clear, we will maintain our current level of transparency, and we'll communicate any changes in our outlook as appropriate. Ashland is well positioned. We have confidence in the company's business portfolio, market focus, global team and our plan and the actions that we are taking. Ashland has demonstrated its resilience during the last 2 years, and we are confident that we will maintain that resilience in 2022 and beyond.

Please turn to Slide 27. Over the past decade, Ashland's journey of transformations have sharpened our focus as an additives and specialty ingredients company. We're systematically identifying and tackling the thorniest problems. We concentrate on areas of rich opportunities to innovate and drive value for our customers, where innovations and expertise in one of our businesses can be leveraged across others.

In closing, I want to thank the Ashland solvers once again for their leadership and proactive ownership of their business in an uncertain environment. We create our destiny as a global additives and ingredients company with exceptional businesses that have leadership positions in resilient high-quality consumer-driven markets. I'm pleased by the resilience and execution demonstrated by our people and our businesses and look forward to the opportunities that lie ahead.

Thank you. And operator, if we could move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from John McNulty with BMO Capital Markets.

John Patrick McNulty ***BMO Capital Markets Equity Research - Analyst***

Congratulations on some really solid results.

So I wanted to dig in a little bit into the Life Sciences area. You had a heck of a jump in terms of overall profitability as well as sales, but certainly, the profits are kind of at record levels. And I guess, just given how much noise there's been around the lumpiness of logistics and that kind of thing like, is this kind of a one-off, hey, we did kind of better than even normal because we had a little bit of catch-up or is this kind of a good run rate? And if it is a good run rate here, I guess what's driving that enhanced profitability? How should we be thinking about that?

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

I think as we said in the call, we have moved more on prices, especially starting at the end of last quarter, to recover a lot of the inflation that we've seen, and the mix impact has been very favorable. This quarter, Pharma was very strong. We still have a lot of orders. We ship around the world, so the backlog is still there. And the parts that were a little bit softer were in the nutraceutical area where we continue to have more of the manufacturing, labor availability issues impacting some of our ability to supply in the U.S., so it was more of a mix impact.

But as we look forward, we expect Pharma to remain resilient. And hopefully, we'll see some pickup in the nutraceuticals side for the back end of the year.

John Patrick McNulty ***BMO Capital Markets Equity Research - Analyst***

Got it. Got it. That's helpful. Okay.

And then, I guess, just as a follow-up question, just around the innovation pipeline because it looks like it's pretty dynamic. It does seem like the wheel is finally starting to really turn here. When you look at the 5-year revenue potential that you outlined, can you help us to understand the magnitude of that? Can you give us either kind of a dollar value or is there a way to think about how you see the vitality index moving from kind of the current levels to that year 5 kind of time frame? Can you help us to kind of gauge that a little bit?

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

You're going to see us talk more and more about that as we move forward. Right now, we're being a little bit more careful because, as you said, a lot of the different businesses are advancing their portfolios frankly, because of the cosmetic show in Paris. So we have had a lot of launches there, those more and more public. And some of the other businesses that we're working on things that we haven't been as public yet, so we don't want to start giving data on one business, so we're waiting to get more advanced in some of our launches.

But as you said, I think the biggest focus that we've had is not just accelerating the launches. We had things in our pipeline, and I think I mentioned this in one of our prior calls. Whatever was in the pipeline, big or small, let's move them through so that we can launch them and really, using the time that we spent in 2020 and especially 2021 in advancing the newer innovations, that's what excites me. That we're bringing out a lot of these newer products that are having higher impact and that are much more aligned with our sustainability strategy, that they're coming through. So these are much bigger value you see in the graph. The number of launches is significantly higher, but the value of them is a higher impact and that's what we're trying to do.

But I'd rather wait to give a little bit more specifics once some of these things are public. We have a lot of things that are IP protected, that we're filing patents and stuff, that it will take us a little bit more time.

We're still in the earlier stages. As we talked about in 2021, innovation takes time, and you're just starting to see the early phases of that roll out. So if you look at 2023, 2024, we expect those to continue to be very strong for us as we move forward both in new product launches and increasing that impact level. And that's really where a lot of this portfolio management is helping us. Really honing in on projects that might be interesting, but they're not high impact, versus where really we can move the needle in the long term.

Operator

Our next question comes from Chris Parkinson in Mizuho.

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

Awesome.

So Guillermo, I understand you don't want to get too much into specifics, but you have been launching over a period of time a large portfolio of natural-based, responsibly-sourced products, a bunch of things in rheology, some of that was at INCOS. Just broadly, top down, where you stand right here, right now with the portfolio in Personal Care with pricing and end market demand from your customer base, just a simple question. What's your best degree of conviction on the 300 to 400 basis points of subsegment outperformance?

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

Well, I think you're going to start seeing that grow over time. I think right now, there's 2 dynamics, just managing the shorter-term dynamics of managing the inflation and mix. Obviously, the mix is improving as we go. You're starting to see the growth of some of the new areas like the Schülke contributions having a bigger impact. Similar to Life Science, I think in the last call, we mentioned Life Science, Personal Care were a little bit slower on the pricing. You're starting to see that come through. So definitely, there's clearly some improvement there.

But I think the longer term, we feel very confident that we can start really driving some of these innovations. Most of these new innovations will come with greater value for our customers, and all these also is a greater opportunity for us to differentiate our products and expand margins as we go.

I will say, and just for all the businesses, in the near term, especially when you're managing through these very high peaks of inflation, there is going to be some noise over and under in some of the margins. And that's going to be an issue of the flow-through of cost through the system in terms of accounting as well as we want our margins to be a bit higher than the inflation. Because some things, if you look at energy, for example, some of our plants are hedged if energy stays at these levels and the hedges next year are going to be higher, you're going to see more inflation.

So we're pricing and taking actions based on where we see the ball in the future and not just how it's flowing through in our numbers. So we want to make sure that we're maximizing both that short-term performance, but also getting that mix and that innovation to drive that longer-term margin improvement.

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

Got it.

And just a real quick corollary of McNulty's question, just turning back to Life Sciences very quickly. There have always been a lot of drivers of the existing portfolio. But if you just took a moment to potentially parse this out for us in terms of what you're seeing in the, let's say, the legacy OSD portfolio, new therapeutic drug launches, some of which, to my knowledge, were kind of delayed or [kept] from your customers during COVID, which are now potentially bearing through. And then also the outlook for EM, specifically in Asia, Central Asia, so on and so forth. Just how are you thinking about those different moving parts within your Life Sciences portfolio? And then perhaps a very quick comment on M&A and injectables?

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

So we're looking still at a robust, resilient Pharma segment, especially in the OSD. I think there has been, and I think we've mentioned in the past, some impact with just funding. If you look at some of the drugs that require government funding like AIDS drugs, as an example, they have been softer. We're seeing some improvement there. Some of these drugs, for example, are used in conjunction with some of the COVID drugs for the therapy, so we're seeing some increase there.

So clearly, we are seeing some improvement as things normalize, and as some of the drugs that we're in -- are used in some of the new therapies for COVID and other areas. So we will continue to see the segment growth. I think it will be that the model that we have is still this continuous steady growth of that segment as we move forward.

In injectables, we continue to make progress in terms of our poly-absorbable polymers. We had some good sales this quarter with some of the customers that are doing testing and then trials over them and some of their drug developments. And we are working through our longer-term strategy on both organic growth that we are investing more, and you'll see us investing more in R&D in this area to drive the organic side. Recognizing that it is a longer pipeline, but we believe that we need to make those investments to get the momentum over the long term. We continue to work the M&A side of the equation, too.

Operator

Our next question comes from Josh Spector with UBS.

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

If I look at the performance in your fiscal second quarter and I look at your guidance, you're essentially guiding that sales remain at a similar level, but EBITDA is maybe down $20 million a quarter where margins are down a couple of hundred basis points. What are the main buckets that drive that EBITDA step down sequentially?

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

There's a lot of uncertainty at this point in time. As we said, our models were modeling in some additional inflation and the timing for us to get that recovery. The lockdowns have been an impact, and we're not sure how long they're going to last in China. And the war in Ukraine, it's not a big part of our direct portfolio, but we have to see what some of these impacts are. And specifically, even today, one of the biggest risk we would have in terms of Ukraine is energy availability. It's not just the inflation but the availability in Europe. Even today, you should already see some of those concerns.

So we're just being realistic that things are going to happen, and that we just can't project that things are going to be just linear and we're going to continue to grow. So we're factoring all those issues in, and we believe there's going to be some surprises, and that we just need to factor them into our outlook.

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

And Josh, the other -- I'd add 2 more things.

The one thing we know we're going to have is a large turnaround at our Lima, Ohio facility, the BDO plant. That will be most likely a $10 million to $12 million impact in Q3. We do that about every 3 years, and it's time to do it again. I think the other piece of the equation is currency. We've seen the euro continue to weaken, which is a drag on our earnings as we convert euros to dollars. So those would be the 2 things that I would also add to the equation.

So there's a bit of conservatism in the overall mix here, but there are some things that we know, and there's a lot of things that we don't.

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

Okay. That's very helpful. Appreciate that.

And just when you go through the commentary on all the segments, I think you highlighted positive mix in essentially all 3 of the core segments, and you talked about your capacity constraints which has also enabled some improvement in mix. What's your ability to hold on to some of that better mix? And how do you weigh expanding capacity to meet some of the unmet demand, maybe on the lower mix products versus maintaining a higher margin mix overall?

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

Well, on the mix side, we're using the opportunity. This is a more constructive time, I would say. If we wanted to change the mix anyway, this is allowing us to do it in a more constructive way. I mean, I think the least constructive way is exiting businesses like we did in the low end. This is allowing us to sort of manage through that process and hone in on the market segments that we really see that long-term differentiation and ability to grow. So obviously, coating is very important to us, construction, Personal Care, Life Science. So we're shifting that portfolio and upgrading where we allocate our heels of capacity and our key raw materials as we go.

And then in areas like the Intermediates, we're just trying to be smart about how we manage the short-term opportunities in some of our merchant businesses through the mix also, where we can get the most value. Just a reminder, most of the business there is not BDO per se, it's other derivatives, so we can look at what markets and what regions we want to position those sales in.

Operator

Our next question comes from David Begleiter with Deutsche Bank.

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

I apologize for that.

Guillermo, in the quarter, did selling price increases offset raw material costs?

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

Yes. We offset raw material costs and also other costs, too. So it definitely was a net positive. I think there's a part that we've tried to do is get ahead of the curve. I mean, the more delays you have in pricing, then the bigger the actions need to be later on. So moving early, I think is one of the big learnings. The sooner you do it, the less of the increase needs to be and the greater the impact you're going to get the benefit of time.

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

Very good. And just on the shipping and logistics issues, when do you think they'll get better? And what was the impact, if any, in Q2? And what's the expectation of an impact in the back half of the year?

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

Like I said, for the trucking, we're starting to see some level of improvement. I think there's still going to be depending on the region, some noise. I assume with some of the new developments in Europe, you'll see a little bit more noise on the trucking side there, but we have seen some level of improvement. So I think throughout the year, that's one that should start to see improvement. And the impact is shorter term because you're talking about days and delays.

Unfortunately, on the ocean freight side, all indications is this is not going to improve that quickly, barring that demand really drops across the world and opens up a lot of capacity. Most of the outlooks that we've seen is more towards the back end of 2023 and into 2024 because it's about capacity, it's about the port capacities, not just shipping capacity. So there's several dynamics in that area that will take a little bit more time.

That's why for us, it's really building that inventory. Although our inventories have gone up, our safety stocks at the other side are not where they need to be still, so this is work that we're going to probably be doing throughout the entire year to catch up. We're producing to a full capacity, so it's either we're selling it or we're building inventory. So demand goes up, it just puts more pressure on the inventory side of the equation.

Operator

Our next question comes from Laurence Alexander with Jefferies.

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

Two quick ones.

On the negative sales trends reported for the nutraceuticals and nutritional ingredients products categories. Given the amount of inflation you're passing through, if you back out kind of the underlying level of inflation, when should those categories get back to positive year-over-year comps?

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

No, I'll just answer that one.

The issue is supply. I mean, we're passing the cost we can. Demand is very robust. It's really more issues about our ability to produce, and a lot of our plants are in the East Coast, so labor has been the bigger issue and we're working through that. So it's really more not a demand or margin issue as much as it's about our ability to supply, and that's where we're putting a lot of our energy.

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

So probably more like within 3, 6 months as opposed to 12, 18. Is that fair?

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

Yes, it's more about us and our ability. It's not a market issue.

And Laurence, The nutrition side, we have a lot of cellulosics that go into nutrition, and that tends to be a lower margin segment for us. And given that we're sold out as is the global market and most of these products as part of the mix improvement strategy of the business as well, take that material. Move it to higher margin end markets, so you're going to see some pocket switches there. We're being thoughtful about that. It has to create long-term value as well as short term. But we'll also see some volume movements amongst the end markets as a result of where we are from a capacity perspective.

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

Okay. That's very helpful.

With the new product pipeline, is that net of cannibalization? Or is that intended as a growth number?

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

There's going to be growth. I think the key priority is growth, if you look across all the businesses. If you look at some of the dynamics in Personal Care, for example, we're looking at the industry shift in sustainability. The majority are growth opportunities, replacing other products that are going to be replaced. But we're also working to replace ourselves in some of the products, moving to more biodegradable, more of this natural, natural-derived, sustainable profile. So mostly growth, but there are some areas that we're going to replace ourselves, too.

Operator

Our next question comes From Mike Sison with Wells Fargo.

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

Really nice quarter there.

Guillermo, in terms of Personal Care, you guys talked about 16% organic growth, pretty impressive. Just curious how much of that was volume and price? And I know you have some product rationalization there. And does that volume growth improve as we get into the second half?

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

Yes. So we do see a lot of opportunities for volume growth in our business. Obviously, if you look at some of the cellulosics, some of these things we're managing, so you might see growth as Kevin said in one segment, and we're shifting things around. And as we bring on debottleneck and new capacity, that will enable some growth.

But if you look in Personal Care, there's a lot of other technologies that are not capacity limited, so there is the opportunity for growth. I would point out the Schülke is performing extremely well. One of the tenants is a European-based company. It was global, but a lot of the business's based in Europe. We can help it globalize, so driving global growth in that product line is going to be very, very important for us. That would be a net volume revenue growth.

Biofunctionals, we're investing and putting capacity in China and servicing and developing products in Asia for the Asian customers, so that will also be opportunities for growth. So there's guar, like nathrathix is really targeted at replacing carbomers, which is one of the big categories, probably a $400-plus million market just in the Personal Care space that a lot of customers want to replace with more sustainable solutions.

So there's a lot of opportunities for both volume growth, and also, we'll continue to drive that mix improvement in other parts of our portfolio.

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

And Mike, looking at Personal Care for the quarter, about 2/3 of that 16% is in the form of mix and volume, and there is some negative currency in that as well. So on a like-for-like basis, it would actually be better than that.

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

Got it. And then just one quick follow-up.

In terms of your outlook at EBITDA being in the midpoint or higher or above the midpoint, and I think it's the case. But are all the segments are contributing to the better performance for the second half of the year?

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

Yes. So all businesses are contributing in terms of the margin and recovery and mix improvement, so we should see that. I do think, as I mentioned, the timing of flow-throughs, you're going to see some normalization. The issue of when you move on pricing versus, when the costs come in or when they reflect. So there is going to be some adjustments, but all of them are improving and we're moving in our strategic direction of improving our margins.

But Kevin, I don't know if you want to add anything else?

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

Yes. Just, again, another reminder that the Intermediates business will be negatively impacted primarily because of the Lima turnaround, and I think we're also seeing cost inflation there that's rolling through, so those results will be well muted.

I think the good news there is you look at the 3 core segments aside from that, they're going to more than pick up the slack.

Operator

Our next question comes from Mike Harrison with Seaport.

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

In the past, in your Personal Care business, when you've had some macro declines particularly in emerging markets, you've seen some trading down to lower cost Personal Care products, particularly hair care. I think that you've recently taken some steps to improve your position. But as we start to see inflation impacting consumers and maybe some changes in consumer behavior, how much of an impact could trading down to lower end products have on your Personal Care volumes?

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

I don't think that has been as big of a driver. I think it's been more just where we position the new products, it's more of that sustainability push. As the market is moving to a more recession environment, could that be delayed a little bit? I don't think the direction is going to change. All of the companies are pretty committed on their environmental commitments to drive that. And I think that's the biggest change driver that's happening right now.

I think you'll continue to see if there's some delays, then the portfolio stays much more balanced as it has over the last 2 years. So I don't think there's going to be a negative impact on moving to lower cost. That would require a significant reformulation work from customers that they just want to do it right now.

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

All right.

And then on the coating side, you mentioned the normalization that's going on at DIY and more of a shift back to the pro-contractor market. One of the large coatings companies has kind of referenced that even within the contractor market, there's been a positive mix shift to higher-quality paint, too. Presumably, that's using more of your additives, but can you just talk about kind of what you're seeing in terms of the mix in coatings? I guess, normally, we would think that DIY is positive for you guys, but is it turning out that you're seeing some positive mix with this contractor trend right now?

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

Like right now, it's more what's driving the demand. We're very well positioned both with our cellulosics, the HECs, also with our Aquaflow, we see a lot of very good performance there.

But Mike, frankly, as we said, everything is at capacity. So if there's some changes, we don't necessarily see it like it's a big driver. We're trying to produce as much as we can and supply as much as we can with our customers. I think the move to higher quality paints is obviously very favorable for us. I also think it's a good sustainability move. Higher quality means longer lasting, which means from a cycle, it's just better all-around in terms of cost performance and environmental performance for the industry and for the world.

So I think those are all mega trends that are playing well for us and some of the newer technologies that we're introducing.

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

All right.

And just a quick one for Kevin. Compared to the 57 million share count in this quarter, what share count should we be modeling next quarter?

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

It'll be lower. It will be about 56 million.

Operator

Our next question comes from John McNulty with BMO Capital Markets.

John Patrick McNulty ***BMO Capital Markets Equity Research - Analyst***

Yes. Sorry, one last follow-up just on the capital allocation side.

So you've had a pretty balanced approach in terms of M&A and buybacks. Admittedly, buybacks this last quarter were bigger than what we were expecting to be. I guess, should we be thinking about kind of a more balanced pace going forward than kind of maybe what we've seen over the last quarter, or maybe even dialing back the buybacks? Or do you still feel like, hey, look, given that you're undervalued your own stock and, in a lot of cases, maybe the best place to be putting capital, I guess how should we be thinking about that?

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

Let me make some comments and then Kevin, I'll let you comment more on the balance sheet and where we feel we need to be.

But right now, I think we've taken appropriate actions in terms of buybacks to recognize our value of the company and in terms of where we believe we should be and the long-term value. However, I think as we move forward, we do want to make sure that growth is the bigger driver and that we can maintain that capability to drive quality growth. Both the CapEx, I think we have enough capital, but we do want to do a high-value strategic M&A aligned with our focus of pharmaceuticals with injectables is a big focus area, Personal Care and coatings, so that will be a priority going forward.

To get to where we want to get buybacks help make a point, support our shareholders. But really, it's about that growth and continuing to shift our portfolio to those higher-end markets and technologies, and we want to make that our top priority. Kevin?

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

Yes. The only thing I would add is balance sheet is in pristine condition at this point, and we've got a lot of flexibility to do a lot of things. I mean, that just over 1x net leverage. We've got a lot of capacity to do multiple things.

And I think you're going to continue to see us do a mix. I mean, it's our view that the current share price, the company is very undervalued right now, so buying shares is still an opportunity. But as Guillermo said, to really realize the value creation that's possible we've got to continue to be focused on organic growth, so expanding capacity to do that as well as these inorganic opportunities around high value but disciplined M&A to continue to meet our agenda as we've laid it out.

And as we said back in November, there is going to be a mix. We plan to do all 3 of these things over the course of time. We've done that before. They're not mutually exclusive activities, and we're fortunately in just a really, really nice position to be able to do those things right now. Pretty excited.

Operator

Thank you. And I'm not showing any further questions at this time. I would now like to turn the call back over to Guillermo Novo for any further remarks.

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

Okay. Well, I wanted to thank everybody for your participation and interest. I want to thank also the entire Ashland team for a great performance in the quarter. And we look forward to connecting with you in the coming weeks, and I look forward to our next call. So thank you very much, everyone.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.