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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Ashland's First Quarter Fiscal 2021 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, Seth Mrozek, Director of Investor Relations. Please go ahead, sir.

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

Thank you, Phyllis. Good morning, everyone, and welcome to Ashland's First Quarter Fiscal Year 2021 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 December 31, 2020, at approximately 5:00 p.m. Eastern Time yesterday, February 3. This 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 during 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 2021. These forward-looking statements are subject to risks and uncertainties that could cause future results or events to differ materially from today's projections. We believe any such statements are based on reasonable assumptions but cannot assure that such expectations will be achieved. Please refer to Slide 2 of the presentation for a more complete explanation of those risks and uncertainties and the limits applicable to forward-looking statements.

Please also note that we will be referring to certain actual and projected financial metrics of Ashland on an adjusted basis, which are non-GAAP financial measures. We will refer to these measures as adjusted and present them 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 for or superior to financial measures calculated in accordance with GAAP. The most directly comparable GAAP measures as well as reconciliations of the non-GAAP measures to those GAAP measures are available on our website and in the appendix of today's slide presentation.

Please turn to Slide 3. Guillermo will begin the call this morning with an overview of Ashland's results in the first fiscal quarter. Next, Kevin will provide a more detailed review of financial results for the quarter. 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.

First and foremost, this quarter's results demonstrates the overall business conditions are improving, and we are successfully executing our strategy. We continue to operate safely with a clear focus on the safety and well-being of all our employees as we manage through this difficult pandemic. As we execute our strategy, our business priorities remain unchanged, demonstrating organic growth, expanding margins and improving free cash flow. During the quarter, our team successfully delivered on each of these priorities.

Ashland sales grew 4%, inclusive of favorable currency. Most of the consumer end markets continued to demonstrate resilient demand, with life science delivering strong growth during the quarter. However, the global pandemic is still impacting some businesses linked to consumer behaviors. We have not seen demand improve in hair styling, sun care and other businesses linked to grooming activities impacted by changes in social and recreational dynamics.

We also began the process of exiting lower-margin product lines we commented on at our last call. We also saw continued recovery of industrial demand as well as reduced seasonality. This demand improvement was broad-based across multiple end markets, and our industrial businesses executed well during the quarter. Consistent with our strategy, higher volumes, improved mix, lower SARD and lower operating expenses led to growth in EBITDA and EBITDA margins. Our focus on earnings growth and disciplined working capital control delivered significant growth in free cash flow. Lastly, in line with our goal of leveraging bolt-on M&A opportunities to support our strategy, we announced the agreement to acquire Schülke & Mayr's personal care preservative business.

I'm very pleased with the progress made by the Ashland team to deliver improving momentum in what continues to be an uncertain global marketplace. I will discuss how this improving momentum impacts our outlook for fiscal year '21, following Kevin's review of the Q1 results. Kevin?

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

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 7. Total Ashland sales in the quarter were $552 million, up 4% versus prior year. These results reflect continued resilience in our consumer businesses and strong improvement in our industrial businesses.

Favorable currency contributed 2% to growth during the quarter. Excluding key items, SG&A and R&D costs again declined in the quarter as we realized the positive impact of our cost reduction programs. In total, Ashland's Adjusted EBITDA was $124 million, a 41% increase over the prior year quarter. Note that the prior year included $12 million of cost for an extended plant turnaround within Intermediates and Solvents.

Ashland's adjusted EBITDA margin was 22.5%, a 600 basis point improvement over last year. Adjusted EPS, excluding acquisition amortization, was $0.94 per share, up 129% from the prior year.

Now let's review the results of each of our 3 business groups. Please turn to Slide 8. I'll begin with Consumer Specialties. Sales were $296 million, up 1% from the prior year quarter. Currency favorably impacted sales by 2%. Within Life Sciences, Pharma continued to perform well, up double digits in the quarter, driven by strong demand for pharma excipients.

While Nutraceutical sales were down modestly, primarily due to supply chain and labor constraints, gross profit was up, and we continue to be pleased with the progress the team is making. Sales to Nutrition and other end markets were up mid-single digits. In total, Life Sciences sales increased by 10% during the quarter.

Sales to personal care end markets were down during the quarter due to several factors, while EBITDA growth was strong at 13% versus the prior year quarter due to favorable mix and cost improvements. As previously discussed, we began to exit some lower-margin product lines, which accounted for about half of the year-over-year sales decline, but favorably impacted both mix and margins. We also continue to work through the previously communicated challenges as appropriate.

While the team is making progress on the sclareloide product line, there is more work to be done and the COVID-19 pandemic continues to impact certain consumer behaviors related to areas such as hair styling and sun care. Each of these are well understood and previously commuted issues that are being actively addressed by the personal care team. In total, Personal Care and Household sales declined by 8% during the quarter. The exit of lower-margin products and challenges with Avoca accounted for the entirety of the decline.

For all of Consumer Specialties, favorable mix and lower SARD expenses led to improved earnings and margins. Adjusted EBITDA margin in Life Sciences improved to 26%, while in Personal Care and Household, Adjusted EBITDA margin improved to 27%. In total, Consumer Specialties Adjusted EBITDA improved to $79 million, up 18% versus prior year at a margin of 26.7%, a 380 basis point improvement.

Please turn to Slide 9. Turning to Industrial Specialties, sales were $231 million, up 8% from the prior year quarter. We saw broad-based growth across industrial end markets consistent with industrial demand recovery. Currency favorably impacted sales by 2%. Our coatings business was up double digits during the quarter, reflecting strong global demand for architectural paints, particularly in the DIY applications.

And while we saw modest growth in construction products, our energy business continues to be down significantly, reflecting lower drilling activity around the globe. In total, Specialty Additives sales increased by 6% during the quarter.

We generated double-digit growth in Performance Adhesives, which did include some modest volume increases from certain customers preparing for Brexit. Structural adhesive sales were up, demonstrating strong improvement in demand for automotive and building applications and our Laminated and coatings adhesives business grew due to strong demand for food packaging. In total, Performance Adhesive sales increased by 14% during the quarter.

For all of Industrial Specialties, favorable mix and lower SARD expenses led to improved earnings and margins. Adjusted EBITDA and Specialty Additives improved to 22%, while in Performance Adhesives, Adjusted EBITDA margin improved to 27%. In total, Industrial Specialties Adjusted EBITDA improved to $55 million and EBITDA margin of 23.8%, a 360 basis point improvement over prior year.

Please turn to Slide 10. Turning to Intermediates and Solvents, sales were up $33 million, up 18% from the year ago period. The majority of the sales increase was driven by higher intercompany sales versus the prior year. Adjusted EBITDA of $5 million for I&S was up from negative $9 million in the prior year period, which included the impact of an extended turnaround at the Lima, Ohio facility.

Please turn to Slide 11. Before I turn the call back over to Guillermo, I'd like to spend a few minutes talking about free cash flow in the quarter. Total free cash flow was $76 million, a $139 million improvement compared to last year's deficit. The $76 million included $14 million of cash restructuring payments related to our ongoing COGS and SARD cost reduction programs. This is an excellent result driven by earnings growth and disciplined working capital management across the business units. It's also a great example of Ashland's free cash flow generation capability.

For fiscal '21, we expect to convert EBITDA to free cash flow at a rate north of 50%, inclusive of cash restructuring costs, which we expect to be around $35 million for the year. And we are focused on and expect to continue improving our cash conversion rate.

With that, I will now turn the call back over to Guillermo to address our priorities, outlook and strategic focus. Guillermo?

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

Thank you, Kevin. Please turn to Slide 13. With the first quarter of FY '21 complete, our priorities remain very clear, drive Margin Expansion and enhance Free Cash Flow conversion, continue to demonstrate Business and Operating Resilience and Accelerate Profitable Growth. To achieve these objectives, we have clear levers that we plan to act on with the same discipline we showed in 2020: finalize and capitalize on the $50 million SARD cost savings commitment, most of which was completed in 2020; and accelerate the implementation and capture of the $50 million in COGS reductions we have already identified; drive productivity and mix improvement from innovation, focus on more profitable strategic segment and the exit of lower end market lines we feel we cannot improve; and align our capital allocation priorities for CapEx and working capital consistent with our Strategic Priorities.

During fiscal year 2020, we had the opportunity to demonstrate the underlying resilience of our business as well as our improved operating discipline. We will remain focused on driving the continuous improvement of our business centric model and this operating discipline. Our focus continues to be shifting to accelerating profitable growth drivers, both organic and inorganic.

Please turn to Slide 14. A few weeks back, we announced a signing of a definitive agreement to acquire the Personal Care business from Schülke & Mayr. We're incredibly excited about this opportunity as it broadens the breadth of specialty additive solutions we can bring to our customers in personal care end markets. Our combined business will give us a meaningful presence in the personal care preservative market. We'll expand our biotechnology in microbiology technical capabilities and will help us advance our ESG agenda for Personal Care and Household applications. This will enable us to participate in important growth trends for both our customers and global consumers.

Schülke & Mayr have a talented and experienced team that will be at the center of driving this business, and we will create a center of excellence to drive our preservative business out of Hamburg. We look forward to welcoming this team to the Ashland family.

Given this acquisition is focused on a very specific market and technology area, we are very sensitive to sharing specific competitive details about the preservative business. Although we will not be sharing specific financial information on the transaction, we can comment that we remain focused on our capital allocation discipline. And the transaction valuation was in line with the profile of other transactions in this space.

Upon close, the business will be immediately accretive to growth, earnings and margins as it firmly aligns with our strategic growth and profitability improvement objectives. We expect to close the acquisition at the end of the June quarter of this year. And as I also indicated, we look forward to welcoming the Schülke & Mayr Personal Care team to Ashland.

Please turn to Slide 15. As we've done for each of the last quarters, I'd like to spend a few minutes discussing what we see as the key performance drivers for the remainder of the fiscal year. First, as we stated before, mix improvement is key to strengthening our business. We will drive this improvement by focusing on higher priority businesses, expanding our innovation pipeline and leveraging bolt-on M&A. As we saw this quarter, we expect that favorable product mix will continue to drive earnings growth.

Second, we are working to accelerate our self-help actions. We believe we can deliver incremental savings from what we indicated in our last call. While COVID uncertainties persist, we anticipate continued improvement in global industrial demand. Improving industrial demand and expected favorable foreign currency will be positive tailwinds.

On the other hand, there continue to be challenges that we must manage. The COVID pandemic still persist, and we're seeing the challenges in both the evolution of the virus as well as the complexities of the vaccination rollout. This uncertainty will probably continue to impact the rate of recovery in specific segments of our business linked to consumer behaviors, which have been impacted by the pandemic. While these changes in consumer behavior may be temporary, it's too early to forecast the recovery of some of these segments, hair styling, sun care and other such segments. Given the seasonality of some segments, the timing of the recovery is important for our fiscal year performance.

The growth in the hand sanitizer business in 2020 was a significant positive offset to the weakness in demand in some of the consumer behavior driven end markets impacted by COVID. Although all indications are that this will continue to be a growth business over the coming years, we have seen some near-term industry adjustments as demand normalizes and customers adjust production and inventory levels after the aggressive supply push we saw in 2020. We expect to see lower demand in Q2 and then more normalized demand in the second half of our fiscal year. Our prior expectations were that this normalization would happen as other consumer segments recovered. But given current developments, we may see a bit of a disconnect in the next quarter or two.

As we stated at the beginning of the COVID pandemic, we view supply chain risk as one of the greatest uncertainties. We expect availability of shipping and labor to continue to provide challenges, and we will continue to manage these issues. Although we're not expecting any significant impact on our business, nonetheless, uncertainty still exists.

Finally, while raw material volatility is very manageable for Ashland as a whole, we do expect to see some enhanced volatility within the Performance Adhesive segment, which has a greater exposure to petrochem derived raw materials. The adhesive team has an excellent track record of managing through periods of raw material volatility, and I'm confident in the strategy that they're pursuing.

Please turn to Slide 16. Regardless of the continued COVID uncertainty, we continue to be confident on our strategic and performance trajectory. Although we will not be giving specific guidance for FY '21, let me update some of our forward-looking insights.

From the sales growth side, we expect 3% to 5% growth for the year. This is based on continued recovery of the industrial businesses, a mix of resilience and a bit more prolonged recovery in some different consumer end markets and favorable foreign exchange. This does not include the impact of our ongoing M&A activities. Although we do expect stronger volumes will have a favorable impact on our cost absorption, they are expected to be offset by negative cost absorption impact from the labor strike at our plant in Belgium. The plant is back online and in full operation but was shut down for part of December and most of January.

Given the continued high level of COVID uncertainty, we're focused on accelerating the impact of our self-help actions. These are not COVID related actions, but rather strategic changes that will strengthen our businesses and the company for the long term. We believe we can increase the net impact of these actions to $25 million or $30 million in our fiscal year '21.

Our path has not changed. We're focused on driving the actions we control and building resilience and agility in our business to capitalize on the market developments for the factors we do not control.

Please turn to Slide 18. In closing, I want once again to thank the Ashland team for their leadership and proactive participation in an uncertain environment. We are fortunate to be a premier specialty materials company with high-quality businesses that have leadership positions in defensive markets. I'm pleased with the resilience demonstrated by our people and businesses and look forward to the opportunities that lie ahead. Thank you.

Operator, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first 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***

Guillermo, last quarter, you talked about pivoting to growth and it looks like you've done a good acquisition here. Could you talk a little bit about the fit and synergies, customer overlap and product overlap? And do you have anything else in the pipeline?

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

John, so your question is very, very critical to us. This acquisition just is a perfect fit into our strategy, focusing on additives and more specifically, on the consumer side of our portfolio. Schülke & Mayr. I've known them for many years from my history even Rohm and Haas, they were a big customer. They have a very strong position in Personal Care added preservatives. They've shifted their portfolio to more, what you would call soft buyer side. So more friendly, a lot of this clean beauty, softer . So it really enhances the portfolio that we have more towards the ESG driven drivers. So it's going to be a very good fit for us. Between their business and ours, we'll have a pretty significant position in the market. This will become probably one of the larger segments within our personal care portfolio. So it's a really nice acquisition.

We see synergies in the manufacturing. We'll be moving some of the manufacturing into our own sites. They have a very strong team. We want to keep that team. They're going to be a central part of the activities here. They have a very good, not just experience but proven track record. So we're going to be keeping the team in Hamburg and enhancing those capabilities. I think what we can bring is scale, global scale, leveraging our labs around the world to support the business. We have a lot of things in the pipeline that we're working on, on new actives, new products that we want to bring in, and I think they'll be able to help us accelerate the commercialization, you know developing new formulations. And I'll say they have a very strong reputation with customers. So that's all very positive for us.

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

I guess I had forgotten you had experience with the K-fund business at Rohm and Haas that's now part of DuPont -- now new IFF, I guess.

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

Yes. Well, finally, this is a business I've always liked. So finally, I was able to get it.

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

On secondly, Avoca sales actually had turned up last quarter because you had anniversaried, I think, the beginning of the decline that they had. It sounds like you've had a relapse there, at least your comments about challenging. Maybe you could elaborate a little bit more on that.

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

Yes. I think the big message we have, I wouldn't say so much of relapses. I mean it's the continuation. We're working through the issues. They only talk about Avoca. We have different product lines. The challenge from the legacy side was the sclareloide business. That was the fragrance carrier business. Well, we had one of our customers that developed an alternative technology, and that sort of disrupted the market. And we communicated that when I came into Ashland. That was already going on.

So the business is stabilizing. The improvement level was a little bit slower than we expected, but it's getting stable. The issue -- the focus that we have is developing new business, using the capabilities that Avoca has. This is more biotech capability extraction, fermentation, purification to develop new applications, and that's coming. So we're doing a lot of purification, development of new products for other companies. And we're getting the business, but the scale-up has been a little bit longer. So it's just more of a ramp-up time. As we said before, it has been an issue, but the Avoca side of it, we see a path forward. And it's just about executing. And we've had some timing issues. But I'm confident that, that will overcome.

The other message I would say is, look, there hasn't really been much of a change, if you hear just the commentary on the markets in the personal care. Obviously, I would expect a lot of the questions on the growth there. And it's really just the market hasn't changed that much. The consumer, COVID is impacting, so the strong segments remain strong. The softer segments haven't recovered. People aren't going to salons, cut hair, styling, going out, socializing. So it's more about that consumer habit. So it's about when the recovery will happen. And we'll be ready when that happens.

The other question you had are do we have more in the pipeline in our M&A. And as I said in the last call, we're making that a priority. And we are working. We do see the opportunity for bolt-on M&A opportunities as we move forward.

Operator

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

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

Just kind of a corollary of what you're just discussing. Just within the PC portfolio, you're clearly making a concerted effort to bring the portfolio away from some lower-margin businesses. You've also made the strides you were just discussing in terms of avenues into additional national ingredients via acquisition in addition to your legacy platform, data fraction, et cetera.

As it stands today, when you think about your current and future positioning in core skin and hair care, how should we be thinking about the actual normalized growth algo? And also just the ESG components, which appear to be becoming all the more incremental to your growth trajectory?

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

Right. Yes. So great question. I think if you look at the personal care space, again, the growth dynamics, we're going to have to look at the core market demand growth, and obviously, the recovery from COVID will impact that. And then what are the actions that we're taking so that we can ride that growth better. I would say, on the demand side, skin continues to be very strong for us. Hair care I think is the one that's been impacted on just consumer behaviors. So that we will wait to see just a broader-based recovery.

I think what is driving everything in this space is about ESG and the portfolio of technology. So the work we're doing, our approach has been, look, let's use our first 2 years, 2020 and 2021 to get our house in order, to do all the self help actions. We can deliver significant EBITDA growth, improve the profitability of the business, change our strategy, change our innovation portfolio and use this time. The growth drivers for the future are going to be innovation and some of these bolt-on activities that we want to do.

On the innovation front, they both take time to do. So we want to use these first 2 years to really reposition so that as we come out of this, we're going to have a better portfolio of new technologies. So what are the things that we're doing in the innovation side is obviously expanding our naturally derived products. We have a lot of capabilities. And hopefully, with some of these bolt-ons, we can bring in more. Biodegradability is going to be a big area. So in a lot of our areas, we already have a pretty strong portfolio there given the nature of cellulosics and other parts of our portfolio. But we're putting a lot more emphasis there.

So as we end this year, what we hope is that we can start rolling out commercialization of a much stronger portfolio. And some of that will happen -- we're doing that this year itself, but I think a lot of the revenue impact will start more in the next year. So then you can look at market growth and then in those segments where you're bringing greener more ESG-driven technologies, you can expect those segments to grow more. And I think a good example of that is our biofunctional segments that have been growing in the teens, even in the last few years. So we want to make sure that we're clearly positioned to capture that higher growth in those specific segments.

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

That's a very helpful assessment. Just for the second question, it does appear that you've made very sudden leap on the free cash flow per share front during the quarter, which most wouldn't have expected during the time frame. Can you speak to your current and future conversion targets as a percent of EBITDA, we saw, obviously, the 50% of the PowerPoint, and just how The Street should be forecasting free cash flow growth over the intermediate to long term? And Kevin, I just want to make sure I heard you correctly. Did it sound like the current estimate still includes $35 million of restructuring?

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

So let me make a quick comment, and Kevin, I'll let you give more details. But obviously, free cash flow conversion has been the priority for us. We've been talking about it a lot. And I think you've seen the discipline. I think in last year and in this year, the self-help actions we're taking impacting EBITDA is clearly very critical for us. It's the base -- the core cash generation, and then changing our capital allocation perspective, aligning everything to our strategy. We know where we want to invest in, which segments. Frankly, a lot of the improvements that we're doing are not just that we want to increase margin and reduce costs. We're looking at specific segments, businesses, production areas that are not giving the return or justify continued investment and taking the opportunity really to turn them around. And we believe we're going to improve a lot of them. They'll be core parts of our long-term growth. If we can't, we'll exit them.

So both the self-help action and the capital discipline, very critical for us. And then obviously, then growth -- profitable growth will be the bigger driver longer term while we keep that discipline going forward. So getting our free cash flow above the 50%, and we're really targeting higher over time to get it into the above 60. That's really the objective and the targets we have.

But Kevin, I'll pass it on to you, if you want to give some better color.

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

Sure. Sure. I mean in the quarter, I really point to several things. I mean, obviously, EBITDA was well above prior year. So that was a major contributor. Working capital discipline was huge in the quarter. We ended the quarter with about the same inventory level that we ended the September quarter. We're up just a little bit, maybe. To put that in perspective, if you look at 12/31/20 versus 12/31/19, inventory was about $100 million lower. So the discipline continued in the quarter. We also saw a nice contribution to free cash flow from accounts receivable. We talked about this a bit on the last call. We're really focused on working the accounts receivable side of the equation. Our collections are fine, percent current is fine. We're really working on the overall cash cycle, and we're looking at all the components of the cash cycle and continuing to manage that.

So those were all good solid contributors during the quarter and obviously made a huge difference versus the prior year. And to echo Guillermo's comments, I mean, the 50% threshold is, I would say, the bare minimum that we're looking for. And clearly, we're -- internally, we're looking to push that much higher than 50%. And yes, as we look at the full fiscal year, the current expectation is around $35 million of cash restructuring costs. That could be plus or minus $3 million or $4 million, either direction, perhaps, depending on the timing of certain things. But generally speaking, that's going to be a good number to use. And just as a reminder, $14 million of that did occur in the December quarter.

Operator

Your next question comes from the line of Mike Harrison with Seaport Global Securities.

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

Guillermo, looking at some of the new guidance puts and takes, it looks like you increased the net cost self-help action number by about $5 million at the midpoint. You increased the sales number by a percentage point. But now we have this issue in Belgium. So I guess, given those puts and takes, was your intention to increase the full year guidance by kind of a $10 million type of EBITDA number? Is it more like $5 million? Maybe just talk about some of those puts and takes.

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

I think, Mike, your math is the right one. The two positives increased revenue. You can calculate the normal gross profit and EBITDA margin and the increased self-help. I think the absorption would have been higher. I think it already impacted us. Actually, we could have had a higher and better quarter even in Q1, but that has been an impact. It's behind us. So it will be more of a part Q1, part Q2 impact, but I did want to make sure on the last call, there was a lot of focus on absorption and the volume impact.

It is there. I think for 2022, it will roll over, but there will be an impact in the high -- I would say, probably another high single digits in that -- the strike impact we'll have on offsetting that improved absorption. But it is there, and it will flow into next year if we don't have, obviously, this offset that we had this year.

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

All right. And then in terms of the raw material picture, you recently announced a cellulosics price increase. Maybe talk a little bit about how you're expecting raw materials versus pricing to play out on both the cellulosic and the acetylenics side of the business?

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

Right. No, I think on the additive side, the raw materials are an issue. We're managing it. We're moving to pricing. Did we see other interest in freight. And so it's not just raw materials, just this activities, given the tightness of some of the markets, and we're managing through that. I don't think that is going to be the biggest headwind for us. I think where we're seeing a little bit more of the changes going on in the market is more the petchem drive raw materials, and that's more for our adhesive business. That's not a new thing. We've written through those changes over the years, and the team is very well positioned. But propylene based chemistries, acrylic, polyurethane or the big ones that we use, we are seeing some changes.

And the issue that we have there is more the timing of some of these things and how they will proceed because part of its demand -- the supply has been impacted across the chain. As the demand has increased across multiple markets, it's gotten tighter. Prices are going up, but you'll see some more capacity going on. So I think over the next few months and quarters, we'll just see a little bit of volatility there, and our team will manage through that. That's the biggest area on the raw material side.

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

All right. And just quickly maybe a question for Kevin. What's the capital project that you guys took an impairment charge on during the quarter?

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

It was HEC related. We had done some work 2-3 years ago and was kind of ongoing. It's primarily engineering-related activities around a big HEC project. And we've really just gone another direction with our HEC strategy. And rather than keep all that on the shelf at the value that it was, we decided to go ahead and write that off. The work is still valid and could potentially be valuable in the future. But just using conservative accounting principles, we felt it was the right thing to do just to go ahead and write that off.

Operator

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

Katherine Anne Griffin ***Deutsche Bank AG, Research Division - Research Associate***

This is Katherine Griffin on for David. So first, just on the exiting the lower-margin businesses, thanks for quantifying the impact in fiscal Q1. But just wondering how we should think about that impact going forward and maybe just how that plays into your expectations for 3% to 5% sales growth? Is that kind of the right run rate? Or just how should we be thinking about that going in the next quarter and then for the full year?

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

Yes. The 3% to 5% includes already factors in the exit of that business. So that's already baked in. We'll be managing the exit on some of that part of the lower-margin business through this year and probably into next year. By the end of next year, we'll be out, and we're managing through it. Obviously, exiting the least profitable businesses. We have contracts. So it's just the process by which we're going to manage it through.

But I think the bigger message is, look, we're focused on the strategic segments. This is not just about selling anything. We want to sell the right materials, and that is the areas that we see sustainable differentiation, ESG differentiation, where we think we can get better returns and continue to invest in our future. And that's really the priority areas for us.

Katherine Anne Griffin ***Deutsche Bank AG, Research Division - Research Associate***

Okay. Great. And then just curious if you could talk about the flow-through of the temporary cost savings from 2020, just how those flow through in the second half and then how that relates to your expectations for free cash flow.

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

So the value that we are going to get, we've identified. I mean, most of the first phase, the SARD phase is done. We have a few laggards, I'll let maybe Kevin comment a little bit on the timing on some of those. But it's just related to activities that we've communicated. People know what's going to happen. It's just an issue of timing because we're finishing off work in specific areas. So that's pretty well defined.

On the COGS side, we're doing the same thing. Obviously, we need to work through that. Different regions are moving at different paces. And we're engaging people, explaining what we're doing. I mean, obviously, we had a strike in Belgium, and that's part of the changes that we're doing. I think the part that we're working with everybody is making it clear, just like we're doing with our investors, we're doing it with our employees, with our customers, being very transparent on this is our strategy. This is what we need to do for our future, explain the changes so that everybody understands them. And I think even as we saw with the DOL situation, there were questions on cost reductions and things like that. I think we've been very clear of what we need to do this or some of these operations are not sustainable in the long term. I think everybody realizes that, and we're back to operations. But it's a process, and it's really the timing of going through that. But Kevin, do you want to comment a little bit more on the timing side of things?

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

Sure. Sure. I mean on the -- I would say, on the SARD piece, we are right on target, right on schedule in terms of our initial plans. We're the vast majority of the way through that. We have some specific areas that we'll be closing out as certain other things wind down within the business. That will happen this fiscal year. I would say on the COGS side, we're ahead of schedule, which is part of why we're increasing the midpoint of our range for net self-help benefit for the full year. And team has done a really nice job with that and continues to execute well, and I'm confident we're going to do fine there.

I think part of your question was around, let's call it, cost savings or maybe cost avoidance that are pandemic related. And it's an interesting question, and it's something we've been talking about a fair bit internally. And I think part of what it comes down to is, I think a lot of companies were initially thinking, "hey, when the pandemic is over and we're back to normal, whatever that means, then everybody's going to travel again and budgets are going to reset back to normal 2019 levels, etcetera" We don't think that's the case. I mean, we're thinking about that and talking about that very actively internally. And I think a lot of that is going to be pretty permanent.

So I mean, will there be resets? Yes, of course. I mean there will be more travel because there's basically none right now. But I don't think we're going to see 2019 levels, maybe ever again. And so I think a chunk of that is going to remain permanent in the P&L. I think we and many other companies are thinking about those sorts of things differently than perhaps we were at the beginning of the pandemic, partly because it's been such an extended period, and it looks like it's going to continue to be for a while. So I just wanted to put that part out there for you.

Operator

Your next question comes from the line of John McNulty with BMO Capital Markets.

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

So I guess I know you're not putting out a lot in terms of financials on the acquired business, but I guess, could you give us at least some thoughts on what the growth of that business has been, say, over the last 3 years or so, just so we can get maybe a better understanding of how to think about it?

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

Right. So no, they've been having solid growth in mid-single digits to high single digits, so over 5%. So they've really got a good traction around some of these newer preservatives that the personal care industry is valuing more. So I think when we say it's accretive, it's accretive to growth. It's accretive to margins. It's accretive to our strategy, ESG. So a lot of the positives. This is a really nice fit for us.

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

Got it. Fair enough. And that definitely helps. And then I guess, just when we think about the seasonality and sequencing of the margins, normally, your first quarter is noticeably lighter than everything else. And then you get them whatever another 300 to 400 basis points as you kind of go throughout the year. It sounds like that's largely on track other than maybe 2Q, just given the strike, but is that the right way to think about it? Or is the strong numbers that you put up this quarter, are they maybe a little bit of an unusual blip, if you will?

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

So let me give some comments, and Kevin, I'll ask you to also comment here. But if you look at the revenue side, I mean, longer term, the seasonality is there. Just vacations for sun care businesses or coatings, those are well-established seasonality. We have seen less seasonality right now on I think there's just pent-up projects and things that have moved a little bit more. So on the revenue side, I think it's probably been a little bit stronger than normal. So we'll see what happens next year. But clearly, there's been a very positive thing on, especially on the industrial side of the equation.

If you look at it at an EBITDA side, the impact, I mean, the important part to recognize is self-help has been the major driver for us. And that is not seasonal. So the cost actions, the mix improvement actions, all these things are coming now because we've taken the action. The earnings side of things, you're not going to see the seasonality. We will get it as we get it. And I think the revenue side is the one that is more of the seasonal impact. But it has been less. But Kevin, I don't know if you'd provide any other color.

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

No. I completely agree with your commentary. I mean we're looking at a 400 basis point in terms of sales takeout from a cost perspective. And granted, there are some resets that come with that, but that's a real step change in the overall EBITDA margin profile of the business. And again, that's a permanent change. And then I think on top of that, the work that we're doing around mix improvement is definitely starting to show through. And it's by no means just about exiting lower margin -- lower-margin product lines, that certainly helps. But it's really a focus across the portfolio to grow those parts of our business that do improve our mix and do improve our profitability and, in many cases, are more sustainable in the long term. And we're seeing that. And my expectation is that we're going to continue to see margin improvement as we continue to execute on self-help and as we continue to focus on these higher-margin parts of all of our business units.

Operator

Your next question comes from the line of Edlain Rodriguez with Jefferies.

Edlain S. Rodriguez ***Jefferies LLC, Research Division - Equity Associate***

A quick question on Personal Care. Some of the issues you've been having with the businesses that are being impacted by COVID, like what are you doing or what can you do to mitigate that risk? Like how are you managing that softness in the business?

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

Okay. Yes. No, I think there's 2 things. I mean, the things we control and the things we don't control. So core demand has been softer. So there's not much we can do that until people start going to salons or their social activities have changed and obviously, the personal care and grooming has a lot to do with people's activities.

So the issue is using the time on the things we can control. And what is that? Strengthening our position in the areas where we are seeing strong growth. I think in 2020, we saw that with hand sanitizers area as an offset; launching new products, in the biofunctional areas and in other areas; repositioning a lot of our new offerings more environmentally friendly. We have a lot of new formulations for a variety of applications including hand sanitizers, but it goes into other areas. We're avoiding microplastics. Using microplastics, we have a lot of formulation additives in the reality space, for example, that can give solutions for our customers.

So it's about positioning that ESG driven side of the equation. And that can drive growth, both in the non-impacted areas as we're seeing with biofunctionals and skin but also as we introduce more ESG-driven alternatives to our customers. Even in the segments that have been impacted, you can achieve higher growth rates if you come with these products and technologies that can differentiate you. So a segment can grow at 2%, but you can have a product line that grows at 14%, 15%, 20% as we saw with biofunctionals and skin that you can get that growth. So that's part of the strategy.

And I think the mix focus that Kevin was talking about, it's making sure that we're taking action on those areas. With new technology, it takes a little bit more time, so we want to use this time that we're getting some of the tailwinds of our self-help actions to position ourselves. So as that part of the work levels off, we can kick in with the growth of new products and innovation. And I think the M&A will be another area that will help us in that space.

Edlain S. Rodriguez ***Jefferies LLC, Research Division - Equity Associate***

Okay. That's great. And one quick one in terms of ESG. You've started to exit some of the lower-margin product lines, which is great. So when you look at the current portfolio as it is right now, like are there more business lines where you think there might be candidates for exit, even if you don't have to name names, but just to see.

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

I think our self-help actions, as I said, this is not just about squeezing and trying to get cost out. We're being very purposeful on where we're going. And I think, especially if you look at some of the cost actions that we're taking in the COGS side, we're going plant by plant, production unit by production units. We do have some units that are not giving the right returns. Frankly, some have lower margins than the businesses that we're exiting now. The difference is that we see that we can take actions and improve those businesses, not just on cost but process technology changes, growth that we can increase loading. So there are things we can do. We're identifying those lower margin segments. The issue is if we really feel we can't fix it, we'll exit it. But if we feel we can fix it, that's our first approach is to try to take action. And if we can, then we'll follow-up with other actions.

And I think the situation in our Belgium plant was a clear example. We had some significant production units that, "look, we're not going to invest in it. We can't turn them around." I think we were very transparent about it. Everybody realized that, that was really the driver. And we're grateful that all the team there recognized that, and they're working with us in getting that whole business, not just back in production, but let's get it to a place that, not only has a nice return but that we can invest and drive growth. I mean, at the end of the day, we like some of these businesses. And I can say, just from my past experience and the last company I was in, we exited plants. And then two years later, we reinvested with different technology, a different approach that made it sustainable and more profitable.

And I think that's the work that we're doing, and that's the core part of the self-help. And so it's an important message that self-help is not just about cost cutting. It's about adapting our company to the business model that we have, business led. Not all businesses are the same, so it's not one size fits all. Everybody has a different value proposition. It's about rightsizing ourselves to a smaller company. We're now a pure-play $2.5 billion specialty materials company. So we have to have a structure for that, not carry forward a structure for a $5 billion, $6 billion company. And then on specific businesses, make sure that we're doing the turnaround and that we're being purposeful because ultimately, what we want is profitable growth.

Operator

Your next question comes from the line of Mike Sison with Wells Fargo.

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

Just one question on the Schülke & Mayr acquisition, Guillermo. What's the annualized sales run rate for that business that will contribute? And then what are the overlapping sales synergies between your business and their business longer term?

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

Yes. So Mike, like I said, we're not giving specifics of the business itself. What I would say is the combined business, the majority of which will be the Schülke & Mayr part of it, will be probably our largest segment in Personal Care over, I'd say, $125 million to $140 million, just to give you a range. Very profitable, in line with what our longer-term expectations are. They're selling to the same customers, same areas. So we see opportunities for synergies on the manufacturing side so that we can leverage a lot of our production.

People, their talent is very important to us. So we want to make sure, not only that we're keeping them but that they become a core part of driving the business forward. They have a lot of experience with the faster-growing, more advanced, more ESG-aligned product offerings that we're interested in. So on that side, we're not looking for significant synergies there. And I think there's going to be a lot of growth synergies.

I think globally, the synergies that we have is we have a much bigger global footprint. We have labs in much more regions. This is a much smaller company, not just the Personal Care preservative business but overall. So this really can give us a lot of more momentum. And it's really a plug-and-play for us. And in this case, we're going to plug in parts of our business into their areas but then bring in, allow them to leverage our overall infrastructure and capabilities to drive growth.

Operator

At this time, there are no further questions. I would like to turn the call back over to Guillermo Novo for closing remarks.

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

Thank you, Phyllis. And well, I just wanted to say thank you to everybody for your interest. As I hope you're seeing, we're very excited about, not just the performance that we've had but more about the outlook. There is light at the end of the tunnel in terms of post-COVID, and it seems to be improving, and we're seeing that. There's some segments that maybe it will take a little bit longer, but it's an issue of timing. So it's about when, not if these improvements will come. And I think in the meantime, we're taking actions on the things we control, and we're very happy with the progress we're making. And I think it's going to really position us well, not just for the rest of 2021, but even as we look at 2022 and beyond, it will be a very exciting time for all of us.

So thank you for your interest, and look forward to talking to you in the near future. So thanks, everyone. Bye.

Operator

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