THOMSON REUTERS

EDITED TRANSCRIPT

Q3 2020 Ashland Global Holdings Inc. Earnings Call

EVENT DATE/TIME: JULY 29, 2020 / 1:00PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Christopher S. Parkinson *Crédit Suisse AG, Research Division - Director of Equity Research*
David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*
Jeffrey John Zekauskas *JPMorgan Chase & Co, Research Division - Senior Analyst*
John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*
John Patrick McNulty *BMO Capital Markets Equity Research - Analyst*
Laurence Alexander *Jefferies LLC, Research Division - VP & Equity Research Analyst*
Michael Joseph Harrison *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst*
Michael Joseph Sison *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ashland Global Holdings Inc. Third Quarter 2020 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, sir.

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

Thank you, Chris. Good morning, everyone, and welcome to Ashland's Third Quarter Fiscal 2020 Earnings Conference Call and Webcast. My name is Seth Mrozek, Director, Ashland Investor Relations. Joining me on the call today are Guillermo Novo, Ashland's Chairman and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer.

We released preliminary results for the quarter ended June 30, 2020, at approximately 5:00 p.m. Eastern Time yesterday, July 28. The news release issued last night was furnished to the SEC in a Form 8-K. During this morning's call, we will reference slides that are currently being webcast on our website, ashland.com, under the Investor Relations section. The slides can also be found on the Investor Relations section of our website. 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 2020. 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 more complete explanation of those risks and uncertainties and the limits applicable to forward-looking statements. 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 to adjusted -- as adjusted and present them in order to supplement your understanding and assessment of the financial performance of our ongoing business. Non-GAAP measures should not be considered a substitute or superior to financial measures calculated in accordance with GAAP. The most directly comparable GAAP measure as well as reconciliations of the non-GAAP measures to those GAAP measures are available on our website and in the appendix of today's slide presentation.

Please turn to Slide 3. Guillermo will begin the call this morning with an overview of Ashland's results in the fiscal third quarter. Next, Kevin will provide a more detailed review of financial results for the quarter. And finally, Guillermo will close with key priorities and planning in the current economic environment in addition to providing his thoughts on important next steps. We will then open the line for questions.

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

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

Thank you, Seth, and good morning to everyone. Before I begin, I'd like to thank you for your participation this morning. I hope that everyone is safe and healthy in these unprecedented times.

Since the emergence of the coronavirus in China in January, the Ashland team has worked tirelessly to address the impact of the pandemic. First and foremost, this has meant protecting the health and safety of our employees. Second, we've continued to supply our customers and the critical industries we serve. And third, we've worked to ensure that Ashland is well positioned even in the event of a prolonged impact from the pandemic.

Despite all the challenges presented over the last few months, we have maintained a strong focus on advancing our strategic initiatives to restructure Ashland. We have heightened our sense of urgency in executing our transformation as it is doing more than just positioning us for future growth and performance. It's also helping us navigate better through this COVID-19 environment. We've operationalized our new business unit model, and the teams are working to improve performance across the portfolio. The teams have also refreshed their respective strategies in order to best serve our customers and profitably grow our businesses. And we're continuing to drive our self-help actions to improve Ashland's cost structure, performance and cash generation.

Please turn to Slide 6. In summary, Q3 results demonstrate the value of our leadership position in high-quality end markets and the importance of the actions we are taking internally. Our consumer businesses performed particularly well. Life Science demand continues to hold up across pharma, nutraceuticals and nutrition. Nutraceutical sales continued to improve with a strong June performance as new business has started to close our share loss impact from prior year. Overall, Personal Care and Households also performed well, but experienced some variation across segments.

Industrial businesses continue to be impacted by the COVID-19 pandemic. However, given the diverse industries we serve, we have seen significant variation across markets. As the economies have started to reopen and industries restart operations, we are seeing strengthening demand.

On the self-help side, we continue to make significant progress on driving our business focus, restructuring costs and improving margins. We continue to take actions to reduce costs, working capital and capital spending in order to conserve cash and maintain flexibility in this environment. I would like to recognize the entire Ashland team for their focus and commitment to our success during these challenging times. It's a real privilege to be part of this team.

Let me now pass the call over to Kevin to review our Q3 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 8. Total Ashland sales in the quarter were $574 million, down 10% from the year ago period due to lower sales in all 3 business groups. Negative currency impact represented 1 point of this decline. SG&A and R&D costs again declined significantly in the quarter as we realized the positive impact of the cost reduction program and new cost actions that we've taken. It should also be noted that travel and entertainment and incentive compensation expense were lower due to the COVID-19 pandemic. In total, Ashland's adjusted EBITDA was $143 million, a 2% increase over the prior year quarter. Adjusted EPS excluding acquisition amortization was $1.12 per share, up 8% from the prior year. As a reminder, adjusted EPS excluding acquisition amortization is a new financial metric we introduced last quarter and will continue reporting in the future.

Now let's review the results of each of our 3 business groups. Please turn to Slide 9. I'll begin with Consumer Specialties. Demand for our consumer ingredients was resilient throughout the quarter and we demonstrated strong growth in pharmaceutical excipients, biofunctional ingredients and additives for hand sanitizer. Sales were $344 million, down 1% from the prior year quarter. The impact of unfavorable currency represented a negative 1% impact. The impact of business losses last year in Pharmachem and Oral Care represented an additional 3 percentage points of decline.

Excluding the Pharmachem and Oral Care share losses and currency impact, Life Sciences sales were up 4% and Personal Care and

Household sales were down 1% both over prior year. Excluding the known business losses, the Life Sciences and Personal Care and Household businesses performed well in the quarter.

Price/mix was favorable during the quarter, which drove improvement in gross profit margin. Reduced SARD expenses also contributed to growth in adjusted EBITDA and adjusted EBITDA margins.

Expenses improved to 29%, while in Personal Care and Household, adjusted EBITDA margin remained consistent at 23%. In total, consumer specialties adjusted EBITDA margin improved by 210 basis points to 26.2%.

Please turn to Slide 10. Turning to Industrial Specialties, sales were $205 million in the quarter, down 23% versus the prior year quarter. Sales for the Performance Adhesives business unit declined by 20%, while sales for the Specialty Additives business unit declined by 24%. Much of this decline was due to reduced demand for industrial products during the pandemic-related lockdowns across the globe. Price/mix was favorable in both Specialty Additives and Performance Adhesives, which drove strong improvement in gross margin. Despite the sales declines, disciplined cost control led to expanded adjusted EBITDA margins. Adjusted EBITDA margin in Performance Adhesives improved to 24%, while in Specialty Additives, adjusted EBITDA margin improved to 27%. In total, the Industrial Specialties adjusted EBITDA margin improved by 290 basis points to 26.3%.

Please turn to Slide 11. Intermediate and Solvent sales were $37 million, down 10% from the year ago period, primarily reflecting lower pricing. Intercompany sales of BDO to Consumer Specialties totaled $12 million in the June quarter. These sales are recorded at market pricing and are eliminated in the consolidation of total Ashland sales. Adjusted EBITDA of $11 million was consistent with the prior year.

Please turn to Slide 12. On Monday of this week, we announced the signing of a definitive agreement to sell our maleic anhydride business. The purchase price is $100 million, and we expect net proceeds of approximately $85 million to $90 million after taxes and deal-related expenses. This business had previously been excluded from the sale of composites at our Marl BDO plant last year. Results from the maleic business have been reported as discontinued operations. Therefore, the transaction does not impact our earnings from continuing operations. We expect to close the deal before the end of the calendar year. We're pleased with the outcome reach for the maleic business and note that the receipt of the net proceeds will serve to further strengthen our balance sheet and net leverage position.

With that, I'll now turn the call back over to Guillermo to address our current priorities and outlook. Guillermo?

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

Thank you, Kevin. Please turn to Slide 14. We continue to make significant progress in our transformation, changing our business model, restructuring costs and improving Ashland's profitability. We completed the business restructuring and the operating model changes. Ongoing work is now focused on driving continuous improvement, driving focus, ownership and accountability, upgrading our management systems and processes, and developing our teams.

Our self-help initiatives remain on track. We continue to expect to achieve over $40 million of annual run rate of cost savings by the end of September. For savings above the $40 million, we plan to retain optionality to redeploy these savings to support our growth initiatives or, if needed, respond to unexpected developments. To drive additional margin improvement and improve our competitiveness, we have started to work to drive productivity and cost reductions on the cost of goods sold or COGS side of our business. We will update you as our plans progress.

We're also continuing to act to improve our inventory position through near-term inventory management initiatives. Our plan is to take more significant actions in Q4 to reduce inventory levels. Therefore, we now expect a fixed cost absorption impact of $20 million to $30 million in the September quarter. These initiatives will help generate additional cash in Q4 and the beginning of the next fiscal year.

Our intent is to use this transformation as a foundation on which to grow and improve the quality of our company. In this journey, we're also advancing our planning and strategic next steps.

Please turn to Slide 15. As we look at Ashland, our core business is centered around additives for specialty applications. This is a unique, high-quality space, where innovation is critical to bringing solutions to our customers. In general, additives tend to be low-cost in use, but high-value in use. We gained scale by leveraging these additives across multiple businesses. We want to be a premier player in the space and our intention is to grow these businesses and expand our additive portfolio. Although it's a subset of expanding additives, we will need to build our biotech capabilities. We will need to be purposeful in building and leveraging these capabilities, which will mostly impact our consumer side of our portfolio.

Asia will continue to be a center of growth in our markets. We will focus on accelerating our growth in Asia and we will continue to invest to expand our capabilities in this region. As I said, Specialty Additive value is created by understanding your customers' needs and helping them develop new solutions through innovation. Although customer focus and innovation are already part of our DNA, we need to take it to a higher level. We will continue to build with a passion, our culture around customer focus and innovation.

Technology and new digital capabilities continue to transform our world. We will accelerate our digital modernization, not only upgrading key operating systems, while building new capabilities around plant operations, R&D and marketing. And lastly, we will remain disciplined around capital allocation and our portfolio management, ensuring alignment with our strategy and our expected operating performance. We recognize some of these areas will take time to start to impact our performance, but our journey has already started. The sooner we make progress, the sooner we'll see impact.

Please turn to Slide 16. Although we're excited about the progress we've made and the opportunities that lie ahead, near term, we need to stay focused on navigating through the difficult and uncertain times created by COVID-19.

So what have we seen so far in this crisis? First, our portfolio has behaved as it should, more resilient. This has been led by our consumer segment, but our industrial segment has also seen greater impact, but the impact has been mitigated by the diversity of the segments we serve and some of the more consumer-driven segments are holding up better than expected, things that go into packaging, things like DIY coatings.

As the economies open and industries restart operation, we have seen some sequential improvement in demand. Unless the industries go back into a shutdown mode, the trough seems to have been in the April, May time frame.

Our self-help actions have been important contributors to our performance. These are in our control and we see opportunity to do more in this area. And we started to see some mitigation of our prior year share loss. Oral Care is growing, and we've started to capture new business in nutraceuticals. However, more work is needed to address some of the Avoca gaps, and that is still work in progress.

Given this is a pandemic-driven crisis, uncertainty continues, and it remains very difficult to forecast the future. As a result, we continue to focus on scenario planning to prepare for changes and ensure we can respond quickly to both threats and opportunities. Rather than predicting the future, we plan to ensure corporate financial stability, identify threats and opportunities and build resilience and agility. As we look ahead, the general assumption is that a longer-term COVID-19 solution will not materialize until mid to late 2021. This means uncertainty on developments and how governments and society respond to these developments. In this environment, we assume that although we could see very different end market-specific changes, we do not expect our overall portfolio to behave differently.

The highest risk for our business continues to come from supply chain and operational disruptions across the value chain, impacting our suppliers, us or our customers. Government stimulus continues to reduce downside risk. And self-help actions continue to be critical to both strengthening our company in this time of crisis as well as repositioning us for the future. We will stay focused on executing our plans with urgency.

Please turn to Slide 17. Given the high level of uncertainty, we will not provide guidance for Q4 or FY '20. In the context of our scenario planning, let me provide you some commentary on our forward-looking insights. We expect no significant change in our consumer macro trends. While we are working through demand challenges in hairstyling and sun care products, the remainder of the consumer portfolio has remained resilient. You will, however, need to continue to work through challenges in our Avoca business.

On the industrial side, if the economy continues to open and industries continue to restart operations, the demand improvement we've seen should sustain. However, future sequential month-to-month improvement for many segments are still difficult to forecast. This is particularly true for coatings contractors, the construction and the automotive manufacturing segments.

As we previously mentioned, we do expect $20 million to $30 million of fixed cost absorption impact in Q4 as we work to right size our inventory levels. We expect to continue to benefit from the ongoing SARD cost-reduction actions we're taking and expect to realize incremental benefit from lower raw material prices, but price raw material changes are likely to remain balanced. To be clear, we remain keenly focused on continuing to demonstrate improvement momentum or the businesses despite the challenges presented by the COVID-19 pandemic.

Please turn to Slide 18. I'm confident that Ashland is well positioned for these uncertain times. We have a strong foundation for success built on high-value businesses with leading market positions in critical industries with deep customer relationships. We also have a structure that is optimized to enhance opportunities available to each of our focused business units. We're pursuing aggressive self-help actions to reduce working capital, capital spending and operating costs to improve profitability and also generate cash. And we maintain a strong balance sheet with more than $1 billion of available cash and liquidity, a portfolio of -- with resilient cash flow and a capital structure that provides ample flexibility in the most stressed scenarios. Finally, we're committed to maintaining our dividend even in these uncertain times.

Please turn to Slide 20. In closing, I once again thank the Ashland team for their leadership and proactive participation in this uncertain environment. We are fortunate to be a premier specialty materials company with a high-quality businesses that have leadership position in defensive markets. I'm pleased by the resilience demonstrated by our people and businesses, and look forward to the opportunities that lie ahead.

Thank you. Operator, let's open for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of John McNulty with BMO Capital Markets.

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

Congratulations on a solid performance in a tough environment. I guess a couple of questions just around the margin front. So you had a target of 25% EBITDA margins, and you pretty much hit them actually this quarter. But admittedly, look, there's a lot of puts and takes, and there are some temporary trends that are helping, I would imagine and some that are permanent, so I guess, can you help us to parse out how much of what you've kind of delivered this quarter is kind of the sustainable level? And how much maybe we should think there may be some giveback at some point in the next quarter or 2?

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

Right. Yes. I think, John, as you've pointed out, I think there's 2 lines of impact. One are those driven by actions that we're taking and they're clearly having impact where the mix improvement has been part of the contribution. We have been focusing on higher parts of -- higher quality parts of our portfolio, pruning -- already started doing some pruning of lower end businesses, managing our costs, our contributing -- the run rates are starting to pick up. We should hit that by the end of the quarter. So there's a lot of actions that have helped us. There is also some that we need to recognize are -- the COVID related in terms of travel. So there are some lower costs that are also impacting. So what I look at as we look at this transformation is the trend line moving where we're going, and it is. We're going to go -- we'll have some quarter-to-quarter ups and downs in that trajectory just based on some of the situational things like the travel and all that. But hopefully, once the COVID situation improves, we'll see things like T&E and other costs increase, but that should come with higher revenue as the economies improve. So we feel a significant part is really fundamental and driven by the actions that we're taking.

For next year, the part that we still haven't seen full impact is as we start looking at our cost of goods sold side.

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

That's helpful. And maybe can you give us some color as to how you're thinking about the opportunities there, whether it's the size of them or even just some buckets in terms of where the improvements may be on the cost of goods side because it is something you've been pretty excited about for the last quarter or so?

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

Well, we set to get to that -- to our target of over 25% EBITDA margins, we needed to get around 400 basis points. So on the SARD and R&D side, I think we already have half of that. So our -- the minimum target would be to hit the half out of COGS. That's a much bigger bucket of spending. And there are a lot of opportunities there. So it's how we structure ourselves. How we want to plan, looking at footprints, our network of warehousing, logistics, raw materials. So there's a lot of different areas that we are working on. And we're going to take the same approach we did with SARD, just start doing it, and we'll report as we go and hopefully, the improvement starts contributing throughout the year.

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

Yes. John, I mean, we're in early days of that. But as Guillermo said, we're very focused on just moving forward and taking action. And as we move more deeply into it, I mean, you mentioned this, but one of the things we're certainly looking at are things like warehouse costs and how to right size those. And it wouldn't be unreasonable to expect more inventory actions to occur as we move into Q4. But those will be -- anything we do in that regard would likely be noncash and called out. So it won't be an impact to adjusted EBITDA, just like most of the restructuring and improvement work that we have been doing.

So the other thing I would mention, you're very aware of this, I know, but -- and everybody on the call is, but as we move into Q4, the other action that we're taking around inventory that's going to impact our fixed cost absorption by $20 million to $30 million will obviously have an impact on margin as well. But that's more of a onetime thing to get inventory levels where they need to be. It will generate roughly 2x that much cash. And then, as we all know, our Q1 tends to be a light quarter. So as you think about EBITDA margin, the work we're doing to move forward, Guillermo referenced the 400 basis points, that's based on Ashland being when he came on board, about a 21% EBITDA margin business on a full year basis. So we're working to get that to get to that minimum level of 25% and make that a very sustainable thing. We've made really good progress, but there's still more work to do obviously, and the COGS work is going to be a big part of that.

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

Got it. It sounds like you've got pretty clear line of sight. Is that something that you think you can deliver on in the next, say, 12 to 18 months? Is that kind of a reasonable time frame to think about that?

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

Definitely, John, we're going to move with urgency. I think and there's multiple drivers for that, the crisis itself, I think it just strengthened our performance and allows us to not have to do other things, short-term things that are more COVID-related. So focusing on our fundamental strategy is very critical. I think it also helps us on our growth. I mean, some of the segments will be more competitive. We can drive growth. So this is about running our business moving forward. And nobody is confused on what the upside is. This is not just about improving margin. This is about driving the quality of the company and contributing to our strategy.

Operator

And our next question comes from the line of David Begleiter with Deutsche Bank.

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

Guillermo, in the industrial segment, how much was volume down in June? And where did it stand in July?

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

So Kevin can give you the specific numbers. But June, we did see some pickup across multiple segments. And understandably, I mean, the April, May, some industries just basically shut down. If you look at our adhesive business, transportation and construction were significantly down, much more than our average. The DIY was very strong as other companies have reported. The contractor segment was softer. We did see -- start seeing a pickup in the June quarter, hopefully, that continues. But that's -- those are probably the construction, the transportation and the contractors are probably the hardest ones, they're improving. So I do think that will sustain. But I'm not -- it's very difficult to forecast how much better sequentially up or down, you could be up or down single digits just based on specific developments around COVID.

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

Can you tell us the exact volume decline in June and what it is in July for industrials?

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

So June year-over-year, volumes were down about 25%. Obviously, profitability was down way, way less than that, partly due to cost management, partly due to better mix. But overall, volumes were down around 25% for the industrial side of the business.

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

And Kevin, what are they running in July?

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

We've definitely seen some improvement, I would say. Yes, I think like a lot of others. Can't give you a number. July is not over. So -- but as Guillermo said, we've definitely seen things seem to stabilize and start to pick up some.

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

And I would characterize it. The really down segments have started to improve. The ones that were already -- were down, but more in the teens or low 20s, those have stayed more stable, but things like transportation, like construction, and the contract paint market, those are the ones that we've seen more of the pickup.

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

I would say, if you look at the June quarter, April and May were really, what I would call the trough. And we started -- we did start to see some improvement in June. And as Guillermo indicated, we've seen some of that continue into July. And while we're cautiously optimistic, there's a lot of uncertainty in the world out there right now.

I would say, from my view of the company, I think, all the things that we can manage, I think the individual business unit teams are managing those very, very well, in terms of their respective end markets and how they approach them, the competitive landscape, et cetera. And we're still very focused, obviously, on continuing with cost improvement and working through the COGS piece of the equation as well.

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

And Kevin -- and for consumer, do the same volume metric for June, how much it was down? And should it improve in July as well?

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

Generally, the consumer side was fine. I mean, yes, I kind of went through the topline piece of that. And Life Sciences, if you take out previously discussed share losses and currency, Life Sciences was up 4%, Personal Care and Household was down about 1%, and that's more of an Avoca issue. And it's really -- really on the consumer side, it's less about volume, it's more about the quality of the business, quality of the portfolio. The volume piece on consumer tends to be way, way smaller than the industrial. It's -- maybe 1/3 of the volumes actually go through the consumer business. It's actually less than 1/3, so...

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

Dave, the one comment I would say on volume just to make a point as we look at improvement, it's not just cost side. We are seeing on the nutraceutical side, June, we -- very strong June, beating our prior year with the share loss. So we're gaining business. We're starting to feel the impact. There's still a lot more work to do in improving margins, things like that, that the teams are working on. But on the commercial side, we are making big traction. Same thing, Oral Care. It's actually performed well, some new product introductions that are contributing. So there's lot also commercial actions that we're taking within the environment. Obviously, it is a more challenging environment just because of the COVID situation, but we are making progress on that front too.

Operator

Our next question comes from the line of Chris Parkinson with Crédit Suisse.

Christopher S. Parkinson ***Crédit Suisse AG, Research Division - Director of Equity Research***

In terms of the secular move towards natural ingredients in personal care and rheology modification and waterborne architectural coatings, can you just talk about your competitive industry positioning and your just general assessment of your long-term growth opportunity, including the potential to expand into more industrial type applications on the latter?

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

Yes. So look, we're doing a lot on the sustainability side that as we start talking moving forward more about -- less about COVID and cost reduction and all that and more about the strategies that we're laying out for each business. Sustainability plays a huge role. I think the Personal Care and Household is the spearhead of that initiative given that, that market segment is, in many respects, leading the customers, the consumers are really leading that in a much bigger way. So we're fortunate. Again, as a Specialty Additives player, if you look at our portfolio with cellulosics, lot of the technology function we have, we actually have a very sustainable portfolio if you look at natural products. So the whole focus is around natural products, naturally dry products, biodegradability, responsible sourcing. But at the end of the day, it's also all about innovation. I mean, we want to be sustainable, but we want to drive it with innovation, just to have a non-differentiated, sustainable product, that's going to be just stable stakes. It's not what's going to drive our future. So what we're doing now is we're looking at our innovation portfolio and making sure that we're accelerating those areas that we think we can create the highest impact in terms of innovation value for our customers, as well as differentiation for our portfolio. So a lot there. You'll start hearing about it, and I would say, Personal Care at the forefront.

I think on the industrial side, the customer base is moving a little bit slower in that area. But again, if you look at our actual portfolio on the industrial side, a lot of products are cellulosic, as an example. So cellulose-based products that puts us in a good position there. And what we're looking at in the industrial side is not just the sustainability of our products, but what is the value our products bring to our customers. If you look at adhesives, we're working a lot into lightweight -- lightweighting vehicles for fuel efficiency. So there's a lot of benefits in the use of our products, equally in construction, enabling wood-based construction materials, that also drives a lot of the sustainability.

So we'll be laying out more of that, but a huge area in terms of our innovation focus and a significant emphasis being placed on that.

Christopher S. Parkinson ***Crédit Suisse AG, Research Division - Director of Equity Research***

Got it. So you're clearly focusing on establishing a portfolio just poised for long-term growth, but just -- well after the current cost actions in just fiscal year 2021, how should The Street just be thinking about cash conversion this year versus your expectation for further improvement in '21 and '22? Just what's the basic framework there?

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

Yes. I think in this year, you're going to have 2 things. On one side, all the portfolio quality improvement, mix, getting our margins up, getting cost down. So all that will contribute to our conversion. Clearly, this year and into next year as we deal with our cost of goods sold, there will be some cash impact in terms of achieving those costs savings. So we'll have to work through that. I think this year and next it's about laying the foundation for the future, but there will be some cost impact in achieving the cost savings.

But Kevin, I don't know if you want to comment anything else there, but high level, that's probably the way I'm looking at it.

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

Yes. No, I think that's right. I mean, the environment that we're in, let's put COVID off to the side. As we get through the cash cost of the restructuring line on the SG&A, R&D side as well as the cash costs associated with the COGS work we're going to do, I think we're going to be in a really good position from a cash conversion perspective. I mean, you look at -- you just look at the June quarter, and I would say the June quarter from a cash generation perspective was stronger than normal. But free cash flow in the June quarter was $112 million, including restructuring in the low 120's, excluding on an EBITDA base of $143 million.

Now granted, we've been cranking down on CapEx and a lot of other related things to conserve cash and improve our liquidity position, which is quite strong, as you know. But I mean, going forward, I think we have a clear path to very strong, very solid cash conversion in terms of how we're thinking about the business. And so I'm pleased with the progress that we've made on that front. There's more work to do, as Guillermo indicated. But we've got the balance sheet in good shape, no near-term maturities of any significance, good handle on our leverage or debt service and all that. And so I mean, I think we're in a really good spot from that perspective. So I'm pretty excited about where we are there.

Operator

And our next question comes from the line of John Roberts with UBS.

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

You noted strength in biofunctional ingredients and additives for hand sanitizers. What chemicals are those? And are they in Life Science? Are they in Personal Care and Household?

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

So these are in the Personal Care and Household. So these are plant-based, the biofunctionals are plant-based extracts that very unique extracts that we then -- our customers take as key ingredients in some of their skin care products, for example. So a lot of the high end applications. We've had a few important product launches, and that's been growing. As we've said over the last few quarters, that's been a really fast-growing area where we're seeing a lot of differentiation. Our focus on biofunctional is -- it's biofunctional and then this whole biotech that we want to develop is more biofunctional. And then if you look at the biopharma side of the equation, so as you get into injectables and new therapies in the Life Science area. So there it's about extraction, fermentation, purification. So we have a lot of those capabilities, for example, in our biofunctional business out of France or Vincience. Avoca itself is a high-volume biotech type activity. And even in the Pharmachem side and the nutraceutical, we do some of these activities; fermentation, separation, those kinds of things.

These groups haven't been really coordinated or talking to each other. What we want to make sure is that we're building now bigger capabilities around this so that we can grow both in the biofunctional areas or bio -- raw materials, things like that in the Personal Care space, but really drive more of that growth initiative into the biopharma area later on. So most of the sales today are Personal Care and obviously, in the Life Science we want to develop.

In the hand sanitizer business, most of it is -- it's Personal Care and then Household side.

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

Okay. And then price was down 10% for Intermediates and Solvents. You purchased BDO in Europe. So was the European cost for BDO also down 10%?

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

No. Remember, we sold our plant when we did the INEOS deal, we have one plant in the U.S. now, the Lima plant. So it's all -- we're all captively sourced from the U.S. The issue that we have there, I would describe the I&S business in 2 ways. The merchant business, the majority of the BDO is not the biggest part although we talk a lot about it, it's not the biggest part of our merchant business. We have other products. They go into pharma, into semiconductors that are the bulk of the volume there. That has actually been very stable. Margins have been stable. Sales have been stable. The BDO part, there's 2 dimensions to it. It's a smaller part of our merchant business. So volumes have been a little bit softer and pricing has been lower. And then we do the transfer pricing to the captive business, and that's at market price. Therefore, we've seen -- that's where we've seen the lower volumes. So the BDO is where we've seen the softness. The rest of the portfolio is holding up pretty well.

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

And all of our BDO in the U.S. at Calvert City and Texas City.

Operator

And our next question comes from the line of Mike Harrison with Seaport Global.

Michael Joseph Harrison ***Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

You mentioned the fixed cost absorption headwind that you're expecting in the fourth quarter. Did you also experience some fixed cost absorption impact in Q3?

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

Yes, I'll comment a little bit, but the bulk of it, when you're trying to take these actions and we're really slowing down plans, stopping them from an inventory perspective and trying to do other activities that we would have normally done, it's better to do it in a coordinated basis. So most of those actions are really taking place in the fourth quarter.

The whole issue now, and this is part, not just on the inventory side. I think as we move to these business units that I mentioned in my prepared comments, the issue now is really focusing on our management systems and processes, so that we have operating discipline, both -- for day-to-day P&L management, but also strategically. So things like our S&OP, sales and operations management process, all the businesses, meeting, reviewing demand, inventory, supply plans, all the issues that they need to run the business and make sure that we're running to a balanced plan, which in the past, we didn't have that coordinated effort. So we could have demand and production activities being a little bit disjointed. We're bringing that all together so that we can do it.

So as demand did slow down, we do adjust our production, so there could be some impacts, but the big ones will be in the fourth quarter. Similarly, I would say, different -- totally different area, but the process discipline is our innovation. So all the businesses now are doing the same thing, looking at their portfolios. It's not run by R&D only. It's all these teams, and we're trying to get that same discipline in all our processes that we work on.

Michael Joseph Harrison ***Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

All right. And then maybe another kind of operational-related question is, at one point in the past, you guys had made a decision to move a lot of your plant maintenance and overhaul activity into, I believe the fiscal first quarter a seasonally slower time when you knew that you wouldn't have to be running your plants as intensively anyway. Is that going to continue to be the case that there's a coordinated effort to do most of maintenance during Q1? Or is it going to be on more of an as needed basis?

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

Well, we're going to do it like, if we're shutting down plants now in fourth quarter, we'll try to do as much as we can now. So the issue is being -- aligning all those activities to your operating plan. And right now, the operating plan is focused on bringing down our inventory in the fourth quarter, so we will try to do as much as we can in the fourth quarter.

Operator

And our next question comes from the line of Laurence Alexander with Jefferies.

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

Two questions. First, on the innovation side. I guess, peers who have been on a similar path of trying to sort of refocus and upgrade their capabilities often seem to have a multiyear campaign of bolt-on M&A targeting technology platforms. Should we expect something similar from you? And if so, can you give us a sense for like what the magnitude of the spend in that direction might be to sort of reinforce your in-house capabilities?

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

Right. No, I think, it's both. First and foremost, as much as we can do organically through innovation, through our own investments, obviously, those are the ones that are more in our control. So that's a big part of our focus. A good example is the one I gave, of really bringing together several of our businesses that are already involved in those areas and try to make sure that we're leveraging the capabilities we have to the maximum potential. But in some areas, M&A will be an important part of the strategy in areas. If I look at Personal Care, we are already one of the largest players in that space. It's not about critical mass. So there, we would probably look at more targeted bolt-ons. I think in the Pharma space, in the biopharma, we probably look at some areas there. I think it's too early to talk about values and what targets. But I think those are going to be the priority areas that we look at.

And expanding the overall audited portfolio. I mean, some of these things, you can try to grow organically, others, additives, it's a -- to be an additive company of our scale takes a long time to build, and that's why it's very difficult for most companies to really play in this space. So once you have the critical mass, leveraging that is a competitive advantage that we want to use.

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

And can you give us a sense as you look at the additive landscape of what you would categorically not do, not look at, not touch, not involve with?

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

I think the issue that we need to look at in all the things, it's about technology, differentiation and value. Even -- I would say, even on the sustainability side, just doing sustainability of being me-too, those are going to be stable stakes, things that you do. But we want to make sure that we're focused on innovation and differentiation with sustainability as we do that. So there are segments, there are additive segments that are not necessarily additives that they go into, they're much more competitive in the scope between commodity companies, specialty companies. Additives, I think, is at the extreme of more differentiation. There's a lot of specialties that today are more semi-specialty, a little bit more competitive, low margin, that's probably not the area of interest. We really want to use some of these unique chemistries that are niche, that are hard to build and that you need to have the operating discipline of an additive-centric company.

Operator

And our next question comes from the line of Jeff Zekauskas with JPMorgan.

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

You said you've got $20 million to $30 million of cost pressure in the fourth quarter from lower inventories. How much do you have to lower your inventories on a dollar basis? And what are the inventories that you have too much of? And why do you have too much of those inventories?

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

Okay. I think we haven't given specific numbers and all that. But if you look at just general metrics of our inventory levels day -- so it's high compared to what I would say, peer groups or other areas. And I think part of -- so we're going to bring it down. It's a significant number. So we look at inventories levels, you should have -- again with a disciplined process. Here's your erratical inventory that you need to run your business, you add a safety stock and that should be your inventory levels. We are considerably higher in those levels.

And I think how we got there, it's what I was mentioning of having a robust S&OP process where each business has a total view of what's happening in their business. Demand planning, inventory planning, supply planning, their network, new business development, all of those activities that we do it on a month-to-month basis, that was not necessarily a robust process. Therefore, if your demand plan is not accurate or if your manufacturing plan is not tied into some of the market developments slowing down, you end up building inventory over time. So I think it's more about the discipline that we're putting. I think what we've shown right now, especially with the crisis, is fundamentally our business -- our company is focused on high quality. We have leadership position in high-quality businesses that are more resilient, and that's a very good thing. It's a good pond to fish.

And the second thing I hope everybody is seeing is that we are taking our actions to improve ourselves, not just in cost, but an operating discipline, it's also having impact. So we're in a good space, and we are becoming a much more discipline-operating company, both day-to-day operations and also in terms of strategy and direction. Those are the 2 things that I think we're starting to show. What we need to now, as we move forward, is show that, that discipline that we can maintain this level of operational performance as we move forward. And more importantly, that we can now shift to growth and higher quality growth in our portfolio.

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

Jeff, directionally, it's going to be about 2x cash generated for every dollar of lost absorption. I mean, to the extent we slow the plants down, $20 million in the quarter, that should generate around $40 million of cash from inventory, not necessarily all in the same quarter, but rule of thumb, that's how you should think about it.

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

Okay. Great. And then lastly, how big is your hand sanitizer business? And how fast does it grow?

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

Again, we tend for competitor reasons not to give that level of segment-specific information, but we have a significant and growing business. If you think about it, hand sanitizer, a lot of it now is the rheology, the thickening capabilities, the additives that go in there. Now people are using them much more. If anybody goes to a store, sometimes you put it on and it's very liquidy or you have residue, salts, the formulations aren't stable. A lot of the products that we're bringing in now are not just giving the rheology, but they give you a better feel in hand sanitizer, better stability in high heat, as an example. So I think now it's not just about -- the first few months it just produced something. I think now that it is a product that people are using more, we're seeing a lot higher focus on the quality and the other properties, and that's what we do in Personal Care. So it really plays well into our portfolio, but especially around the rheology side of the equation.

Operator

(Operator Instructions) And our last question comes from the line of Mike Sison with Wells Fargo.

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

Nice quarter. Guillermo, it sounds like you're working on -- starting to work on some growth initiatives here for each of the segments. When you think about consumer specialties and industrials, what type of growth do you think you can get these businesses to outside of sort of the COVID issues that we're having now?

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

Right. So I think the first step we're looking at is get the quality up. So our margins, the quality of the portfolio that we have clearly, which are the high end segments that we really want to drive. So -- and that's what we're doing now.

As we look at growth, these markets, Pharma, it's a very long cycle to innovate. In general, we would have seen 3% to 6% growth a year in some of these segments. Personal Care, again, the fundamental market is not a booming market in terms of double-digit growth rates, some subsegments are. So our whole view is, look, our base markets are going to grow at or above GDP. Our objective is can we grow at 100 to 300 basis points above market. And that's really -- so we can get to a company with above 25% EBITDA margins, high cash flow conversion and a growth rate of 100 to 300 basis points above market. I think we have a very exciting and profitable machine. And then we'll augment it with portfolio actions that we can do some step changes in the middle.

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

Great. And one quick follow-up on maybe '21. Can you maybe give us a little bit of help of what you have sort of in your favor? You've got SARD, you've got some cost of goods. How much of that flows through in '21? And then did you sort of get back the impact on COGS in '21 as well? So it looks like you have a lot of sort of momentum as you head into '21 on your own.

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

Yes. And when we started this before COVID really became an issue, I mean, our whole premise was that we would get the improvement of 400 -- minimum 400 basis points based on our existing business, not assuming that we're going to grow into it, all that, just make sure that we're structuring ourselves for that. So I think that will help us well during this year and into next year of just getting the quality of our portfolio, and we control that. I think that -- those are actions that are driven by us. How much of it will flow through? The value will be there, but if the markets pick up, obviously, we'll do a lot better. The part that we don't control is demand. And I don't think anybody has 100% clarity of where that part is. So our issue is making sure that we focus our portfolio on these high-end segments that are more resilient. That's our core position, and we will go with the market there and then focus on our performance, the things we control. Our operating discipline, our strategy, focus on sustainability, all these hardcore things that will both impact short-term results but also position us for the future.

Operator

And this does conclude today's question-and-answer session. I would now like to turn the call back to Guillermo Novo for closing remarks.

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

Well, just wanted to say then, thank you to everyone for your time and interest. I know that we'll have an opportunity to connect with many of you over the coming weeks. I'm looking forward to that. And for now, please stay safe, and we look forward to connecting with you in the near future. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
