

Ashland Inc. (Q2 2025 Earnings)

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Corporate Speakers:

- William Whitaker; Ashland Inc.; Investor Relations
- Guillermo Novo; Ashland Inc.; Chair and Chief Executive Officer
- John Willis; Ashland Inc.; Chief Financial Officer
- Alessandra Faccin; Ashland Inc.; Senior Vice President and General Manager, Life Sciences and Intermediates
- James Minicucci; Ashland Inc.; Senior Vice President, General Manager of Personal Care
- Dago Caceres; Ashland Inc.; Senior Vice President and General Manager

Participants:

- Kevin Estok; Jefferies; Analyst
- Bhavesh Lodaya; BMO Capital Markets; Analyst
- Jeffrey Zekauskas; JPMorgan; Analyst
- David Begleiter; Deutsche Bank; Analyst
- Joshua Spector; UBS; Analyst
- Michael Sison; Wells Fargo; Analyst
- John Roberts; Mizuho; Analyst
- Michael Harrison; Seaport Research Partners; Analyst

PRESENTATION

Operator^ Hello. And welcome to Ashland's Second Quarter Fiscal Year 2025 Earnings Conference Call and Webcast. (Operator Instructions) I would now like to turn the conference over to William Whitaker. Sir, you may begin.

William Whitaker^ Hello, everyone. And welcome to Ashland's second quarter fiscal year 2025 earnings conference call and webcast. My name is William Whitaker, Ashland Investor Relations.

Joining me on the call today are Guillermo Novo, Ashland's Chair and CEO; Kevin Willis, Ashland's CFO; and our business unit leaders, Alessandra Faccin, Jim Minicucci and Dago Caceres.

During today's call we will reference slides being webcast on our website, ashland.com, under the Investor Relations section. We encourage you to follow along. Please turn to Slide 2.

We'll be discussing forward-looking statements on several matters including our fiscal 2025 outlook, which involve risks and uncertainties as detailed on Slide 2 and in our Form 10-K.

These forward-looking statements involve 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. We'll also discuss certain adjusted financial metrics, both actual and projected, which are non-GAAP measures.

We will refer to these measures as adjusted and present them to supplement your understanding and assessment of our ongoing business. GAAP reconciliations are available on our website and in the appendix of these slides. I'll now hand the call over to Guillermo for his opening remarks. Guillermo?

Guillermo Novo^ Thank you, William. And good morning to everyone. Thank you for joining us today. I'll be providing an update that covers four key areas, giving you a clear picture of our recent performance and strategic direction. First, I'll review the highlights of our second quarter performance. Later, I'll provide more details on our strategic priorities.

We will also discuss our proactive approach to the evolving tariff landscape. And finally, I'll take a detailed look at our updated fiscal year '25 guidance. Please turn to Slide 5. Let's begin with a recap of our second quarter performance. We saw a mixed demand environment that trended slower than expected.

Q2 sales were \$479 million, a 17% year-on-year decrease including a peak \$67 million impact from portfolio optimization. Excluding this, the 5% revenue decline was mainly driven by lower carryover volumes and pricing.

Pricing generally aligned with our planned assumptions, excluding in intermediates. Adjusted EBITDA was \$108 million, down 14% year-over-year or 4% organically. This organic decline was partially offset by the cost savings initiatives and a well-managed production recovery after our Q1 maintenance pull forward. Early cost benefits are already improving margins as segment details show and it's laying the groundwork for future profitable growth.

Regarding capital allocation, we continue our balanced approach, repurchasing 1.5 million shares as we believe our current share price undervalues our long-term growth potential. Please turn to Slide 6.

Now I'll summarize the performance of the individual segments. Life Science showed strong volume momentum and demand recovery due to the effective execution and stabilization of customer inventories, reinforcing our renewed Pharma growth outlook.

Personal Care core additives were resilient while navigating softer European demand and specific customer challenges. Specialty additives experienced anticipated volume declines in China and competitive intensity remained high in export markets such as the Middle East, Africa and India.

However strong execution in other markets partially compensated for these headwinds. Intermediates margins were below expectation due to persistent pricing pressures and reduced production amid the challenging demand environment.

Importantly, our portfolio optimization is now complete, marked by the sale of our Avoca business and the full identification of our \$30 million cost reduction plan in the second quarter.

We're successfully delivering on cost savings, exceeding our full-year target with early benefits evident on strong Life Science and Personal Care EBITDA margins despite headwinds. This is the first time we've had both business units above 30% margins at the same time.

Our key focus now is on accelerating the \$60 million manufacturing optimization given the market uncertainties with increased financial impact through the second half of fiscal year '25 and into fiscal year '26.

In summary, while we're effectively managing the secondhand quarter headwinds, increasing economic uncertainty and anticipated softer consumer demand are prompting an adjustment to our fiscal year '25 outlook, which we will discuss later.

In response to these evolving conditions, the completion of our portfolio optimization and our cost savings and productivity initiatives are more critical than ever. Our strategic priorities, as outlined at our Strategy Day, continue to guide us.

We believe our ability to adapt and execute with discipline and prudence will be key to navigating the near term and creating long-term value. Now I'd like to turn over the call to Kevin to provide more detailed review of our second quarter financial performance. Kevin?

John Willis^ Thank you, Guillermo. And good morning, everyone. Please turn to Slide 8. Q2 sales were \$479 million, down 17% including a \$67 million impact from portfolio optimization. Excluding this, sales declined 5% year-over-year.

Our year-over-year organic sales volume declined by 2% as gains in Intermediates and stable Life Sciences volumes were outweighed by decreases in Personal Care and Specialty Additives.

Overall, our pricing decreased by 2% compared to last year. This was primarily driven by lower carryover pricing actions in Life Sciences and Specialty Additives, along with price declines in Intermediates.

Foreign currency also negatively impacted sales by 1%. Q2 adjusted EBITDA was \$108 million, down 14% year-over-year, mainly due to a \$13 million impact from Portfolio Optimization and lower organic sales, partially offset by decreased SARD and production costs. Raw materials were generally stable year-over-year. Adjusted EBITDA margin increased 60 basis points to 22.5% in the quarter.

Life Sciences, Personal Care and Specialty Additives, all improved year-over-year adjusted EBITDA margin by greater than 200 basis points. Excluding portfolio optimization, adjusted EBITDA was down 4% due to the factors mentioned earlier. Adjusted EPS, excluding acquisition amortization, was \$0.99 per share, down 22% from the prior year. Reflecting typical Q2 earnings seasonality, ongoing free cash flow was negative \$6 million.

To conclude my remarks, I want to underscore a point we've discussed previously. With a strong financial foundation of over \$700 million in liquidity and a manageable 2.8x net leverage, Ashland is well positioned to navigate the current environment and strategically invest in our key priorities.

Now let's hear directly from our general managers for a detailed review of each operating segment's results. Alessandra, let's start with Life Sciences.

Alessandra Faccin^ Thank you, Kevin. Good morning, everyone. Please turn to Slide 9 for Life Sciences. Overall, Life Sciences sales declined 23% year-over-year to \$172 million. The decline was primarily driven by our portfolio optimization initiatives including the divestiture of our Nutraceuticals business line and exit from low-margin nutrition products, which reduced sales by approximately \$42 million or 19%.

These actions improve our long-term profitability and focus, but impact year-over-year comparisons in fiscal year 2025.

Overall, organic sales declined 4% year-over-year, mainly due to Pharma carry-over pricing from fiscal year '24, generally as expected. Positively, organic sales volume met expectations and was flat year-over-year, supported by improving sequential Pharma demand. The demand improvement was across most regions and technologies as destocking from the previous quarter stabilized and our share gain initiatives gained traction.

In line with our strategic growth initiatives, we have inaugurated our new tablet coatings plant in Brazil early in April. This facility enhances our technical support capabilities for customers from formulation to industrial scale, driving innovation and organic growth in this key region.

I look forward to sharing our progress as we scale these operations. Our Nutrition business saw positive inflection this quarter, driven by share gains mainly in Latin America with strong commercial execution. Turning to profitability.

Overall, adjusted EBITDA decreased by 15% year-over-year to \$56 million. Excluding an \$8 million impact from Portfolio Optimization, EBITDA was down \$2 million or 3%. This decrease was primarily due to carry-over pricing, partially mitigated by lower production costs from our restructuring efforts.

Our adjusted EBITDA margin increased by 290 basis points year-over-year to 32.6%, marking one of the business unit's strongest margin quarters on record. We anticipate sustaining a strong margin profile in the low 30s for the remainder of the year. Please turn to Slide 10 for Intermediates. As Guillermo noted, the second quarter presented challenges for our Intermediates business.

Sales were \$37 million, a decrease from \$40 million in the same period last year. This comprised \$10 million in Captive BDO sales with stable volume and \$27 million in merchant sales.

While merchant revenue remained consistent year-over-year with higher volumes offsetting lower pricing, the overall sales decline was primarily driven by captive market-based pricing.

Turning to profitability. Intermediates generated \$2 million in adjusted EBITDA, representing a 5.4% adjusted EBITDA margin. This compares to \$12 million in the prior year. Lower pricing and our actions to reduce production and inventory for better demand alignment significantly pressured margins this quarter.

Our March price increase aims to improve profitability in these challenging market conditions. Now I will turn the call over to Jim to discuss the performance of Personal Care. Jim?

James Minicucci^ Thank you, Alessandro. Good morning, everyone. Personal Care sales decreased by 14% year-over-year to \$146 million.

It's important to understand that this decline is largely a result of our portfolio optimization initiatives. This included the divestiture of the Avoca business line, which occurred in Q2 and the exit of low-margin products.

These actions reduced sales by approximately \$15 million or 9%. With the portfolio actions now complete, our Personal Care business is more focused and centered around core additives, microbial protection and biofunctional actives.

This increased focus is positioning us to deliver improved profitability and margins as highlighted in the current quarter results. Looking at the underlying performance, organic sales declined 5% year-over-year, mainly due to continued weakness in Europe and customer-specific dynamics.

Our core additives portfolio demonstrated resilience and growth in both hair and skin care. This was more than offset by weaker performance in biofunctional actives, oral care and microbial protection.

Oral care sales in the quarter were unfavorably impacted by a key customer order timing. We expect this to normalize through the balance of the year. Biofunctional actives delivered high single-digit sequential growth.

However performance in the quarter continued to be impacted by customer-specific weakness in our base business. Customer development projects are advancing with a robust pipeline of new projects and several customer launches planned for later this year.

Our China facility is ramping well as we increase our local supply. Microbial protection continues to advance globalization efforts with a strong commercial pipeline and customer qualifications progressing well at our new production facility in Brazil.

While demand in the EMEA region remained soft, consistent with Q1, we saw encouraging low to mid-single-digit growth in the rest of the world.

Turning to profitability. Adjusted EBITDA declined by 2% year-over-year to \$44 million. Excluding the impact from Portfolio Optimization actions, adjusted EBITDA increased 5% year-over-year.

Personal Care delivered a record adjusted EBITDA margin of 30.1%, an increase of 350 basis points year-over-year. This margin trajectory highlights the health of the business, impact of our optimization efforts and positions us well for continued execution on our strategy. Now I'll hand it over to Dago to review the results of Specialty Additives.
Dago?

Dago Caceres^ Thank you, Jim. Please turn to Slide 12. Let's discuss the performance of our Specialty Additives segment, which presented a mixed picture in Q2.

While the second quarter presented a weaker-than-expected seasonal lift in some key markets, Performance Specialties continued to be a bright spot, delivering solid volume growth across diversified industrial markets.

However overall sales volumes decreased by 12% year-over-year, primarily due to our planned portfolio optimization, which streamlined construction offerings towards higher-margin products.

Turning to organic performance. Sales volumes decreased by 6%, entirely driven by continued soft demand and some share losses in China, the Middle East, Africa and India.

As we mentioned earlier, low demand and overcapacity in China coatings is negatively impacting both volume and pricing, intensifying competition within China and regional export markets.

We were able to partially offset this impact with its strong execution and a volume recovery in North America and European coatings. Pricing declined by 2%, primarily reflecting carry-over effect from prior year pricing actions, particularly in the same challenging coatings markets.

Overall, Specialty Additives sales fell by 15% to \$134 million with organic sales down 9%. Turning now to profitability.

Our adjusted EBITDA declined by 4% year-over-year to \$26 million. However looking at the underlying performance, excluding the planned portfolio optimization, we actually delivered a 3% increase.

Increased production volumes achieved through improved plant operating pace compared to last year and cost efficiencies were the primary drivers of this improvement, more than offsetting lower pricing. Consequently, adjusted EBITDA margins improved by 220 basis points year-over-year to 19.4%. I will now turn the call back to Guillermo. Guillermo?

Guillermo Novo^ Thanks, Dago, and please turn to Slide 14. Now let's turn to our execute strategic priorities, where we remain focused on enhancing financial performance through controllable factors, independent of macroeconomic environment. The recent finalization of the Avoca divestiture completes our strategic portfolio realignment, enabling a sharper focus on profitable growth.

Our top priority is achieving the \$90 million cost savings target, and we're making significant progress on both key components. Starting with the \$30 million restructuring. Our restructuring efforts are complete and delivered ahead of schedule.

We've identified \$30 million in opportunities and plan to realize \$18 million in savings this fiscal year. The remainder will carry over into fiscal year '26, and these actions have offset the EBITDA impact of our Nutraceuticals, CMC and MC exits.

Second, regarding our \$60 million manufacturing optimization. The primary focus is strengthening our HEC & VP&D businesses with significant operational planning and execution completed this quarter.

We are supplementing these efforts with small plant consolidation as well. Our initial commitment centers on the consolidation of manufacturing activities. We're also aggressively identifying process productivity improvements that could generate further savings beyond our initial targets.

We anticipate \$6 million in savings this year from VP&D consolidation. Note that the recognition of savings from productivity improvements has a timing element due to the initial capitalization in inventory. We will provide further updates on these important areas as we progress.

Overall, we are on track to exceed our fiscal '25 target, demonstrating strong momentum towards our \$90 million target as we move into fiscal year '26. Please turn to Slide 15. At Strategy Day, we set ambitious \$100 million incremental revenue targets for both globalize and innovate initiatives by fiscal '27.

We strategically completed most of our planned investments in key assets and talent. This has led to positive customer development, market penetration and production scale-up activities in China and Brazil. This will position us well for significant growth.

Our year-to-date globalized performance has been impacted by near-term headwinds in our personal care base business, driven by softer European demand and customer-specific weakness.

Our conviction on our strategy remains strong, supported by the proven long-term success and leading position of our high-value markets. In addition, we're actively driving operational improvements to further enhance already attractive margins in these business lines.

For example, gross profit margins increased 500 basis points year-over-year despite revenue declines. Let's shift to innovation, our most significant long-term growth driver. I'll be brief as we have our dedicated Innovation Day later this month.

Our financial goal is \$100 million of incremental sales by fiscal year '27, primarily leveraging our core technology innovation. We had strong launches this year including expanding our cellulosic, pharma and biofunctionals portfolio contributing to our year-to-date results.

We're on track with \$5 million in incremental sales year-to-date. However this near-term progress is just the beginning. The real potential lies in scaling our new technology platforms for substantial future growth.

As you'll hear in detail at Innovation Day, we're consistently identifying and developing revolutionary business cases across these platforms, which support a much larger long-term growth vision.

Please turn to Slide 16. Now let's address tariffs. We are not immune to the global trades and economic pressures, and Ashland is proactively navigating this evolving landscape. Despite our ongoing uncertainty, our experienced leadership team has a proven track record of navigating similar challenges.

Our strategy focuses on what we can control, an approach that has proven effective over the past five years through events like COVID and supply chain disruptions as well as other macro headwinds.

With that context, our direct exposure to U.S. or China raw material tariffs is limited to the minimal cross-border trade and our localized sourcing. The current duty structures

persist, we currently estimate the EBITDA impact for Ashland in the second half of fiscal year 2025 to be in the \$3 million to \$5 million range.

We are actively implementing mitigation actions and anticipate only a modest increase in our annualized basis thereafter, if nothing changes. Next, the vast majority of our U.S. sales are domestically sourced.

For the small portion we import from Europe, we largely benefit from Annex II exemptions. We are closely monitoring the recent initiated Section 232 investigation to understand any potential future implications.

For context, if Annex II exemptions were not in place, our estimated annual tariff exposure would be \$4 million to \$6 million, with \$1 million impacting fiscal year 2025. Most of our China sales are produced outside of the U.S.

However approximately \$70 million are U.S. produced. These U.S.-produced China sales generate roughly company average gross profit margins and mostly fall within potential tariff's scope. Although this continues to evolve with exemptions, our primary exposure here is in the Life Science and Personal Care segments.

We have a tariff response plan in place to offset a significant portion of this business at risk. It's also worth noting that approximately one third of our gross profit comes from products where we are the sole supplier.

Given roughly 90 days of finished goods inventory in China, we anticipate any potential impact on fiscal year '25 to be weighted towards the fourth quarter. We've analyzed the current and potential tariffs and developed tariff response plans. Our global footprint and diversified portfolio are key advantages here.

We're actively optimizing our supply chain including production and shipping, collaborating with partners and making pricing adjustments where possible. While tariffs present challenges, we also see potential share gain opportunities.

Our goal is to minimize the impact on all stakeholders as we monitor and react to changes in global trade policy. The outlook, which I'll cover shortly, reflects our current estimate of the tariffs impact for this fiscal year based on the information we have today.

Please turn to Slide 17. Now let us turn to our financial outlook for the fiscal year 2025. As highlighted in yesterday's press release, we are adjusting our full year outlook. This shift is becoming increasingly apparent across several key areas.

First, we are observing meaningful reduction in consumer sentiment. The growing global macroeconomic and geopolitical uncertainties are clearly impacting consumer confidence. This decline in consumer confidence is leading to softer demand from parts of our Ashland customer base, especially in the coatings segment. Our outlook reflects this lower sentiment, but does not include recessionary conditions.

Second, while European markets have stabilized, the anticipated moderate recovery has not yet materialized. Demand in this region remains subdued. Third, the intermediates market continues to present challenges. The persistent supply-demand imbalance is putting pressure on the segment. And while we have implemented price adjustments to improve second half performance, overall pricing is expected to be below previous expectations.

As a result, Ashland now anticipate flattish organic sales volume growth for the full fiscal year. This adjustment reflects our expectation of a positive inflection in organic sales volume in the second half, led by Life Science.

We anticipate that year-over-year pricing headwinds will lessen in the second half as we move past prior pricing actions. Overall, we currently anticipate raw materials to remain stable compared to the previous year, excluding the noted tariff impact.

We've included the expected direct financial impact of current tariffs in our outlook which are generally offset by FX gains from a weaker dollar. In response to the weaker demand environment, our focus is intensifying on areas within our control.

We are accelerating restructuring and productivity gains to enhance our business mix and improve profitability through the rest of the fiscal year, anticipating roughly \$13 million in cost savings realization in the second half.

Excluding Intermediates, we anticipate strong second half margin, reflecting these actions. Based on these factors and the risks and opportunities you see outlined on the right side of the slide, we are now projecting full year sales in the range of \$1.825 billion to \$1.9 billion and adjusted EBITDA in the range of \$400 million to \$420 million.

Please turn to Slide 18. We remain steadfast in our long-term strategy and core priorities, which we believe will drive sustainable value. You can count on our relentless commitment to improving results and optimizing our strategy in this evolving global trade environment.

Please turn to Slide 19. We continue to believe that innovation is a critical driver to our future success. On that note, as we mentioned in our last call we're excited to showcase how our technology platforms have evolved and expanded at our upcoming Innovation Day.

Join us on Thursday, May 29, at 9:00 a.m. Eastern Time at our Bridgewater facility. We'll use the focused innovation time to delve into specific examples to bring our technology portfolio to life.

You'll have opportunities to hear from a broad set of our leaders including a moderated Q&A session.

For those attending in person, we will also offer a valuable lab tour to experience the real-world application of our innovations across our various business units.

Please turn to Slide 21. In closing, I want to focus on the key messages as we look ahead. As we discussed today, we are adjusting our outlook for fiscal year '25 to reflect the increasing macroeconomic uncertainty and softening consumer demand we're observing globally. This is a critical factor shaping our near-term expectations.

Ashland is leveraging several fundamental strengths. Our completed portfolio optimization provides a more focused and agile business better positioned for long-term profitable growth.

We're accelerating our cost savings and productivity initiatives, which are essential to enhancing our profitability and mitigating the impact of the current environment. The early benefits are evident in our margin performance and trajectory.

We operate in resilient consumer stable markets, providing a degree of stability even amidst broader economic fluctuations.

Our healthy financial position with strong liquidity and a manageable debt level offers the flexibility needed to navigate uncertainty and pursue strategic opportunities.

And finally, we have a diverse set of advancing growth catalysts, which unlock transformative opportunities for us.

Looking ahead, our commitment remains firm. We are taking a proactive approach to managing tariff impacts through strategic adjustments in our supply chain and pricing.

We will maintain a disciplined capital allocation strategy, balancing investments for future growth with returning value to our shareholders. Above all, we are confident that our long-term strategy and core priorities will continue to be the foundation of sustainable value creation.

I want to extend my sincere gratitude to the entire Ashland team for their dedication, their resilience and their commitment to navigating these dynamic market conditions.
Operator, let's go to Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Laurence Alexander with Jefferies.

Kevin Estok^ This is Kevin Estok on for Laurence. Yes. So my first question is just about order volatility. I'm just wondering how much has it increased over the last couple of quarters. I guess, what have customers said that they need to see in return to more stable order patterns?

Guillermo Novo^ Okay. Thank you for the question. I think overall, we've seen Q4 last year where we saw a lot of the changes, the dynamics in China in VP&D, some of the bigger competitors come back in. That's where we had most of the volatility.

As we look at the last two quarters, things have been stable in line with what happened. If you look at volumes, volumes are actually picking up as we're going. Pricing is coming in line with what we put in our full year guidance for China for some of these markets that were impacted.

So there's no surprises there. I don't think there's as much volatility right now. It's really more about the sentiment in certain markets that are getting impacted.

As an example, in coatings, we're actually not surprised on the downside in China and some of the export markets. We're managing through them, but they're coming in line or slightly even better than what we had expected.

The softness is more coming from U.S., Europe, where it's just been a bit more muted, especially starting March on, and we're seeing it still in April. The paint season is a little bit softer.

Our paint season ends at the beginning of September. So if it doesn't start picking up, that's the bigger adjustment that we're doing.

I'd also say in intermediates, although we're talking about the pricing not improving, it's not changing either. It's stable. The issues we had more of an expectation of improvement.

So what we're toning down is more the expectation the outlook expectation of improvement, given the environment we're seeing, I think it's better to be a little bit more conservative on those two aspects.

Kevin Estok^ Got it. Okay. And just on the \$70 million of U.S.-produced China sales, I guess, I mean it was still pretty early on, but I guess, just wondering how much of the risk do you think you could actually mitigate by the fourth quarter? I mean like, could you maybe quantify that?

Guillermo Novo^ Great question. We're getting a lot on those kinds of details. So we have inventory in China, the biggest businesses that we export from the U.S. would be our VP&D, our Klucel business, some Personal Care additives and a few specialty coatings materials.

But I would say Klucel, it's a unique product. There's not a lot of capacity in the world, so I think those things we can mitigate.

We're working with our customers. So in the short term, we're covered. In the long term, that's not a quick solution, but we can work with customers. It's not easy for them to reformulate some of these products.

So it's really more about our partnership with customers on how we manage through those challenges. And again, we're seeing some of the exceptions that even China is now putting in, it has already impacted some of our Pharma products and all that.

So we're going to monitor that a little bit. I think VP&D is probably the one that's most exposed. It's probably the bigger part in the sales, a smaller part, the margins in China are much lower.

So that's one that is going to be more difficult for us to mitigate. And the other ones, we can move things around. For example, in coatings, we have several plants. So we can't do it immediately, but we can shift production scale up. That's part of the network optimization.

So I would say in over half, we have options. The VP&D, it's less than half, but it's the biggest one, and that's the one that's a little bit more difficult, but the margins are a lot less.

On the opposite side, I do want to highlight is it's easier for us to look at the downside because we have all the data of what we're selling and where we're going, the upside scenario, finding the offsetting; others are not going to be able to export to other regions as things are going to get dislocated. That's the part that we really have not captured totally.

We're going region by region, trying to understand, okay. What other exports are going to get impacted and where are other opportunities to regain share. So that's more work in progress. But I don't think the direct impact -- we can mitigate a lot of it. There is going to be some.

I think the biggest issue since we're in Pharma or Personal Care, and even in coatings these are additives you can't change unless you already have an option approved. It's not that easy to switch around. So I think we want to make sure we're a long-term supplier with our customers, we're going to work with them in managing this challenge.

Operator^ Our next question comes from the line of John McNulty with BMO Capital Markets.

Bhavesh Lodaya^ This is Bhavesh Lodaya for John. First of all, thanks for all the detail around some of the tariff impacts, especially around the U.S. and China.

Now we also have the 90-day delayed reciprocal tariffs that will impact other regions, maybe Europe, Canada or Mexico. Could you touch on how your supply chains work in

those regions? And if you have any early estimate of potential sales exposure if those tariffs were to come in place?

Guillermo Novo^ If you look outside of China - I would focus right now - that's the biggest one. There's not a lot of impact. Most of our raw materials were sourced in-region.

So not a lot of impact on the raw material side. We export a lot from obviously the U.S. and VP&D would be one that's U.S. but a lot of the cellulose, we have options between Europe and naturally in China, we're starting to export from China in some areas.

So it's not as big of an impact for us in Latin America, Mexico or Canada. It's a smaller issue at this point in time. And a lot of things are exempt right now in the U.S. - And the important part right now is monitoring Europe.

I think, we don't expect anything significant at this point in time but that is a big manufacturing location for some of our products. And that's one of the things that we'll be monitoring.

John Willis^ And we also tend to keep a lot of finished goods inventory in Europe which would push out any tariff impact for frankly, quite a while. And we've been doing that intentionally for a bit now.

Bhavesh Lodaya^ Got it. And then maybe a question on Specialty Additives. Have you seen any slowing of the China competitive pressure in that segment? And maybe if you could give us an update around are we done with the capacity adds in that platform, or have you reached equilibrium in terms of supply-demand?

Guillermo Novo^ Let me give a quick comment and I'll ask Dago. He's been traveling through a lot to China and a lot of the regions, so he can give a little bit more color.

But if we look at the big issues impacting right now one is the whole dynamic. The number one issue is China slowing down and China overcapacity, what it's doing to export markets. So it's the market in China and the competitive intensity around the world.

I would say that's actually the biggest challenge, and we got the big hit for us really was last year in Q3, Q4 that we talked about. The other two are the tariffs, which I think are moving around, we don't really have a full plan, and we just need to manage it. And then the last one is, what's going to happen longer-term recessionary impact and all that, which we have not really factored in.

And I want to be clear on that. The reduction that we're doing is more driven on softness in specific markets, and I'll talk a little bit about that later. But specifically to SA, you want to talk a little bit about what you're seeing on the competitive intensity. Dago?

Dago Caceres^ Yes. So thank you for the question. So yes, just for context, over the last few months, I've been traveling to the regions. I was in China, I was in Mexico not too long ago, Europe and I just came back from a trip to Middle East, Africa and India, just a couple of days ago. And I would summarize it as follows.

So when you look at China, I would say China is stable at the bottom. So I don't see the volumes in China, quite frankly, declining more. And I don't see that the prices in China despite of additional less or more supply, I don't see that changing at all.

So that's China, stable at the bottom. If you look at Europe, I would say Europe is flattish. There's a bit of a concern, of course, in the market on how the market is performing, especially the property sector.

So I would say it's flattish. And from the pricing standpoint, and this is important, it's very clear that they value quality, service, reliability, innovation and sustainability, a big, big focus.

So yes, we do see some price pressure. That's just normal when the market is soft, but I would say it's very much within the normal. The United States is a bit more, I would say, the key word here is uncertainty, right, is how we characterize that.

Having said that, again, we have a very strong position in the U.S. I would say that our prices here are also pretty stable. The other regions, so I'm talking Middle East, Africa, India and Southeast Asia, those regions are most of them - are growing from the volume standpoint.

So India, for instance, is a really good example of that. They're taking a breather this year, but then they are expected to resume the growth trajectory.

Now from the pricing standpoint, we do expect the pricing pressure to continue, but we're pretty good at managing this, right? It's really about balancing volume and price, and we do that. I mean we do value pricing. We do this on a regular basis to maximize our profitability.

Guillermo Novo^ One comment, and I think your point on more capacity or less capacity, two points that I would make just context in the longer term, not just for us, but I think this applies to the industry overall.

One, there's excess capacity now. So a little bit like the tariff situation of keep increasing, as China said, I'm not going to increase it more because it doesn't make any difference. After a certain point, excess is excess.

So I think we need to look at is more capacity really going to come. There's excess. That's the biggest issue right now that we have to work through. I think the other side, and I've heard it. Dago and the other business leaders have also been traveling hearing from customers.

If there's more excess in one country, it's going to destabilize the entire supply chain for everybody. They've seen it when we exited our CMC business. Just recently, some of the other producers in Europe announced that they're shutting down like we did with our MC construction.

Our customers are concerned with this because excess capacity means all the production moves to China and destabilizes, there are big consequences to them. So they do want to work with us. They are looking at all this. There is a balanced view in all markets.

We are one of the few Western producers right now of scale in VP&D. Most of the production is Europe. Intermediates were one of the few Western producers, everything else is in China. We can go down the line on all these things.

So our customers want to work with us. They want to balance supply chain. We need to deal with just the pressures of pricing and volume because our customers are getting pressured.

– They need to balance out their needs, and it's for a transition. What encourages me is that there has been stability now for almost two, three quarters from the bottom, and I think that is the positive outlook, at least from our side.

Operator^ Our next question comes from the line of Jeff Zekauskas with JPMorgan.

Jeffrey Zekauskas^ Your cash flow from operations for the six months was negative \$20 million. What are your cash flow expectations for the year now or free cash flow expectations for the year?

John Willis^ Yes, Jeff, it's going to come down to a couple of items. Obviously where we land from an EBITDA perspective is going to be important for the overall quantum of the number. I think the other driver is going to be working capital.

As we look at the working capital picture, we've been intentionally building some inventory in parts of the world in anticipation of the tariff situation, which we think is just the right thing to do.

And also, we've talked a lot about optimizing certain product lines such as HEC and VP&D. And there's some intentional inventory build associated with that as well. And so I think those things in combination are likely to weigh on the overall free cash flow situation a bit. The other piece is FX.

While FX will generally help us from an EBITDA perspective, just because of where our inventories are in the world, a weaker dollar tends to play into that as well.

And finally, the restructuring piece of the equation that we've been doing well will also play into it. So it's going to come down to really how those things play out, and I think it's going to evolve over the course of the fiscal year, that would be our expectation.

I mean there's just as much uncertainty around the free cash flow piece of the equation as there is the earnings piece, depending on what happens from a tariff perspective, et cetera.

Jeffrey Zekauskas^ So if you come in within your EBITDA guidance, I don't know your free cash flow, \$150 million. I mean like assuming you hit your guidance, what should your cash flow or free cash flow be?

John Willis^ It will depend on how inventory and FX plays out over the course of the year. \$150 million to \$200 million is probably a reasonable expectation based on where we are today. And I will caution that where we are today is in the land of uncertainty.

So that will continue to change and evolve as policies change and evolve and as this whole tariff situation plays out.

Jeffrey Zekauskas^ In terms of your Intermediates business, did you get any pricing increase in March or April? And what are the prospects for that business going forward?

Guillermo Novo^ Good question. Alessandra, do you want to comment a little bit on the outlook for pricing in Intermediates?

Alessandra Faccin^ Yes. So as Guillermo mentioned, the prices have been stable sequentially flat from the end of the fiscal year 2024 until March so we are taking actions. We announced a price increase in March but overall, prices are lower than expectations, as Guillermo mentioned.

But definitely, there was a price increase announced in the month of March. Also looking at Intermediates, just to comment from a margin standpoint, the plants are running okay.

We have reduced production in the second quarter to address inventory and aligning our production to demand. And on the cost side, we are taking productivity improvement actions in our continuous process of VP&D, and we expect to see the reduced unit cost but keep in mind, some of those actions, on the cost reduction side, will be capitalized in the second half of the year.

So some of this, we won't see until 2026, but we're taking actions from a productivity improvement and also pricing.

Guillermo Novo^ And Jeff, I would also announced the other players in North America and our focus is much more regionally focused in U.S. and to a lesser degree, Europe. Other players have also moved so it's really just now how that process goes.

I think the bigger issue is not just the pricing, it is that the demand. Our big markets are NMP, and that's for semiconductors, for batteries and for active ingredients.

That's where we're seeing a lot of the Asia pressure coming in but in the other was like BDO, we don't sell a lot. And on the margin, it's impacting us.

But for other people, this is really a raw material for polyurethanes for other segments that have not improved. So until the demand and the integrated players get a little bit more stability, I think that's going to be the challenge.

Jeffrey Zekauskas^ I guess lastly, again, for Kevin, your Inventories year-over-year were pretty flat. And I think your sales maybe were down in the high teens. So should a normalized inventory level be, I don't know closer to \$450 million or \$425 million?

John Willis^ For Intermediates or you...

Jeffrey Zekauskas^ No. your overall Inventories. – So your inventories in the quarter, I think, were \$542 million. And in the year ago period, they were \$550 million, but your sales were down...

John Willis^ \$545 million a year ago.

Jeffrey Zekauskas^ Yes.

So in other words, you say you've built inventories, where is that inventory number going?

John Willis^ So we would expect inventory to be relatively flat for the remainder of the year. And again, the caveat is going to be tariffs, et cetera.

But that would be our expectation. There's probably \$15 million of FX in that inventory number right now given where rates are today versus where they were a year ago, primarily in euro.

We have a lot of inventory in Europe that's denominated in euros. And so that's a chunk of it. Again, we've intentionally been placing some inventory in parts of the world in anticipation of tariffs.

So depending on how that plays out, we'll see those inventory numbers likely come down. And around the optimization work that we've been doing, we have also been intentionally increasing some inventory in some key product lines. And so that too will work itself down over the course of time.

But if you think about it from where currencies are today, et cetera, assuming we have stability around that, I don't think your inventory number is far off in terms of what it

should ultimately be. But it's going to take a little time to get there, I would say, as we work through, number one, tariffs; number two, the optimization work that's ongoing.

Guillermo Novo^ And Jeff, I think to those two points, where is the inventory. China, we put some inventory clearly in advance. So that's one but I think we'll be a little bit clear on the optimization side.

Obviously this impacts plants, people, things that were moving around and that we haven't been able or cannot start giving those level of details. But be aware, as we change our network optimization, a customer needs time to requalify, change the sourcing of products and all that.

So we need to build inventory of product from the current location so that if later on, they're going to move to another product, they have a transition time. So part of that is all on the optimization. These are big changes that we're doing just to give you some color, in VP&D, that we've made already, and it's already implemented.

Our Intermediates chain, if you look at BDO to the BLO, to Intermediates that go into VP&D, we had two plants. They were running at lower utilization rates for a while and those units we now shut down one unit. We put everything out in the other unit. We're getting much better cost, unit cost.

We're getting a higher loading, so we're going to have less variability in terms of our absorption, our overall loading of the site. So it's some big changes like that. These are what we call more network optimization, but that dislocates a little bit of the inventory for a period of time.

But most of those things are taking place and the inventory has been built so I would expect those things to come down over the next few quarters as the new sources come in and we stabilize the supply with the new network.

Operator^ Our next question comes from the line of David Begleiter with Deutsche Bank.

David Begleiter^ Guillermo and Kevin, in Personal Care, margins expanded, I presume, based on the low-margin exits. They're now roughly 30%. Is that a good number for the back half of the year in terms of EBITDA margins for Personal Care?

Guillermo Novo^ Well let me comment and I'll ask Jim to comment. But yes, as we had said, with the network optimization, we're getting out of a lot of low-margin business, that's going to give us a nice boost.

I think if you look at all the things we're doing, the network optimization, productivity, which we haven't even factored in, as we do this optimization, we're signing a lot - all those will continue to drive margin improvement. And obviously the mix as we do the globalization on those areas, those are positive mix. I will say the actives, for example, is a high-margin stuff.

The high-end cosmetics have been down, so that was a little bit negative to us. Margins would have been even better if that segment had been a little bit stronger. So it's playing out as we said. But Jim, can you give a little bit of color on what you're seeing?

James Minicucci^ Sure. Thanks, David, for the question. So I think for us, delivering 30% margin this quarter, I think it's a milestone really for the business, something we're very excited about. As we talked about when the business was in the mid-20s, we said, "Hey, we see upside to the margin."

We're now seeing that upside, and we feel that this is a very attractive and profitable business. For us, it's really about driving robust growth while maintaining profitability. We've seen the upside roughly 100 basis points from the Avoca exit.

As we've discussed on the call, we're taking actions on the cost side through optimization, that's improving our cost position. We've also been taking action in some of our globalized businesses, microbial protection, primarily as we're improving our raw material cost position and in-sourcing. And then as we continue to drive growth in both biofunctional actives and microbial Protection, they'll have a favorable contribution to our overall margin.

David Begleiter^ Okay. So sorry, to be clear, this is sustainable in the back half of the year, 30%?

James Minicucci^ Yes. I think we see the Personal Care business continue to perform in this range of high 20s to 30%.

David Begleiter^ Perfect. And Kevin, just for you, in the EBITDA guidance in the back half of the year, how would you expect the cadence of the earnings to fall out between Q3 and Q4?

John Willis^ Thanks, Dave. Based on what we're seeing right now we expect to see Q4 to be better than Q3. That's a smidge counterintuitive based on how our earnings tend to flow.

But part of that will have to do with restructuring that's going to roll through. That's going to be a tailwind for us, and we will see more of that in Q4 than we'll see in Q3. And so that's part of the driver.

It will be about \$13 million of restructuring in the second half of the year, so that will be a bit more heavily weighted to Q4 so that's a big driver. And just generally, how we see demand flowing, et cetera, we just expect Q4 to be a bit stronger than Q3 this year.

Operator^ Our next question comes from the line of Josh Spector with UBS.

Joshua Spector^ I wanted to ask on two things, and I'll just ask them together. First, on the Personal Care side, I just want to understand, I mean what you're seeing and what your mark-to-market here is weaker demand. I just want to confirm that you're not seeing destocking.

We talked about oral timing moving from one quarter to the next perhaps. But really, what I'm getting at is, are customers talking about reducing inventories to weaker demand.

Is that the recession scenario and when are we seeing that? And the other question is just around the comment around some of the coatings additives. I think you talked about share loss within parts of Asia. Is that new or was that within some of the plan to begin with?

Guillermo Novo^ – The short answer, and then you can comment on Europe specifically. There's no share loss in incremental to what we were saying in last year. I mean it played out the Asia, the export markets. As Dago indicated, the intensity continues.

So we need to continue to manage through it, and it's really a volume price game that we're doing and that's sort of in line with expectations. The bigger move has been around North America and Europe and it's market demand. If we're wrong, demand will be higher.

But at this point in time we just are trying to read what we're seeing and what our customers are saying and an actual pickup of the paint season. – The other one, I would say in Q1, the one business that has a little bit more chunkiness is oral care. It does come with big orders.

So that's the one that every once in a while you hear us say it's a timing issue shifting from one because it comes in big orders so unless it falls at the end of the year, it's not an annual issue. It's a quarterly issue. Do you want to comment on Europe specifically, what you're seeing?

James Minicucci^ Yes.

I think, Josh, as Guillermo mentioned, I think it's important. I mean this is not broad-based. In North America, we saw resilient robust demand in Asia as well. Our focus on local and regional customers continues to prove well.

So when you bridge for the quarter, as mentioned, oral care is a timing. The order size there tends to be bigger and there can be shifts quarter-to-quarter. Within biofunctional actives, that was more customer specific.

For Europe, we had cited that in Q1 that we saw softer demand coming out of the summer in Q1 in Europe specifically, which is linked to both just the macroeconomic situation in Europe, as well as the linkage of the European customers to Asia and China

in demand. And we've seen that continue in Q2, as we had talked about in the last call and something that we're monitoring.

So this is not a destocking phenomenon. I would say it's really kind of boxed into just softness that we're seeing in some segments.

Operator^ Our next question comes from the line of Michael Sison with Wells Fargo.

Michael Sison^ Yes, at the last Innovation Day, you all talked about getting to a pretty good EBITDA range by, I guess, in a couple of years, around \$600 million. Yes. You're going to be around \$400 million or so this year. – Do you still think that's a doable range? I mean does that need to come down or will it just take more time given how things have set up this year in the macro?

Guillermo Novo^ – What we look at is three buckets. And I think in today's world, you got to separate them because especially when you look year-over-year, your compounded growth rates can change a lot.

I think we look at our base business, most of what we're doing right now reducing our outlook is base business, and it's really based on not losing share. It's the same customers.

It's a feeling of things are slowing down or not slowing down based to our customers. It's our best read. If we're wrong and it's better, it will be better. So I would separate that. If you look at the globalization, it's got two buckets in it.

We have the base because we're trying to grow the total business that one, specifically in Personal Care We have the Europe and the specific customer issue that when they do better, we're going to do better with them.

– We have to manage through that, but that does change our outlook and as you look at your formulas and your modeling for the future. And then you have the new stuff in globalize. We've just built bifunctional plant in China.

In Brazil, we just built several production facilities for tablet coatings.– All that is new. It could be better in a better environment, but it should be positive in a negative environment too because it's about gaining share, positioning ourselves. And all these investments have been very well received.

When we say globalize, our globalized strategy is really regionalizing and that's playing pretty well at this point in time where the whole world is regionalizing.

So I think that those are going to be good. And on the innovation, all I would say, come to the May meeting to see what we're doing. I do think that's really where the upside is.

And what we want to show is to reinforce the message of we have, it's not about a technology or one opportunity that we're betting everything on. It's a portfolio, many different technologies. Some are going to work better than we think, some are not going to work as well as we think.

But within those portfolios, look at how many markets. When we presented last time we had a platform and two applications. Now we have that technology in eight or nine applications in different markets.

It's really taking life and now that we finished our portfolio optimization, the next five years, 10 years are going to be three things: near term, managed through the challenges like we did with COVID and all that, we're going to have a year or two of a lot of challenges.

We're going to manage through that; two, is just to execute on our globalize and execute on our innovate. And that's it. We do that, and I think that's where we think that we can get the growth. The biggest part of the noise is not the strategic long-term side.

It's really the near-term market dynamics, and that's where we're trying to be as transparent as possible.

Operator^ Our next question comes from the line of John Roberts with Mizuho.

John Roberts^ I'll just ask one here. When Trump comes out with this new pharma tariffs in one to two weeks, do you think that will cause any of your customers to take any actions that might affect Ashland?

Guillermo Novo^ Well I'll let Alessandra, she have been talking to some of our customers. Some are moving investments into different regions. So I think there's going to be a positive impact there.

I think the issue right now it's going to be country by country, who sets what tariffs on what products. And it's pretty messy right now because eight products are in the list and two aren't, why?

And that's the type of things that we're working on. But you want to talk a little bit more of what our customers are thinking about in terms of..

Alessandra Faccin^ Yes. I mean yes, we have seen some customers announcing bringing manufacturing to the U.S., but there's a lot of scenario planning or this is what I hear from our customers. They're doing scenario planning.

When I was traveling in India and Brazil in the last couple of months, and there's still a large advantage of having those manufacturing in those markets so at this point, it's scenario planning, but there have been a few actions.

We have seen the recent announcements of customers with new manufacturing in the U.S. but I would say it's a lot of scenario planning and still there is advantage in having their manufacturing in other parts of the world.

Guillermo Novo^ John, in talking to customers as we travel around the world, I mean not just pharma, all over, there is a big concern from everybody. This whole customers watching the drama in U.S., China, what's happening and then seeing as China tries to find new markets, the implications to them, -- the first wave is they can buy cheaper and that's where we're getting the pressure.

The second wave is why sell you the cheaper raw material when I can just export the finished product. I think there's going to be a lot of things in multiple markets where other countries are also going to start reacting and saying we cannot absorb the whole export thing.

We're building plants. Customers are wanting us to be close to them in Brazil and India that we're also doing the same thing. So I think there's going to have to be a little bit of stabilization on this and the customers are also looking after their manufacturing interest in their core countries.

Operator^ Our next question comes from the line of Mike Harrison with Seaport Research Partners.

Michael Harrison^ Jim, you've mentioned a few times these customer-specific issues in the biofunctionals business. Can you give us a little bit more color on exactly what's going on? And I guess, do you expect these issues to continue into next quarter or for coming quarters?

James Minicucci^ Mike, thanks for the question. So if you think about our biofunctional actives business, this segment, it mainly goes into skin care. And it really targets the high-end luxury part, the prestige part of skin care, and it's also exposed to travel retail.

So hopefully, that gives you a sense of where the products are used in the market segment. And so we have seen some softness in that segment, specifically in the luxury segment in the travel segment.

As we look through the balance, so I think that's the first part because there's that piece and then there is the rest of the business. The rest of the business is still performing well and it's really a couple of customer-specific items happening, linked to travel retail.

As we look through the balance of the year, we're meeting very frequently with these customers, understanding their outlook as things try to stabilize.

We are seeing some stabilization in that sector, specifically around travel but it's something that we're monitoring. And right now as we look through the balance of the

year, we're not forecasting a major recovery over the next couple of quarters in that part of the business. Hopefully, that provides...

Michael Harrison^ Go ahead.

James Minicucci^ Hopefully, that provides the color that you're looking for.

Michael Harrison^ Yes. That's helpful. And then my other question is on the globalize opportunity here. You guys opened new facilities, but you saw a sales decline associated with this globalized effort.

Can you just help me understand how to think about that? And I guess, is the \$20 million target still attainable given kind of where you stand today?

Guillermo Novo^ So Mike, and this is what I had mentioned just a few questions ago. You got to look at the globalize. We're just keeping it simple - four businesses, total sales and how they're growing, and we want to grow at X percent a year. That's sort of the goal. But there's really two buckets, the core business that you have today and the new business. The new business is going fine.

We're making the investments ramping up, engaging customers, that's not the issue. It's exactly what Jim said. The core business came down. When it recovers, just like you had it down here, it will have a pop in the future.

It's hard for us to say exactly when that's going to happen, but we still have the 3-year plan, as long as the new stuff is going well we'll monitor and hopefully, some of these things are going to recover - those are strong brands. They have been very successful over the years. Right now they're having their challenges and hopefully they'll overcome it, and we'll benefit from their performance.

Michael Harrison^ Okay. But I guess if we stripped out the decline in the core business, what does the new business contribution look like relative to that \$20 million target, I think, would be helpful for the investors on the line.

Guillermo Novo^ We'll make that point. And it does vary by business, it's four of them. I would say injectables, a lot of new stuff is coming in. So it's much more new oriented and it's doing very well. The tablet coatings, it's a mix.

Today, a lot of the foundation is the core, but all these investments that we're making in Brazil just inaugurated now. All these things are starting to really pick up. It's been sort of the front-load investment. That will be more on the growth side of this.

And I think even in Personal Care, microbial protection already has a pretty diversified portfolio between the original base and the new things that we're developing and biofunctionals that a lot of these new investments really allow us to collaborate and innovate and produce locally for our customers, and that's really been the last few

quarters that we're bringing that on stream. But we'll be more clear on that aspect as we move forward.

Operator^ Thank you. Ladies and gentlemen, I'm showing no further questions in the queue. I would now like to turn the call back over to Guillermo for closing remarks.

Guillermo Novo^ Okay. Well thank you, everyone, for your questions. As I hope you heard, the simple message is the business has stabilized from some of the impacts that we had last year of reset in our coatings and VP&D business. With that stability, we're gaining volumes again. Pricing are stabilizing.

We're gaining momentum in returning our business to the profitability one that we want, and that's driven by self-help actions that we're driving both on the cost, but more importantly, on the productivity side, that will start to generate more. It's having an impact now.

We will have an even greater impact as we flow into '26 and '27. Just to be clear on the adjustments that we made for this outlook, there are really three drivers. They're mostly reading the market as best we can.

One is a reduction in the expectations of the paint season demand in North America and Europe that we had a little bit -- it's still going to grow.

It is just not going to grow as much as we thought. We're softening it based on the data that we're hearing and the communication from customers. Two is the Intermediates pricing.

We are pushing to get higher pricing, but we want to make sure that we're realistic given the complexity of the current environment. And third is the one that Jim talked about, the specific segments within businesses, the luxury brands or the specific areas. Those are the big drivers. Everything else is moving as planned. The upside potentials that we have to this guidance is really driven by four things.

One, did we read the market wrong and things improve that we do not control. Pricing management is the biggest issue that the teams are working and that's working very, very well. And then the rest is about self-help, driving our cost reductions and our productivity, positioning our improvements on the things that we can control, and I think that will pay off well for us. So thank you for your time and look forward to talking to you in the coming weeks.

Operator^ Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.