PARTICIPANTS

Corporate Participants

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John E. Panichella – Senior Vice President and Group Operating Officer of Ashland; and President, Ashland Specialty Ingredients, Ashland, Inc.
J. Kevin Willis – Vice President, Finance, Ashland, Inc.
James J. O'Brien – Chairman and Chief Executive Officer, Ashland, Inc.

Other Participants

John McNulty – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Rob Walker – Analyst, Jefferies LLC
Ram Sivalingam – Analyst, Deutsche Bank Securities, Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Ashland Incorporated Third Quarter Earnings Conference Call. At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Jason Thompson, Director, Investor Relations. You may begin.

Jason L. Thompson, Director, Investor Relations

Thank you. Good morning, and welcome to Ashland's third quarter fiscal 2013 conference call and webcast. We released results for the quarter ended June 30, 2013 at approximately 6.00 am Eastern Time today, and this presentation should be viewed in conjunction with the earnings release. These results are preliminary until we file our Form 10-Q with the Securities and Exchange Commission.

On the call today are Ashland's Chairman and Chief Executive Officer, Jim O'Brien; Kevin Willis, Senior Vice President and Chief Financial Officer; and John Panichella, Senior Vice President and Group Operating Officer responsible for Ashland's Specialty Ingredients and Ashland Water Technologies.

As shown on slide two, our remarks today will include forward-looking statements, as that term is defined in securities laws. We believe any such statements are based on reasonable assumptions but cannot assure that such expectations will be achieved. Please also note that during this presentation, we will be discussing adjusted results. We believe this will enhance understanding of our performance by more accurately reflecting our ongoing business.

Please turn to slide three for our third quarter highlights. The June quarter presented a very difficult comparison versus prior year. If your recall, guar experienced a significant increase in sales and profitability in 2012. The majority of this occurred during the third quarter. Despite the difficult comparison, Ashland's third quarter results were encouraging.

We reported earnings of $1.47 per share from continuing operations. When adjusted for key items, EPS was $1.66 as compared to $2.04 in the year-ago quarter. Included was a $0.16 per share after-tax, non-cash write-down of raw materials used to manufacture elastomers. These raw materials, such as butadiene, experienced steep price declines in recent months. Therefore, the current price on elastomers was below our inventory values.

In total, we took a $17 million write-down on the inventory. Much of the charge should have been taken earlier in the year and is largely unrelated to the performance of the elastomers business during the quarter. We announced this morning that Ashland has initiated a sale process for the elastomers business. Exiting the elastomers business reflects our well established strategy of divesting non-core assets and reinvesting in higher margin specialty chemical businesses with attractive growth opportunities.

Ashland's overall sales during the quarter were $2.1 billion, a 4% decline over the year-ago period. Volumes were strong, increasing 3% over the prior year with each commercial unit reporting year-over-year growth. Adjusted EBITDA was $325 million and EBITDA margin was 15.8%. Excluding the effects of guar and the elastomers inventory write-down, adjusted EBITDA would have been up 10% compared with prior year.

As part of our commitment to continuously create value for our shareholders, we increased our quarterly dividend by more than 50% to $0.34 per share. Additionally, our board authorized a $600 million share repurchase program. We bought back 1.7 million shares at a cost of $150 million through an accelerated stock repurchase during the quarter. Lastly, we generated $184 million of free cash flow in the period, taking us to $357 million year-to-date.

Slide four details our key items. In total, five key items had a net unfavorable EPS impact on continuing operations of $0.19 in the third quarter. The first key item is an $8 million after-tax benefit or a positive $0.10 per share related to a settlement on commissions earned by Ashland in previous periods, but not received.

The second key item is $5 million after-tax charge or a negative $0.06 per share related to cost restructuring efforts and the integration activities. The majority of this charge is related to the ISP integration and the global rollout of our enterprise resource planning system.

The third key item is a $10 million after-tax charge or a negative $0.12 per share related to adjustments made to environmental reserves during the quarter. The majority of the increase is associated with legacy sites unrelated to ongoing operations.

The fourth key item is a $4 million after-tax charge or a negative $0.05 per share associated with the retirement of the 9.125% senior notes. Lastly, we incurred a net $4 million tax expense or negative $0.06 per share, primarily related to ISP legal entity integration.

In the year-ago quarter, three key items combined for a net unfavorable impact on earnings of $0.04 per share. To aid a new analysis versus the peer group, Ashland's results included $29 million of intangible amortization expense during the June 2013 quarter. We carry higher than average amortization due to our corporate transformation and prior acquisitions. Without this amortization, earnings will be roughly $0.25 higher or $1.91 per share.

Please turn to slide five for Ashland's adjusted results. As I mentioned earlier, the June quarter presented us with a challenging comparison versus the prior-year. If you recall, as the year-ago quarter, reflected the majority of the guar benefit realized by Ashland in fiscal 2012. Guar sales were $137 million in the third quarter of 2012 versus $51 million in Q3 2013. Excluding guar, Ashland's sales were flat with the prior year quarter; sequentially sales were up 4%.

Our pharmaceutical and personal care businesses within Specialty Ingredients turned in a particularly strong performance with a combined year-over-year sales increase of 7%. Gross profit as a percent of sales was 28.2%, down 110 basis points compared to a year ago, and down 60 basis points sequentially.

Selling, general and administrative and research and development expenses collectively referred to as SG&A increased 2% year-over-year. EBITDA declined $56 million or 15% versus the prior year and EBITDA margin decreased 200 basis points to 15.8%. Again, this decline is attributed to the significant increase in guar profitability in the year-ago quarter and the elastomers inventory write-down. Excluding the effects of these two, EBITDA would have increased 10% from the prior year. This is reflective of strong performances within a number of our businesses.

Now, turn to slide six to review our volume trends. This chart shows underlying volume trends on a normalized and rolling four quarters basis. By totaling the trailing four quarters for each period, we are eliminating seasonality and showing yearly growth. The data have been normalized for acquisitions, divestitures and joint ventures.

As shown here, we saw volume improvement over the prior year quarter in all commercial units and believe we have seen an inflection point across the board.

Volumes in Specialty Ingredients improved considerably with particular strength in our pharmaceutical and personal care businesses. Performance materials was led by 5% volume increase in the adhesives and composites business with notable strength in Asia. Water technology also had a strong quarter for volumes, driven by continued improvement in the pulp and paper businesses. Volumes in Consumer Markets increased modestly due largely to strength in the international business. We are encouraged by the volume improvement and stability we've seen recently and are optimistic for the remainder of the year.

Now, let's turn to slide seven for Ashland's overall EBITDA bridge. This chart shows what led to the June quarter's performance as compared with the year-ago period. Volume was a $17 million tailwind to EBITDA, primarily driven by volume and the mix improvement in both Water Technologies and Consumer Markets. The guar effect from the prior year and the elastomers inventory write-down offset significant margin improvements in Consumer Markets.

SG&A, which is adjusted for currency translation was a $4 million headwind to EBITDA. Combined currency translation and other items had a $3 million negative effect. All together EBITDA decreased by $56 million compared to a year-ago.

Now, let's turn to slide eight. Total liquidity, which is cash plus available revolver and A/R capacity with $1.4 billion at quarter-end. During the quarter, we paid down $88 million of debt including the redemption of the remaining 9.125% notes. As communicated before, this will save Ashland about $7.5 million of annualized interest expense. Our gross debt now stands at $3.4 billion and our net debt is $3 billion. We currently have more than $400 million of prepayable debt and have another $600 million due in 2016.

I'll now turn the presentation over to John Panichella, who will begin with slide nine.

John E. Panichella, Senior Vice President and Group Operating Officer of Ashland; and President, Ashland Specialty Ingredients

Thank you, Jason, and good morning, everyone. Generally speaking, I am pleased with our performance during the quarter. We grew volumes by 4% over prior year and 8% sequentially. We had solid performance in our higher margin pharmaceutical and personal care businesses. On a combined basis, volumes were up 6% year-over-year.

Overall, Specialty Ingredients sales decreased 10% from the prior year, but rose 5% sequentially. This year-over-year decline is primarily due to the significant run up in guar during 2012. Guar sales fell more than $86 million versus the prior year quarter. Excluding this effect, sales would have increased 1%.

Gross profit as a percent of sales was 28.5%, 200 basis points below the March quarter. Continued price erosion in our intermediates and solvents product lines, plant shutdowns to control inventory and the ethylene oxide force majeure negatively affected margins in the quarter.

SG&A increased 4% from the prior year to $124 million. This is primarily due to increased R&D investment. Overall, EBITDA fell 35% to $145 million with EBITDA as a percent of sales at 20.3%.

Slide 10 shows Specialty Ingredients' EBITDA bridge. The significant increase in guar sales and profitability in the prior year quarter was the largest driver to the year-over-year decline in EBITDA. Guar accounted for $69 million of this difference. The remainder is primarily due to price declines in intermediates and solvents and fixed cost absorption related to plant shutdown. Strong volume contributed $2 million to EBITDA in the quarter.

SG&A excluding the effect of foreign exchange was a $5 million headwind for the quarter. The $2 million decline within the other category reflects lower equity earnings from one of our joint ventures versus the prior-year quarter EBITDA was down $79 million.

Please turn to slide 11. Excluding guar and intermediates and solvents, our year-over-year performance was encouraging. We saw particular strength in our higher-margin pharmaceutical and personal care businesses. Compared with prior-year, sales increased 9% and 5% respectively.

Both coatings and construction have faced challenges recently, but are beginning to show improvement. Sales in these two – in total for these two businesses increased 15% sequentially. Coatings was hampered by an ethylene oxide force majeure during the quarter caused by an unplanned outage at one of our suppliers.

Supply is back on line and the force majeure is no longer in effect. In total, we estimate lost sales of $3 million for the quarter. Despite this negative effect, coating sales and gross profit were up 8% and 12% respectively on a sequential basis. Although selling price declined in our construction business, we had a better cost position leading to improved gross profit margin. We believe we've seen an inflection point in our construction business as stronger volumes in sales led to a 35% gross profit increase from the March quarter.

Looking out for the remainder of the year, the fourth quarter will present us with another challenging comparison due to guar. However, it will be the last quarter reflecting the year-over-year comps. We have a number of things working in our favor as we close out the year. Our construction business is beginning to show consistent volume improvement and we believe that this will continue as demand returns.

Our coatings business showed considerable improvement over the March quarter despite the ethylene oxide force majeure. As a result of the disruption, we've worked down inventory to ensure our customers' needs were met. Now that operations have returned to normal, we are rebuilding our inventory. These higher production volumes coupled with an improving market should also contribute to better margins in the fourth quarter.

Improvement in these two businesses will complement the consistent performance in our higher margin, higher growth, pharmaceutical and personal care businesses. As a result, we expect the overall margin to begin returning to more normal levels.

Lastly on July 1st, we rolled out our global ERP system and are experiencing the typical challenges associated with a launch of this size. Our manufacturing facilities are running as they should be. We're taking orders and processing them. However, we are having issues with shipments. We're working to resolve these issues as quickly as possible, but do not expect July sales to come in – but we do except July sales to come in below expectation as a result. We are confident sales will normalize through the period and do not expect it to have a negative effect on the overall quarter's results.

I'll now turn the presentation over to Kevin and ask you to turn to slide 12.

J. Kevin Willis, Vice President, Finance

Thank you, John. Overall, Water Technologies performance improved in the quarter. Sales increased 2% over the prior-year to $435 million led by a 7% increase in our pulp and paper business. Industrial water sales declined 45 year-over-year but increased 2% sequentially.

Geographically, Latin America remains strong for Water Technologies overall. In North America and Europe, pulp and paper performed very well with sales increasing a combined 9% over prior year.

Gross profit increased to $11 million compared to the prior year period. As a percent of sales, gross profit is up 180 basis points year-over-year and 60 basis points sequentially. This is due to a number of factors including better supply chain execution, positive mix resulting from growth in new products, increased asset utilization, and improved contract management. Each of these are the results of the initiatives taken earlier in the year and are expected to continue yielding positive results.

SG&A increased $4 million from the March quarter. The majority of the increase is due to improving results in the business leading to higher performance-based compensation. As communicated, run rate savings from the global redesign described on the March quarter call have been implemented as of July 1. The fourth quarter results will show the full benefit these savings.

EBITDA increased to 11% over the prior year to $41 million. And EBITDA as a percent of sales increased 70 basis points to 9.4%.

Now, let's turn to the EBITDA bridge on slide 13. Pulp and paper volume increased 6% versus prior year and was the largest driver to the $6million contribution to EBITDA shown on the slide.

Margin improvement across Water Technologies contributed $5 million to EBITDA for the quarter. This is primarily a result of better supply chain execution leading to an improved cost position in our finished products. When normalized for currency, higher SG&A expenses offset much of these benefits.

As mentioned on the previous slide, the improved performance for the quarter led to higher performance-based compensation. This coupled with the bad debt credit that positively affected the prior year period caused the majority of the $7 million headwind to EBITDA. In total, EBITDA increased $4 million over the prior year.

Please turn to slide 14 for a review of Performance Materials financial results. Performance Materials volume was up 3% over the prior year quarter and rose 5% sequentially. The adhesives and composites business turned in a solid quarter with volume and sales increasing 5% and 4% respectively over the prior year.

In total, Performance Materials sales were down 2% compared to a year ago – continued challenges in the elastomers business. Volume in this business was down 2% versus prior year as the North American replacement tire market remains challenging. Although replacement tire demand in showing improvement, our customers are facing competitive threats from low priced imports.

Coupled with slightly lower volume, a 41% drop in butadiene prices led to a significant decline in elastomers sales compared with the year-ago quarter. This considerable drop also contributed to the $17 million inventory write-down mentioned earlier in the presentation. Excluding the write-down, gross profit as a percent of sales would have been 18.5%, a 40 basis point improvement over the prior year.

Adhesives and composites gross profit improved considerably in the quarter with strong results in North America and Asia. Our North American business benefited from strong composites demand. Efforts taken in previous quarters to diversify the business mix in Asia are beginning to yield positive results.

Sales and gross profit in the region were up 31% and 33% respectively compared with the prior year. Since the third quarter is typically Performance Materials' strongest period, we expect to see the usual seasonal declines in volume and sales as enter the latter half of the calendar year. As a result, we expect fourth quarter gross profit as a percent of sales to be roughly in line with the prior year September quarter.

SG&A was down modestly from the prior year to $43 million. While not explicitly shown on the slide, equity income from our Casting Solutions joint venture was $4 million, a $1 million decline from the prior year and flat sequentially. This is included within Performance Materials operating income.

EBITDA was $30 million and EBITDA margin was 7.6%. Excluding the elastomers inventory write-down, EBITDA would have been roughly flat with the prior year.

Now, let's turn to Slide 15. The inventory write-down and lower margins in the elastomers business offset margin improvement in adhesives and composites, leading to the $19 million margin decline shown on the chart. Additionally, the prior year quarter reflects the $5 million positive benefit to elastomers due to falling butadiene cost.

Improved volumes in adhesives and composites added $2 million to EBITDA. On this bridge, the effects of the ASK Chemicals joint venture and the divested PVAc business are captured in the other category and were a $1 million headwind to EBITDA. In total, EBITDA was down $19 million during the quarter.

Now, let's go to Consumer Markets on slide 16. Consumer Markets had another strong quarter, both volume and profitability improving over prior-year. In total, lubricant volumes increased 1% over the year-ago period and rose 5% sequentially. Our international business reported strong results with volume increasing 6% versus prior-year and notable improvement coming from Asia and Latin America. We expect the typical seasonal volume decline for the fourth quarter and anticipate flat volume with the prior-year.

Year-over-year, sales declined 1% to $513 million. The decline is primarily due to lower overall selling prices as a result of lower raw material costs. Gross profit increased 50 basis points from the

March quarter to 32.4%. This was driven by strong promotions, fixed cost absorption from higher volume, and favorable mix due to strong sales or higher margin DIY products.

Our third quarter is our seasonally strongest and we do not expect this level of profitability to continue into the September quarter. With no anticipation of changes to either our raw material cost or our selling prices, we expect gross profit as a percent of sales to be approximately 31%.

SG&A increased 12% from the prior year. This is due to both increased advertising spend and investments made to support continued growth in our International business. We expect the typical increase in SG&A spend in the fourth quarter, much of the increase is to support advertising campaigns during the final months of the summer driving season. Overall, consumer markets generated EBITDA of $86 million, a 26% increase year-over-year and achieved EBITDA margins of 16.8%.

Now, please turn to slide 17, for Consumer Markets' EBITDA bridge. Improved business mix driven by strong premium lubricant sales and improved fixed cost absorption contributed $6 million of EBITDA versus prior year. Approximately $21 million of margin improvement was driven by lower raw material cost versus the prior year quarter. Increases in advertising spend and investments into our international business were the primary drivers of the $10 million SG&A headwind to EBITDA. In total, it was another strong quarter for Consumer Markets with EBITDA increasing $18 million from the prior year.

Please turn to slide 18, for a look at some corporate items. Capital expenditures were $71 million for the June quarter, bringing our year-to-date total to approximately a $188 million.

Our 2013 forecast for capital expenditures now stands at $320 million versus our prior estimate of $340 million. After adjusting for key items related to the redemption of the 9.125% notes, net interest expense in the quarter was $44 million, reflecting the interest savings as part of the redemption. We expect full year interest expense to be approximately $175 million.

Excluding key items, our effective tax rate for the quarter was 24% which is consistent with the prior two quarters. We now anticipate our full-year effective tax rate to come in near the low end of our expected range of 25% to 27%.

Trade working capital as a percent of sales ended the quarter at 16.7%. This is in line with our full-year target of 17%. We generated $184 million of free cash flow due to good business performance and our continued focus on working capital management.

Now, I will turn the presentation over to Jim O'Brien for his closing comments starting on slide 19.

James J. O'Brien, Chairman and Chief Executive Officer

Thanks, Kevin, and good morning, everyone. Ashland faced two specific issues in the quarter. First, guar presented us with a very difficult comparison to the prior year. Second, due to steep cost declines in raw materials used to manufacture elastomers, we had a $17 million non-cash inventory write-down during the quarter. Excluding the effects of these two issues, adjusted EBITDA would have increased 10% versus the prior year.

Overall, volumes improved considerably during the quarter with each of our four commercial units having year-over-year increases. Demand trends appear to be stabilizing and we are encouraged by this. Pharmaceutical and personal care continue to provide strong results within specialty ingredients, with each showing increases in volume, sales, and gross profit. Sequentially, coatings and construction improved on both sales and profitability. Non-guar energy had another strong quarter with gross profit increasing 6% over the prior year.

Our newly reorganized Water Technologies business improved performance in the quarter. Pulp and paper grew sales 7% over prior year and industrial water improved sequentially with sales up 2%. Excluding the elastomers inventory write-down, Performance Materials had a good quarter on improved volume and profitability in the adhesives and composites business.

Consumer Markets experienced continued volume growth in the international business and was supported by strong promotions in the higher margin DIY category. As a result, gross profit margin improved by 50 basis points from the March quarter.

During the quarter, we took several actions to create value for our shareholders. First, we redeemed the remaining 9.125% notes. This will save over $7 million of annualized interest expense. Second, we increased our dividend by more than 50% to $0.34 per share. This reflects the confidence we have in our ability to continue generating strong free cash flow.

Additionally, our board authorized a $600 million share buyback program, of which, $150 million has already been executed. As a result, Ashland purchased 1.7 million shares of common stock.

Let's turn to slide 20. The fourth quarter will present another challenging comparison versus the prior year due to guar but it will be the last quarter we have this issue. Our third quarter results have given some positive momentum as we move into our fiscal fourth quarter. We have seen demand improved and we expect this trend to continue into the latter part of the calendar year.

On July 1, we launched a rollout of Ashland's global ERP system. This is the last major step to the ISP integration. As is typical with prior rollouts, we are experiencing challenges. However, we have had a number of successful go-live in the past and fully expect to overcome these minor complications. As a result, we do anticipate some sales volatility during the fourth quarter.

Upon completion of the rollout, we expect to realize remaining $15 million of ISP acquisition related synergies with a majority coming in fiscal 2014. As you heard from Jason earlier, Ashland has generated $357 million of free cash flow year-to-date. We expect the full year free cash flow to be approximately $450 million.

Before we turn to Q&A, I want to briefly comment on a few announcements in this morning's release. First, we have initiated a process to sell the elastomers business. However, it does not fit our long-term strategy of investing in high growth, high margin specialty chemical business serving more stable and predictable markets. And this asset came to us via the ISP acquisition. We have a great team leading this business and believe will be a good strategic fit for the right operator.

Additionally, we are exploring strategic alternatives for our Water Technologies business. This decision reflects our ongoing commitment to unlock value for Ashland shareholders. And we have engaged Citi to assist us.

With that we'll open up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator instructions] The first question comes from John McNulty of Credit Suisse. Your line is open.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Yeah, good morning, just a couple of questions regarding the asset sales. With regard to the elastomer business if – with that on the block to be sold now, any thoughts to what that means in terms of your BDO capacity and whether you'd be shutting down an asset or potentially bundling in an asset with that elastomer sale?

<A – Jim O'Brien – Ashland, Inc.>: The BDO is – that's in Specialty Ingredients, John.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Yeah.

<A – Jim O'Brien – Ashland, Inc.>: Yeah, they're unrelated, you are thinking butadiene probably.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Okay. All right. I'll do – I'll come back...

<A – Jim O'Brien – Ashland, Inc.>: BD, BDO...

<A – Jason Thompson – Ashland, Inc.>: Hey, John, I get those two confused myself. But, yeah, you're right; there is no change to our strategy on BDO at this point.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Got it, okay, fair enough, sorry for the confusion. And then with regard to the potential uses for cash on this, if in the end you do decide that you're selling Water, I mean between the Water and the elastomer sale, I mean you're certainly talking well north of $1 billion worth of proceeds. So I guess, how should we think about the uses for cash if these asset sales are to actually happen?

<A – Jim O'Brien – Ashland, Inc.>: I think the best way to think about any potential use of future proceeds of any actions that are taken, we have a pretty strong, I think, history and track record of how we try to improve shareholder value. And our pasts would suggest that we have bought back stock, we have increased dividends, and we also have reinvested in higher growth businesses. So I don't think that will change in the future. We'll look at all those alternatives of ways to increase value, and I would anticipate that – that's what we would do.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Got it, okay. And then with regard to the – in the Specialty Ingredients business, I think you indicated you had a $3 million hit on revenue around the supply disruption or the – from one of your suppliers. Can you walk us through what the hit might have been on the margin front or the income front as well?

<A – John Panichella – Ashland, Inc.>: Yeah, this is John. So what we have in the text earlier was about $3 million of sales, and we also incurred additional freight in getting product to our customers. So we think about $2 million combination of the gross profit on those sales and the freight would be the impact in the quarter.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Got it. And then just one last question, on Water and elastomers if these assets do go, can you give us some clarity as to what you think the stranded costs might be on those assets?

<A – Jim O'Brien – Ashland, Inc.>: Stranded costs is something that is always an important issue when you consider realigning your portfolio. And we've been through probably four different phases of having to deal with stranded costs. So I think that as a company, we are well versed in how to handle that, and we have plans always in place about to address certain aspects of our cost structure. But I think the thing to understand is that we appreciate that that's an issue and we would have plans in place to deal with it.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Okay, fair enough. Thanks very much.

Operator: Thank you. The next question is from Laurence Alexander of Jefferies. Your line is open.

<Q – Rob Walker – Jefferies LLC>: Good morning. This is Rob Walker in for Laurence.

<A – Jim O'Brien – Ashland, Inc.>: Hi, Rob.

<Q – Rob Walker – Jefferies LLC>: Hi, guys. I guess, once you begin to lap guar and BDO what should we be expecting for a normalized growth rate in Specialty Ingredients business and where do you see gross margins normalizing?

<A – Kevin Willis – Ashland, Inc.>: So, I think, we're starting to see the industrial markets return. So 6% growth I think would be a reasonable place for you to be thinking about us. And I think the EBITDA margin range that we gave you in our Analyst Day is still something that, net of guar and intermediates and solvents that we think we'll be in that range.

<Q – Rob Walker – Jefferies LLC>: Okay, thanks. And then if you could just provide a little more color as to what drove the improvement in the construction business either by product or by region? Thanks.

<A – Kevin Willis – Ashland, Inc.>: So, we are seeing our volumes return in primarily emerging markets. We had some slow down. Some of it is seasonally adjusted and some of it is due to some rationalization efforts we have with the ISP integration around our distribution channel. So, those things are kind of behind us now and we're seeking kind of the volume return to that kind of growth rate that we talked about.

<Q – Rob Walker – Jefferies LLC>: Thank you.

Operator: Thank you. The next question is from David Begleiter of Deutsche Bank. Your line is open.

<Q – Ram Sivalingam – Deutsche Bank Securities, Inc.>: Hi, this is actually Ram Sivalingam sitting in for David. Jim, just quick question, very clear on Water Tech and the elastomers business, but that ultimately begs the question of what you're going to do with composites and adhesives? Do you view those businesses as different strategically long-term from Water Tech and elastomers, and if so why?

<A – Jim O'Brien – Ashland, Inc.>: The question around Performance Materials and adhesives, those businesses have gone through a major restructuring in the last three years or four years. I think they're well positioned in the market and I think that they have grown significantly this year as far as improvements especially in China and Asia. So as we look at our portfolio, we constantly evaluate the performance of our businesses and constantly wanted to look toward the future of improving our margins and getting to higher growth businesses that has not changed. So our strategy is the same and we constantly look at our portfolio to optimize that and to make the right decisions to make progress to get the best possible portfolio for shareholders. So that's really all I can say about that.

<Q – Ram Sivalingam – Deutsche Bank Securities, Inc.>: Understood. Thanks very much.

Operator: Thank you. The next question is from Mike Sison of KeyBanc. Your line is open.

<Q – Mike Sison – KeyBanc Capital Markets>: Hi, guys, good morning.

<A – Jim O'Brien – Ashland, Inc.>: Good morning, Mike.

<Q – Mike Sison – KeyBanc Capital Markets>: In terms of Specialty Ingredients, the outlook for the fourth quarter, it sounds like you feel fairly comfortable that so the guar issue will be resolved or maybe won't be as negative going forward. Any particular reason for that?

<A – Jim O'Brien – Ashland, Inc.>: When you look at guar, we've made several statements about its performance and our change in strategy, how we're going to approach that market. Number one, fourth quarter is a significant guar profit, not as big as our third quarter, but still significant. But that's the last quarter that we had really earnings that are material in guar. So in some respects I'm really looking forward to completing the fourth quarter so we can talk about guar. So that will end.

And then the next question is what are we going to do in the future with guar. As we've stated in previous earnings calls, we do not want to participate in the volatile raw material pricing that continues to take place. So as a consequence, we do not buy guar and hold as an inventory. And we believe we have a way to partner with some of the producers and act as their distributor or agent where we continue to serve our customers, but not hold any inventory, not take any inventory risk, but move the product through the market and act as a channel of the market for producers. And I think we are very close to finalizing that type of an agreement.

So as you will think about that going into next year, guar will be a earnings stream, but will not have the impact of the balance sheet or having the whole inventory, worry about repricing that inventory, taking adjustments to it and having large quantities on hand. So that's our strategy going forward. And after the fourth quarter, it should be something we won't talk about at all.

<Q – Mike Sison – KeyBanc Capital Markets>: Great. And then, John, if you think about 2014 and you can keep volume growth in this slide in that mid-single digits that you'd hope for, it's not unreasonable I guess to see your margins back to where you have thought they would be, that you've outlined at the Analyst Day next year. Is that the way to sort of think about, if your volumes do indeed come back?

<A – John Panichella – Ashland, Inc.>: Yeah, the way to think about the business is, we're pretty happy with the price performance we've had over the last couple of years, and including this quarter. So pricing has been relatively good. Obviously, raw materials are down, so our pricing is down, but compared to cost, we're still in pretty good shape. So that's good. The big change in this quarter, and we talked about in the comments, where early in the year, we ran up inventories with weak demand, so we build inventories. And we brought those inventories down and that's had a pretty big impact on the fixed cost absorption. So we saw that occur in the quarter. And right now, we're planning on running the network pretty full in the fiscal Q4 and we envision right now that will continue early next year.

<Q – Mike Sison – KeyBanc Capital Markets>: Okay, great. And then last question, in terms of Valvoline or consumer – the consumer business, there's been some soft announcements, whether they are soft or not in base oil, any thoughts there? And in terms of pricing is normal, you feel pretty comfortable that if they do indeed go up, you can probably get some offset over time?

<A – Jim O'Brien – Ashland, Inc.>: When you look at some of these announcements that are being made, none of that has taken effect yet.

<Q – Mike Sison – KeyBanc Capital Markets>: Right.

<A – Jim O'Brien – Ashland, Inc.>: And it's all being directed toward, obviously, the run up in crude. And when you look at the supply-demand balance, it's pretty well balanced. And so, I can't tell you whether the pricing will go up this quarter or not. Right now, there is talk about it, but nothing's happened. This is to say something does happen.

Our history would say that we go after that and we move into the marketplace. So if it does occur then we'll move that price to the market. We'll announce price increases to account for that. And history would say it takes two months to three months to get it through the marketplace.

And as for as the effect on the quarter or for the business, if we only have price increases that occur one quarter that isn't a big deal for us. It's when they send two quarter or three quarter through the period that's when it becomes difficult. So as we look into the fourth quarter, I would say – even there was an announcement, I don't think it has a material effect in the quarter.

<Q – Mike Sison – KeyBanc Capital Markets>: Got it. Great, thank you.

Operator: Thank you. And the next question is from Mike Harrison of First Analysis. Your line is open.

<Q – Mike Harrison – First Analysis Securities Corp.>: Hi, good morning.

<A – Jim O'Brien – Ashland, Inc.>: Hi, good morning, Mike.

<Q – Mike Harrison – First Analysis Securities Corp.>: Just going back to the coatings and construction business. If I look back to the way you were talking about that business a couple of quarters ago, you've been seeing some pricing weakness. Has that improved at this point or are we – we just kind of managing through it? How should we think about the improvement there?

<A – John Panichella – Ashland, Inc.>: So, they're different. But if we start with coatings, the raw material prices have fallen. And if you recall we had a pretty good performance last year as raw material prices were raising. So raw material prices are falling and we are dropping as well. But what really has changed in the coating business is we've decided that we want to protect our customers while the market hasn't grown much and now that's starting to change in our fiscal Q3 and Q4. So as volumes weren't growing, we were holding on to our share and that's impacted prices. We now see that volumes are stable, it's starting to grow again, and that should be good from a – not only a volume perspective, but from pricing. And in the construction business, we – this is our seasonally strong quarter and we saw pretty good volumes. We do have some price pressure there, but the volume growth has started to come back.

<A – Jim O'Brien – Ashland, Inc.>: And, Mike, we are starting to see some sequential improvement on price there, so.

<Q – Mike Harrison – First Analysis Securities Corp.>: Got it, okay. And just a question kind of on the SG&A costs side, it looks like they came in a little bit higher than we might have expected in just about every segment, particularly interested though in Valvoline and Water Technologies. It sounds like you had some sequential increases in advertising spend and the international side in Valvoline. Is that temporary in nature? And then on Water Technologies, I guess we were expecting to see some additional benefits from head count reductions, but now you're saying that that's really not fully baked in until July 1.

<A – Kevin Willis – Ashland, Inc.>: Yeah, I think that's right. Starting with Valvoline, during the quarter, it's a heavy promotion quarter, because we're running up to the summer driving season and we did see that in the June quarter. So promotions and advertising were up. We also have been investing in our international business and we've seen some good growth there, so that's paying dividends, but it's primarily those two items that drove the Valvoline increase that you mentioned.

As far as water goes, it's really a couple of items that drive most of the increase. First of all, you're right. July 1 is really the – kind of the effective run rate for majority of the cost savings that have been taken in that business. In terms of the higher than expected number, the business performed better. So performance based compensation was up in the quarter. And in prior year quarter, we had the favorable resolution of a pretty sizeable bad debt reserve, and that of course didn't recur in this year. So those two items really drove the majority of that increase.

<Q – Mike Harrison – First Analysis Securities Corp.>: And on the Performance Materials business, you mentioned something about diversifying the business mix in Asia. Can you may be give us a little bit more detail on what markets you're entering there, and also maybe comment on what you're seeing in Performance Materials with respect to the wind energy market?

<A – Jim O'Brien – Ashland, Inc.>: Yeah, Mike. They kind of go hand-in-hand to a certain degree. We were, for a long time, I'd say overly levered to wind energy. And so this diversification efforts to delever if you will for much of that wind exposure. And this is in things such as FGD, flue-gas desulfurization where we've started to make some inroads.

<Q – Mike Harrison – First Analysis Securities Corp.>: All right. Thanks very much.

Operator: Thank you. The next question is from Youyou Yan of JPMorgan. Your line is open.

<Q – Youyou Yan – JPMorgan Securities LLC>: Hi, this is Youyou Yan for Jeff Zekauskas. So does the step down in butadiene price affect any of the butanediol pricing?

<A – Jim O'Brien – Ashland, Inc.>: No.

<Q – Youyou Yan – JPMorgan Securities LLC>: And maybe, secondly, I realized that the Specialty Ingredients pricing has been moved up from April to June. So do you see the June price as sustainable going into the fourth quarter?

<A – Jim O'Brien – Ashland, Inc.>: So, I think our pricing is a pretty stable right now. That's a net of intermediates and solvents where we continue to see pricing pressure around BDO. So I think that will continue the pricing pressure in BDO. But for the core business, we think the pricing is pretty stable and volumes are starting to return.

<Q – Youyou Yan – JPMorgan Securities LLC>: And lastly, maybe, what is in reference to your tax base for Water Technologies?

<A – Jim O'Brien – Ashland, Inc.>: That's not a number we disclose?

<Q – Youyou Yan – JPMorgan Securities LLC>: Thank you.

Operator: Thank you. The next question is from Dmitry Silversteyn of Longbow Research. Your line is open.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Good morning. A lot of my questions have been answered, but I would like to follow-up on the comments you made about seeing improvements in your coatings business. Is the strength mainly coming from China, and is that sort of the question of anniversarying some of the more difficult comps or are things in China or Asia in general are getting better? And if it's not China, is it some other area of coatings market that's driving your growth?

<A – John Panichella – Ashland, Inc.>: Yes. So, in North America, we actually are doing quite well in coatings. So that business is doing pretty well. And definitely China has picked up and we're doing quite well there. Really our problem spot in coatings is Europe, and we don't see any real resolution to kind of some of the problems that our customers are seeing in Europe. So our bright spots are North America, China, and then rest of Asia.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Got it, got it. Thank you. Switching attention to the Ashland's Specialty Ingredients business, the BDO pricing is coming down a little bit and we would discuss that and understand that. Are there any other raw material issues either raw materials moving off or shortages or may be pricing declining where you need to pass them through on the cellulosic side of the business. Usually when you see pulp and paper markets improve, it can sometimes lead to little bit of a price spike for materials. So I'm just wondering if you're seeing any raw material changes that are meaningful in that business?

<A – Jim O'Brien – Ashland, Inc.>: Yeah, no meaningful changes right now in cellulose. In fact, in some areas cotton linter prices are declining. So, right now, we don't see any meaningful change in cotton prices.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Got it. Okay, good. And then on Valvoline, the base oil is pretty transparent and obviously we have seen the price increases and it remains to be seen whether they go through or not. Outside of base oil, what is going on with your raw material landscape as far as additives or some of the other things that you buy? Is raw material environment there stable or inflationary or are you seeing some deflation?

<A – Jim O'Brien – Ashland, Inc.>: No, that's pretty stable for us, Dmitry.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Okay. So, no changes outside of the potential base oil changes?

<A – Jim O'Brien – Ashland, Inc.>: Exactly, the only thing that's kind of news there is that Chevron announcement.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Got it. And then finally on the Water Technologies, I mean, this business has shown the improvement, I don't know if it's the improvement that you were looking for, but certainly has shown some improvement and good enough to have a high SG&A impact on the variable comp line item. But you are still exploring alternatives. So I guess my question is has it not improved enough or has your thinking about the attractiveness of this business longer term changed?

<A – Jim O'Brien – Ashland, Inc.>: I think that the team has done a fantastic job. Louis and his team came in and really refocused the business and got the improvements that we wanted out of the paper in the Water business. So I'm very pleased with how the team has reacted to his leadership and some of the new people we brought in. So that part is going very, very well.

As we talked about even two quarters or three quarters ago that we were continuing to do a review of the Water business and see how it fit into our portfolio and how it really create shareholder value. The board has been in the last two or three meetings looking carefully at it. And with the announcement that you saw this morning is a reflection of trying to bring a conclusion to what is going to be the final determination of how to create the best value for shareholders of this business. So, we announced today that Citi is going to help us with that – and which you should expect to come out of that process with some definitive decision on what's going to happen next.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Is there a timetable for that decision to be made?

<A – Jim O'Brien – Ashland, Inc.>: There is always a timetable and just like most people I'm anxious to get things done so we could move on. So we would do it as quickly as possible. And when we do make a decision and the board decide what to do we'll make the necessary announcements at that time.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Sounds good. Thank you very much, guys.

Operator: Thank you. The next question is from Jim Sheehan of SunTrust. Your line is open.

<Q – Jim Sheehan – SunTrust Robinson Humphrey>: Good morning. Just a question on non-guar energy, you had a nice improvement in profitability there. And I'm just wondering is that mostly on the pricing side or volumes or can you just give a little color on what is behind the improvement?

<A – Jim O'Brien – Ashland, Inc.>: Yeah, it's two things. It's new products that we're launching in the segment and it's volume in some of the core product lines some of which were obtained through the ISP acquisition. So we have a nice business that we're building there in non-guar energy and the new products are winning in the marketplace.

<Q – Jim Sheehan – SunTrust Robinson Humphrey>: And also on the pharmaceuticals and personal care with a lot of the benefit occurring in Latin America and some emerging markets there, are you seeing more GDP sensitivity in those products than you expected?

<A – Jim O'Brien – Ashland, Inc.>: So, you're asking in the...

<Q – Jim Sheehan – SunTrust Robinson Humphrey>: Pharma...

<A – Jim O'Brien – Ashland, Inc.>: In pharma and personal care, are we getting sensitivity in what like Europe, North America?

<A – Jason Thompson – Ashland, Inc.>: No, emerging markets.

<Q – Jim Sheehan – SunTrust Robinson Humphrey>: Emerging markets mainly. I mean, I'm thinking of these things as being relatively stable demand products, relatively defensive, and relatively insulated from macro considerations. But it looks like you're seeing a little acceleration. So I'm just wondering why does it appear that they seem to be increasing along with maybe better economic prospects in those emerging regions?

<A – Kevin Willis – Ashland, Inc.>: Yeah, I think some of it is – we're 18 months into the ISP integration, and those two businesses are primarily impacted. So our teams are getting cross trained, our teams are developing there. So we're getting some benefit from the synergy we thought would get to bringing those two companies together. And so we're starting to see some of the impact of that in our personal care and farm business. It takes some time. So I'd say some of it's that, and that the business is launching especially in care some new products that are doing well in the market place that are accelerating our growth.

<Q – Jim Sheehan – SunTrust Robinson Humphrey>: And lastly for, Jim, I'm just wondering about the minor decrease in the CapEx budget for this year, are you pushing that out into 2014? And what is really your thinking there, is it because the macro outlook is soft or is there another reason for why the capital expenditures budget might have changed for the full year.

<A – Jim O'Brien – Ashland, Inc.>: When you look at our organic growth, much of it has been geared toward ASI, and that will continue to be our focus into the future. We had kind of a soft spot in probably the end of the first quarter of our fiscal year and the second quarter of our fiscal year, which really lowered our asset utilization rates and changed our perspective as far as when we think we would need new capacities. So we have kind of reassessed our demand curve and the growth of that demand curve on where we think we will need expansion, because the thing we don't want to do is get ahead of demand and have excess supply when we already having trouble keeping our plants focused.

I think part of our success in getting these numbers in this quarter in ASI is demand returned in our plants ran at much higher rates. And that's really important for that business, asset utilization is key to the margin expansion and the margin production as far as what we produces.

So as we look into the future and we kind of look at what we think is going to happen with demand, a lot of these projects were delayed. We have projects that probably three quarters of the way done, that we just stopped and didn't complete. So the discussions we're having now is when is the right time to bring those assets on. And some will probably come on in 2014 and some perhaps even later. So we're carefully examining that. So what that implies then is we don't need to have additional capacity. We haven't put on what we've already set in motion. So I would look at this delay, when these projects will be completed. So maybe they go on in the latter part of 2014 first part of 2015, whereas we probably anticipated year-and-a-half ago that all be in 2014. So it's more of a delay in pushing things out than it is an abandonment of the expansion.

<Q – Jim Sheehan – SunTrust Robinson Humphrey>: And one quick follow-up. What product areas are those delays occurring in?

<A – Jim O'Brien – Ashland, Inc.>: Well, specifically we had a project in China that was ready to go in HEC, so in the coating side and that project was delayed. And we're talking now about when is the right time to bring that up because to bring it up, it just take a few months to bring it up. And we'll bring it up at the appropriate time. So we have not made any decisions or discussion around it.

<Q – Jim Sheehan – SunTrust Robinson Humphrey>: Thank you very much.

<A – Jason Thompson – Ashland, Inc.>: We'll take one more questions operator.

Operator: Okay. And the next question is from Rich O'Reilly of Revere Associates. Your line is open.

<Q – Rich O'Reilly – Revere and Associates>: Yeah, it's Richard O'Reilly. The inventory charge, the press release talks about a decline in the value earlier in the year. Now, I know that in July and August butadiene has gone down. So is any of the charge related to the current price decline?

<A – Jim O'Brien – Ashland, Inc.>: Yes, a portion of it would be, but it does go back earlier – into earlier months in the year when we saw butadiene prices coming down.

<Q – Rich O'Reilly – Revere and Associates>: Okay. So, in theory, there shouldn't be another charge for the third – for the current quarter.

<A – Jim O'Brien – Ashland, Inc.>: That's correct.

<Q – Rich O'Reilly – Revere and Associates>: Okay. And second, the decline in guar profits, did you say it was down $69 million year-over-year?

<A – Jim O'Brien – Ashland, Inc.>: Yes, that's correct.

<Q – Rich O'Reilly – Revere and Associates>: Okay, fine. I just want to correct that. Okay, thank you then.

Operator: Thank you. That concludes the Q&A session. I'll turn the call back over to management for closing remarks.

Jason L. Thompson, Director, Investor Relations

Yeah, thank you for your interest in Ashland. And feel free to reach out to me 859-815-3527. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day.