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PRESENTATION

Operator

(inaudible) and thank you for standing by. Welcome to the Ashland Global Holdings Inc. Third Quarter 2020 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker for today, Seth Mrozek, Ashland's Director of Investor Relations. Please go ahead.

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

Thank you, [Mikey]. Hello, everyone, and welcome to Ashland's Third Quarter Fiscal Year 2022 Earnings Conference Call and Webcast. My name is Seth Mrozek, Director, Ashland Investor Relations. Joining me on the call today are Guillermo Novo, Ashland Chair and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer.

We released preliminary results for the quarter ended June 30, 2022, at approximately 5:00 p.m. Eastern Time yesterday, July 26. The news release issued last night was furnished to the SEC in a Form 8-K. During today's call, we will reference slides that are currently being webcast on our website, ashland.com, under the Investor Relations section. We encourage you to follow along with the webcast during the call.

Please turn to Slide 2. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our outlook for fiscal year 2022. These forward-looking statements are subject to risks and uncertainties that could cause future results or events to differ materially from today's projections. We believe any such statements are based on reasonable assumptions but cannot assure that such expectations will be achieved. Please refer to Slide 2 of the presentation for a more complete explanation of those risks and uncertainties and the limits applicable to forward-looking statements. You can also review our most recent (inaudible) Form 10-K under Item 1A for comprehensive discussion of the risk factors impacting our business.

Please also note that we will be referring to certain actual and projected financial metrics on Ashland on an adjusted basis, which are non-GAAP financial measures. We will refer to these measures as adjusted and present them to supplement your understanding and assessment of the financial performance of our ongoing business. Non-GAAP measures should not be considered a substitute for or superior to financial measures calculated in accordance with GAAP. The most directly comparable GAAP measures as well as 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 third fiscal quarter. Next, Kevin will provide a more detailed review of financial results for the quarter. Guillermo will then provide additional commentary related to Ashland innovation and product development progress, sustainability goals and environmental, social and governance commitments. Finally, Guillermo will provide his thoughts on important next steps and our financial outlook for fiscal year 2022. We will then open the line for questions.

One final note. On August 1, Ashland will change its legal name from Ashland Global Holdings Inc. to Ashland Inc., subject to registration approvals. This name change is the most visible step in our internal reorganization to simplify the company's legal entity structure. Ashland shares of common stock will continue to be listed on the New York Stock Exchange under the ticker symbol ASH and its Committee on Uniform Securities Identification Procedures, or CUSIP number, will not be changing. No action is needed from stockholders.

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

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

Thank you, Seth, and hello, everyone. Thank you for your interest in Ashland and for your participation today. As you will hear during the call, Ashland's financial results in the third fiscal quarter were consistent with the earnings update we issued on July 18, demonstrating strength and resilience in a world of uncertainty and accelerating change. Given the high level of external uncertainty, we are all facing over the recent quarters, we have chosen to provide earnings updates in advance of our regular earnings release.

We plan to maintain this pattern of communication during this period of high uncertainty. Once this becomes apparent that external dynamics normalize, we plan to return to our normal cadence of quarterly communications.

Returning to the results of the quarter. Customer order dynamics remain strong across our core markets, and we continue to make significant progress on taking appropriate pricing actions to cover costs across all segments. Supply chain challenges have not improved, especially with respect to ocean freight. Given the tightness in markets globally, our teams have taken steps to improve mix of high-value products that we're selling, which will further drive margin expansion.

We continue to invest in future-forward, sustainable innovations to drive profitable growth, accelerating the pace and impact of new product introductions. In short, Ashland has undergone a tremendous amount of change. We are a different company today. The results this quarter and the steps we are taking are enabled by the company we have become. Our ability to respond quickly and operate nimbly is a result of the intentional changes we made to the company over the past 2 years.

Please turn to Slide 6. Let me share with you some of the highlights from our strong third quarter results. Sales of $644 million grew by 19% compared to prior year. Against a backdrop of strong global demand, all businesses contributed to our growth. Adjusted EBITDA grew by 35% to $174 million as all our teams pursued cost recovery and mix improvement, while effectively managing costs. Our global network of production facilities continues to operate with strong discipline. Adjusted EBITDA margins reached 27% for the second quarter in a row, an increase of 320 basis points compared to the prior year quarter. It's important to note that on a trailing 12-month basis through June 30, Ashland achieved an adjusted EBITDA margin greater than 25%. Returns to shareholders continued to grow with adjusted EPS up $0.93 to $1.89 per share, reflecting the impact of both earnings growth and our share repurchases over the past year.

Please turn to Slide 7. As I noted previously, growth for the company was broad-based with all segments returning double-digit sales growth compared to prior year. Life Science performance remains resilient driven by strong demand for our high-value pharma ingredients. Personal Care demand remained robust, -- and the business drove disciplined pricing recovery, while the results of the Schülke preservative portfolio have continued to exceed expectations. Within Specialty Additives, the team has leveraged tight global supply to drive both mix improvement and cost recovery. And for intermediates, growth in sales was driven by higher volumes and transfer pricing captive BDO sales as well as higher pricing in our merchant business. Merchant market sales for intermediates represents approximately 8% of Ashland sales.

I'm pleased by the progress made by the Ashland team during the quarter, and the first 9 months of the fiscal year. In our earnings update on July, 18, we increased our financial outlook for sales and EBITDA in the fiscal year '22 due to the strong year-to-date performance and our expectations for Q4. While there are many global uncertainties on the horizon, the Ashland team is performing well and executing on actions that are within our control. We look forward to discussing our updated outlook for the remainder of the fiscal year and reviewing broader progress by the company later in the call.

In the meantime, I'll turn over the call to Kevin to review Q3 results in more detail. Kevin?

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

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 9. Total Ashland sales in the quarter were $644 million, up 19% versus prior year. Unfavorable foreign currency negatively impacted sales by 5%. Gross margin improved by 510 basis points to 37.3%, reflecting cost recovery and mix improvements by the commercial teams in the face of significant cost inflation. Excluding key items, SG&A, R&D and intangible amortization costs increased to $127 million in the quarter, primarily reflecting the addition of the Schülke & Mayr business, the elimination of the INEOS transition services agreement and accrued incentive compensation.

In total, Ashland's adjusted EBITDA for the quarter was $174 million, a 35% increase compared to the prior year adjusted EBITDA of $129 million. Ashland's adjusted EBITDA margin for the quarter was 27%, a 420 basis point improvement over the prior year. Importantly, for the last 12 months ending June 30, Ashland's adjusted EBITDA margin was greater than 25%, a notable milestone for the company. Adjusted EPS, excluding acquisition amortization for the quarter was $1.89 per share, up 93% from the prior year, reflecting both the increased earnings and the lower diluted share count following our share repurchase activities over the past year.

Ongoing free cash flow was $13 million for the quarter, a reduction from the prior year, primarily reflecting an increase in working capital given the inflation in raw material and other input costs we have seen globally. We expect ongoing free cash flow conversion to be positive for the second half of the fiscal year, the working capital levels will remain elevated, assuming continued inflationary trend.

Now let's review the results of each of our 4 operating segments. Please turn to Slide 10. Life Sciences had a strong quarter, and the team executed well. There was strong pharma demand, favorable product mix, disciplined cost recovery, consistent operations and continued margin expansion, partially offset by growing currency headwinds. In total, Life Sciences sales increased by 18% to $228 million while adjusted EBITDA increased by 26% to $67 million. Adjusted EBITDA margin increased meaningfully to over 29%.

Please turn to Slide 11. Personal Care also had a strong quarter with good execution by the team. There was strong demand across all end markets, and the microbial protection acquisition we made last year is performing above expectations. The team delivered disciplined cost recovery through pricing, and all operations performed consistently. As with Life Sciences, these results were partially offset by growing currency headwinds. For the quarter, Personal Care sales increased by 17% to $172 million while adjusted EBITDA increased 18% to $46 million, and adjusted EBITDA margin again increased to nearly 27%.

Please turn to Slide 12. Specialty Additives had another very nice quarter with excellent execution by the team. Demand was strong across the board. And despite persistent supply chain challenges and growing currency headwinds, there was disciplined cost recovery through pricing and consistent operating results. For the quarter, Specialty Additives sales grew by 15% to $194 million while adjusted EBITDA increased by 46% to $57 million. Adjusted EBITDA margin grew significantly to more than 29%.

Please turn to Slide 13. Intermediates reported another very strong quarter as pricing has continued to rise across all product lines. Sales were $73 million, up 49% compared to the prior year. Margins were up meaningful during the quarter. The segment reported adjusted EBITDA of $33 million, an increase of 120% compared to prior year and adjusted EBITDA margin was again over 45%.

Please turn to Slide 14. As we discussed at our Investor Day last November, capital allocation discipline continues to be an important component of Ashland's value-creating strategy. The actions we have taken over the past year have improved Ashland's financial position and created increased flexibility. Since August of 2021, we have executed on $650 million of share repurchases, representing approximately 11% of our outstanding shares. And earlier this quarter, Ashland's Board of Directors accrued a new $500 million evergreen share repurchase authorization. As of the quarter closed on June 30, we have cash on hand plus available liquidity totaling roughly $1.4 billion.

Our net debt has been reduced to about $600 million, which is approximately one turn of leverage on a net basis. We have no floating rate debt outstanding. Our debt as investment-grade style covenants with weighted average cost of debt below 4% and an average maturity of about 10 years. Also, just last week, we extended our existing bank agreement out to 5 years with no change in terms. Importantly, we are investing in our existing business to grow organically, and continue to pursue our strategy of enhanced profitable growth through targeted bolt-on M&A opportunities focused on pharma, personal care and coatings. Against the backdrop of global uncertainty, Ashland has a strong balance sheet with the enhanced flexibility to pursue our targeted growth strategy.

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

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

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

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

We have strengthened our internal innovation portfolio management to both accelerate the pace of new product launches and ensure that these launches create the most value for our customers and for Ashland. Beginning this year, we're expanding capacity in numerous high-value products globally, and we'll continue these investments over the next couple of years. Ashland has the flexibility and discipline to execute our growth strategy and reward our shareholders.

Please turn to Slide 17. As we approach each of our priorities in a disciplined way, we recognize their overlapping nature. Under our new business model, we have empowered our organization. We have driven decision-making to those closest to the customer. Each business leader and their regional teams own their business and circumstances, but all share the same discipline. Leaders adopt their priorities to circumstances to unlock profitable growth while maintaining operating discipline. Our priorities remain focused on growing our business while maintaining its quality, driving profitable growth opportunities, margin and free cash flow expansion while leveraging ESG as a core value and enabler.

Please turn to Slide 18. I'd like to provide an update on our environmental, social, governance and sustainability goals. We plan to publish our ESG report before the end of this fiscal year. In calendar year 2022, we will submit the Science-Based Targets we are establishing for environmental and sustainability goals, and we'll announce them as soon as they're approved. The establishment of Science-Based Targets is an important milestone, furthering our purpose to responsibly solve for a better world and in support of our commitment to the Paris Climate Accord and to making the UN Global Compact and its principles part of Ashland's business strategy, culture and day-to-day operations.

The rigorous internal review and validation of data continued which will enable us to set new targets. Additional internal work continues, such as integrating ESG metrics into our enterprise risk management system, evaluating opportunities for enhanced use of renewable energy solutions in both the U.S. and Europe and incorporating ESG goals in each of our business units operating dashboards. As we have stated many times, ESG priorities are integral to our future as a company, and we continue to take important steps to solidify our actions and commitments.

Please turn to Slide 19. New product innovations are important for organic growth and a tenet of our profitable, sustainable growth strategy. By narrowing our focus to markets and applications where we can have a large impact, we are solving complex challenges in niche areas where our innovations really matter. As a deliberate-focused company, we know exactly where we fit and where we unlock the highest margins because we bring the greatest value for customers. This year, we will introduce a record number of innovations, and we are reaping the benefits of our focus and speed to market.

Nearly 90% of our new innovations are natural, natural-derived, biodegradable or sustainable in use. By maintaining discipline in both project and portfolio management, we are increasing the number of new product introductions as well as their expected value impact. And by meeting the evolving needs of our customers and the consumer, we expect the future revenue and margin contributions from these future launches to improve the growth trajectory and profit contribution for Ashland.

Please turn to Slide 20. Over the past year, Ashland has continued to be recognized by industry organizations and customers for our conscious to cutting-edge innovations. This month in China, and recently in Korea, Ashland was recognized for industry-leading innovations where we were awarded 3 Ringier Technology Awards for Architectural Coatings and Personal Care. The Technology Innovation Awards for Personal Care are among the most prestigious in China's beauty industry and recognize innovative products and technologies that contribute to improved production efficiency, cost-effectiveness, user convenience and sustainability. Ringier Technology Awards for industrial manufacturing recognized a select group of coatings innovations both upstream and downstream. Each year, the awards recognize the industry's more innovative pioneers that have made outstanding contributions to the industry, encouraging more companies to invest in technology innovation to improve productivity, convenience and green or sustainable developments.

As we highlighted in the video at the beginning of the call, Ashland recently introduced a line of rheology modifiers called Aquaflow Solid, thickeners for the architectural coatings market. Our first grade with this line has been recognized with the Ringier Technology award in 2022. The award recognizes that Aquaflow® eco-300 is meeting the needs for fireside free rheology auditors because the product is shipped in 100% active, solid dose form. It enables lower carbon footprint in transportation. We're incredibly proud of the progress made by our research and development solvers to accelerate the pace of innovation across our global businesses. These recognitions are testimony to the successes that we're having, responsibly solving for mega trends, and customer and consumer needs in the marketplace.

Please turn to Slide 22. As we continue in a period of great uncertainty on a global scale, I'd like to provide an update on the tailwinds and headwinds that we currently face. The tailwinds have not changed. Demand remains resilient, customers still need to rebuild inventories, and the COVID reopening is having a favorable impact across many parts of the world. Our manufacturing plants continue to run well and raw material availability has started to improve. Ashland's pricing actions have positioned us well relative to the past and current inflation pressures, and we are prepared to take further action as needed. Although supply chain reliability remains a challenge, we have started to see some improvement on the trucking side.

Headwind risks are clear. The challenge is predicting their potential impact, which ones will happen, when will they happen and what impact they will have. The war in Ukraine and the potential for energy rationing in Europe, and the supply chain challenge that it would pose are the most significant risks for Europe and the global economy. The potential for additional COVID lockdowns in China still exists.

These factors, in addition to widespread cost inflation combined with the actions of central banks across the world, increase the potential through recessionary or stagflation conditions across the world economies. It is very difficult for us to forecast these risks - if they will happen, when they will happen or what magnitude and potential impact they will have. As such, we are not directly factoring them into our outlook.

As we did during COVID, we are focused on the things we can control. For these uncertain events, we are focused on improving our contingency plans to build resilience, react quickly to minimize potential headwinds and capitalize on opportunities. The nature of our business, the profile of our portfolio, the actions we have taken, the plans we have in place and the diligence of our teams gives us strong confidence despite the global challenges.

Please turn to Slide 23. Our confidence in the face of global uncertainty is driven by 3 factors. The first is the resilient nature of the end markets in the face of global economic disruption. During the most recent downturns, the Great Recession in 2008 to 2009 and the COVID impact in 2022 and 2021, Ashland's core end markets of pharma, personal care and coatings demonstrated strong resilience. Ashland sales to each market actually grew during those periods and then recovered quickly when economic conditions normalized. While every recession is different, the resilience of our end markets and customers has been demonstrated.

Second, our relatively low exposure to petrochemical-based price volatility limits our exposure to some of the more volatile broad-based raw material cost inflation. Only approximately 25% of our cost of goods sold is tied to volatile energy and petrochemical-based raw materials. Most of these raw materials are also very fragment, and individually do not represent a significant overall cost. While we're not immune to the rising cost of energy globally as a company, we're far less exposed than others in the marketplace.

Finally, our growth strategy is enhanced by the incremental profitable growth opportunities we outlined in our Investor Day last November. We believe these factors will be important contributors to growth irrespective of any recessionary dynamics. Factors such as end market mega trends, and accelerating innovations pipeline, the focus on meeting the evolving ESG requirements of our customers and consumers, our broad geographic diversity and a bolt-on M&A strategy all position us well to grow profitably despite any macroeconomic headwinds. While Ashland is not immune to the world risk and uncertainty, we believe we are incredibly well positioned to successfully weather any potential storms on the horizon.

Please turn to Slide 24. As we mentioned earlier, the war in Ukraine and the potential for energy rationing in Europe probably represents the greatest risk given the potential impact to European and global supply chains. As such, let me provide some additional clarity to Ashland's overall exposure to the continent. Europe is an important market for our business and represents approximately 30% of our annual sales. This percentage is roughly the same for each of our Life Science, Personal Care and Specialty Additives businesses. We operate 7 production facilities in Europe.

We do not have any significant manufacturing operations in Germany. We have three sizable facilities, one in the Netherlands, one in Belgium and one in France and we also operate four smaller facilities in the U.K., France and Ireland. Specialty Additives and ingredients produced at these facilities and sold globally account for approximately $500 million of annual Ashland sales, which includes our customers in Europe.

We have additional office operations in Europe, although none are directly impacted by the current war in Ukraine. In short, Europe is an important region and market for the company, and we're paying very close attention to how macro events unfold and how governments respond. We see the greatest potential risk for European headwinds in the form of energy rationing impacting production, raw material supply and customer production activities. As I've stated before, we are not immune to these risks. And our global teams are planning and building contingency plans in the event the broader situation in Europe deteriorates further.

Please turn to Slide 25. Taking all of these factors we have discussed into account, on July 18, we increased our financial outlook for sales and adjusted EBITDA for the full fiscal year. We now expect sales in the range of $2.35 billion to $2.4 billion, which represents 13% growth over prior year at the midpoint. In addition, we expect adjusted EBITDA for the fiscal year at $580 million to $590 million, which represents 18% growth over the prior year at the midpoint. As we have laid out in detail in today's call, there continues to be a large amount of global uncertainty, even in these last few months of our fiscal year.

Our outlook presumes that we do not see significant additional inflation in raw material, freight or energy. Such dynamics would require additional pricing action beyond those that have already been planned and for which there would be a time lag in realization. At this time, we do not anticipate meaningful rationing of energy in Europe in the September quarter.

Let me be clear, as we did in 2020 when COVID emerged, and the certainty was high, we are being pragmatic and focusing on things we can control and forecast. For what we cannot control, we will focus on planning and building resilience. We do not see a lot of value in being overly optimistic or pessimistic based on external factors we cannot control or forecast, as this would only create more noise in our planning process. As external developments become clear, we will maintain our current level of transparency, and we'll communicate any changes to our outlook as appropriate.

Ashland is well positioned. We have confidence in the company's business portfolio, market's focus, global team and our plans and the actions that we are taking. We have demonstrated resilience in the last 2 years, and we are confident that we will maintain our resilience in 2022 and beyond.

Please turn to Slide 27. Over the last decade, Ashland's journey of transformation has sharpened our focus as an additives and specialty ingredients company. As we have systematically identified and tackled the thorniest problems, we concentrate on areas rich in opportunities to innovate and drive value for customers, where innovation and expertise in one business unit can be leveraged in others.

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

Thank you. And operator, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Christopher Parkinson from Mizuho.

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

Guillermo, I feel a little awkward asking it this way, given the progression you've already made on margins. But when we look ahead over the next 12 to 18 months in terms of your BDO pricing, transfer debt market as well as your cellulosics portfolio. How should we think about the margin potential upside from both PVP polymers as well as cellulosics, just broadly speaking, over the next 18 months or so?

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

Thanks, Chris. And I think we've got to look at it business line by business line. I think in cellulosics, you're seeing margin recovery in our pricing and I think the team has done an excellent job there. But the real long-term improvement, we're not just trying to increase prices on the older products. It's really about the mix improvement, the innovation, the capacity expansions that we're bringing on. So if you look at where we're putting some of these new capacity, it's in our core plants, so we'll get both new products that hopefully will bring in better margins but also we will drive productivity in a lot of those investments.

I think in the acetylenics product line, obviously, the BDO markets have changed given some of the global dynamics. We said in other calls, we don't sell a lot of BDO. Our core businesses are more the internal transfer to our Personal Care and Life Science businesses and there, we're doing a mix improvement. This has really proven very useful for us in terms of reliability of supply, but we're maintaining that. We want to make sure that the businesses are creating value over market prices, and I think that will continue.

What we are seeing in the merchant part of the portfolio is these are mostly NMP BLO, some specialty solvents. These products go mostly to semiconductor, to the electronic vehicles, to active ingredients in ag and in pharmaceuticals and to coatings. A lot of these industries are moving to the U.S. We're trying to in-source. So what our expectation is over the next few years, there is still going to be some volatility in these raw materials or more commodities.

But as these industries move into the U.S., why would you bring your products here and then buy all your raw materials from across the continent would sort of defeat the purpose. So we're one of the few suppliers here in the U.S. we have a good position. We're very reliable so I think you will see long term that volatility will continue, but the magnitude will change. And I think the bottom will be higher than it was in prior month because security of supply will be very important.

And I think in other parts of the portfolio with bio-based products, you're going to see the same thing in innovation. A lot of these new products that I highlighted in one of the slides, we're very excited about them. They have significant growth potential. If you look at some of our hair-styling polymers that are natural and biodegradable I think they have a lot of room for growth. I'm excited they're being very well received by the market.

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

Got it. And just a quick follow-up in terms of the new portfolio and how you're really analyzing things.On the free cash flow conversion, I think the vast majority of investors understand, you've had to obviously ensure the fluidity of supply to your customers in terms of working capital as well as we could characterize it as free cash flow conversion or CapEx or you're taking proceeds from adhesives towards some of your growth expansions. But when we take a step back, putting those aside, and we think about later on in fiscal year '23, '24. Question for Kevin, I'd have is, how are we thinking about the ultimate intermediate to long-term trajectory of free cash flow conversion, of the new portfolio in terms of management, dare I say, once things normalize?

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

Yes. Chris, I would say our expectations have not changed. And if anything, as we get through these capital expansions at existing facilities, we create more leverage there. We should see ultimately, again, when we normalize, we should see some margin expansion because we will have productivity at these facilities. And again, our view on what the portfolio can and should do from a free cash flow conversion perspective has not changed.

We do have to get through the current situation. We're likely to see continued raw material and other inflation into fiscal '23. And we'll have to be nimble around that in terms of how we execute and cash we invest, whether it's in working capital or other things.

But to be clear, our expectation is what this portfolio should be able to do from a cash conversion perspective, have not changed. 55% to 65% free cash flow conversion should be the norm once we get to a place where we can call things normal again.

Operator

And your next question is from Joshua Spector of UBS.

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

Yes. I just wanted to zoom in on the Specialty Additives and the margin performance there, specifically. Curious if there is anything unique that occurred to drive the margins to such a high level in the quarter. I know some of it's been mixed in some tight markets I'm just curious how much of that you think you can kind of hang on to here over the next year? Is this a structural shift? Or is something else going on?

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

Thanks, Josh, for the question. The business is running very well. I mean volumes have been very steady. The industry in a lot of our products, HEC being one of them, but is a significant part of our cellulosic platform, is sold out. So we're out of capacity, but the industry has sold out. So they've been working very diligently and improving the mix. We're getting that productivity out of our plants. So it's really been on the fundamentals that they're driving their margin improvement. And we have been able to recover all the cost increases.

As we move forward, I mean, we're increasing capacity. That capacity will really come in only in 2024. So all through '23, we'll be in the construction phase. I don't think there's any other capacity really coming in next year. So for us, if the market is slowing down, it doesn't really impact us much. We don't have that much more volume to sell. So we're going to continue to optimize the portfolio as we go.

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

And I guess just a follow-up in a hypothetical scenario of demand. worsens versus your expectations. I think in the past, Ashland has focused on more of the asset utilization side of things that kind of accepted there's some lower mix that you would sell into. Has that philosophy changed? Would you hold back that capacity to maintain that mix? Or how would you operate in that scenario?

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

So I think, as I've said in other calls, I mean, we're focused on specialties. We're focused on high-quality growth. We get it that we need to run our plants. We need to load them but that's not what drives our business. Those are things that we do, and this is linked to the prior question on our investments, we're making. We are investing in high-quality growth. Our capital is going to go either to reward our shareholders or to invest in things that will reward our shareholders in the future. So we have a lot of clarity.

On some product lines, we are not investing in, and we're not expanding. We're going to optimize. We want to bring in new technology so that we can substitute old products with higher-margin products. And we know the areas that really we see our strong leadership, a lot of growth potential and a lot of the new innovations, bringing HEC or Klucel or Benecel.

So we're being very selective of where we do. So we have plenty of room for upgrading our portfolio . We are not going to pick up business at no margin just to fill capacity. We want to operate with discipline. Those things, if you look at them, use a lot of working capital We'll do what we need to do short term, but those incremental actions, if they become long-standing, then that's your business and that's not the business that we want to be in.

Operator

(Operator Instructions)

Your next question is from John McNulty from BMO Capital Markets.

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

So Guillermo, maybe a question, you had commented about 90% of your new products are now tied to the natural size, sustainable. Can you help us to understand what percent of your sales right now kind of make up or fit into that category? And also maybe give us a little bit of color as to how to think about the margin premium that those kinds of sales are bringing in.

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

Yes. John, thanks for the question. If you go back to the Investor Day, we had a slide, I think we've used it in other calls, that sort of breaks down our global sales. And we try to show it in 3 buckets. One, it's natural, natural-derived and biodegradable that our products meet a lot of the standards for sustainability. But we also recognize that our products were in enabling other customers achieve their sustainability goals that create a lot of value. I think saving lives in the pharmaceutical area. We also capture which are sustainable in use and then which are the ones that we need to work on over the long term. But it's over 75%, 80% of our portfolio is more in that sustainable or sustainable in use. So it's a significant part of our portfolio.

And if you look at the lower exposure that we have to petrochemicals, the two foundations that will give us confidence on where we are is very resilient markets and the portfolio of technologies that we have that has less petrochemical exposure, a lot of that is because we already have a pretty significant base and more sustainable. Things like cellulosics who are a lot of these polysaccharide chemistries, biofunctionals, nutraceutical, I mean, these are all products that aren't involved with the chemistries that we would have used in our old adhesive business, for example.

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

Got it. Got it. Fair enough. And then I guess, I understand that your volume constrained in a number of product lines. I guess when you look at your sales growth that you saw for the quarter, I guess, can you break out how much was tied to the price mix versus how much was tied to the volumes? And how as we go forward, when should we start to see the ability for volumes to pick up as you kind of start unlocking capacity? It sounded like the HEC one, it really isn't until in 2024. I think there's some others that you're bringing on that may come on a little bit sooner. So maybe you can help us to think about that.

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

Yes. So the majority of the improvement, we have had a little bit of volume. Some of the volume growth are in areas where the volumes are smaller, like biofunctionals, preservatives. So when you look at the metric ton numbers to the overall company, probably sales would be a better number to use but the bulk of it has been the price mix in our core businesses. If you look at our cellulosics franchise, as I said before, 2024 would be the HEC, Klucel and Benecel. Benecel and our MC platform are areas that we're also improving to increase capacity. I think we're fine where we are in terms of our acetylenics chain. So a lot of the investments are going to be in these higher-end areas that we want to grow of our cellulosic portfolios and then really shifting more of the growth into some of these bio-based products that we use. The other product that I would highlight that we're also investing in is Aquaflow, expanding our capacity to supply, they continue to grow well.

Operator

And our next question will come from David Begleiter from Deutsche Bank.

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

Kevin, on the implied fiscal Q4 guidance of low end, EBITDA would be down roughly 20% quarter-over-quarter. What's driving that potential quarterly decline from Q2 levels?

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

Let me make some comments. And Kevin, if you want to follow up.

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

Sure.

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

I mean the biggest issue, obviously, we have the turnaround that's coming through. The incentive comp, we've had some increases there, but the rest of the business is really about the mix flow through. As we've talked in other calls, the flow-through of cost and pricing, it isn't always aligned when the increases happen, how they flow through. So it's just that regular part of noise. But there's nothing major. Obviously, we don't want to get ahead of ourselves. We feel that we're going to do well in the quarterbut given all this level of uncertainty, we don't want to get ahead of ourselves in some areas. But Kevin, do you want to add some other color?

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

Yes. I would say it's all normal operating flow based on of what's going on. One specific item, typically, we do a Calvert City turnaround in June every year. We didn't do one last year. We got back into that cycle again this year. The impact of that was recapitalized. I mean it was in our full year forecast already, but it will flow through into Q4. Impact of that is probably around $8 million versus prior year so that's an impact. And we also obviously are experiencing some currency headwinds. That will flow through. Those will be a little worse in Q4 than they were in Q3 on an average basis. So really, there's nothing specific. Again, it's just operating statistics flowing through the financials into Q4.

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

That's very helpful. Appreciate that. And just Guillermo, I know '23 is uncertain, but any way to think about potential growth in (excluding Intermediates), the other core specialty segments, having better earnings growth next year at this early time frame?

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

I think it's too early for us to really comment on 2023. Especially, I think this quarter with what's happening in Europe that will be a very critical quarter to see how things go. So I'll probably keep comments to the next call. But what I would say what's in our mind as we look at the future, obviously, recession, inflation, energy hedges are going to not being carried over. So we're looking at what we do there. Any new inflation, the European situation with energy rationing, COVID lockdowns, and the supply chain, which I think if things slow down, that should improve as we move forward. So we're focused on that, our core strategy, we know what we're going to do. We know what we're not going to do. We're not going to invest in certain areas that we don't feel that it's core to our future.

But we think that there is growth opportunities. Think of some of these products that we're launching that are biodegradable natural products. We can replace. These are not going to be only new growth. We're going to replace old technologies, ours or other people that our customers are committed to the changeover. And being bio-based, I think cost furthers. There's going to be a lot more interest in those areas. We're looking, although the big capacity expansions are coming towards 2024, we're doing a lot of debottlenecking and trying to expand capacity so that we can sell more in the coming years, in some of these products where demand continues to be very high.

So our customers are still even in a recession, let's say, some of these areas slow down, markets continue to be tight, and we want to make sure that we are a reliable supplier especially given the track record we've built with them over the last year. So innovation will be the big driver for us in terms of enabling that additional growth.

Operator

And our next question will come from Mike Harrison from Seaport Research Partners.

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

Guillermo, it sounds like you are still seeing a lot of issues around the logistics side and ocean freight. I was hoping to get maybe a little bit more color on what you're seeing there. And also, if you can talk about, kind of do you have inventories where you need them in order to manage through these issues that you're seeing around shipping and ocean freight?

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

So trucking, as I mentioned, we're seeing some improvement in the U.S., especially a little bit still more noise in Europe. Ocean freight had a little bit of improvement, but it's still not significant. But I think as things start slowing down, we should start seeing a little bit of improvement. I think certain lines, shipping into certain regions like Latin America and the latter that are still a little bit complicated. So we're monitoring that. I don't think the on-time reliability has improved that much. It was maybe improved from in the 20s to maybe in the 30s. So still way below the historical 70%, 80% on time.

So I think the issue there is us continuing to build inventory. Some of the numbers you see now, we built inventory because of our BDO turnaround. So that will be coming down, some of the inventory. Hopefully, we'll be able to build that up in some of the more remote regions in Asia, Latin America, where we need to build that safety stock for local reliability usually ship there and then they resell from local warehouses there. Last year has just been challenging because orders come up so fast, and you sell it before you were able to rebuild the inventory. So I think you'll start seeing progress. We'll start seeing progress during the next few months, probably more into 2023 than in this quarter itself.

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

All right. And then I was hoping that you could also walk through, just in terms of the cost picture, obviously, nobody knows what's going to happen in terms of energy supply in Europe. But just as you look at some of your key buckets, and particularly around cellulosics, are you seeing signs that some of those costs are going to be declining or at least stabilizing?

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

It's going to vary. Our big buckets of raw materials, it's cellulose on one side, for our PVPs as butane and lima. Those are the two big ones. We have the transfer pricing internally for BDO. The rest really gets very fragmented,EO-PO cost. I mean these are not core ingredients. They are process chemicals that we use and none of them are big so it's very hard to predict at this point in time because of the rationing. We see some improvement. The supply has improved, is improving. The question is, are there going to be any hiccups that come through these risks that we talked about as we move forward?

So we're monitoring that. I think our current pricing actions position us well to recover as we move forward but anything new that happens, we're going to have to take some additional action. I think on the energy side, for everybody, I think the biggest challenge is if you were hedged this year, what are you doing for next year? So we're looking at all these mitigation strategies, especially around Europe, building inventories, well, how do we do our hedging, things of that nature to position ourselves in a strong position. But I think in the slide that we show or the pie chart, you see that our exposure is much lower than other companies in a lot of these more petrochemical or high energy-intensive products. So we should be good.

In my view, if there's a big broad inflation, everybody is going to move on price so the environment, everybody is going to have to cover this broad-based inflation. If the inflation is brought down, and there's specific inflation on specific products for whatever reason, we're less exposed because none of these products are really huge for us. I think cellulose and butane are the 2 things that we look at a little bit more. The rest will be able to manage through.

Operator

And for our final question, we have Michael Sison from Wells Fargo.

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

A nice quarter there. I guess you had a nice slide on sort of resilient growth drivers. If a recession does unfold, I mean do you think the segments, how do you think they performed? Could they grow a little bit flattish, down-ish? And then what's sort of the right EBITDA level for intermediate developments?

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

So Mike, we don't have a crystal ball. I mean I think what we're pointing out is to look at history, look at when we look at COVID. These are resilient markets. It's not just us. If you look at our customers, they tend to be very resilient to pharma guys, the Personal Care, and even the architectural side of the coatings business, very resilient, overall. So I think look at COVID, what happened in COVID. The historic performance of these segments has been good. I don't see why we would be any different. If there are unique situations, I think what changes here is not just the recession side of the equation.

I think there, history should be a good parameter for us to look at is supply. If it's supply side issues, and that's why I think the energy rationing in Europe is the bigger issue for everyone, not just our segment but for everybody else, that's a different type of problem. And I think it's not just that you will have problems in supply in Europe. It will destabilize all the supply chains because look at what happened to LNG, natural gas. It will flow to where the prices are going to be higher.

So if Europe needs product, you're going to see higher demand in the U.S. and other parts of the world. So that's the part that we're monitoring. I think from a recession perspective, a pure recession perspective, I think we're well positioned given the portfolio that we have, given that our markets right now from a technology perspective are also sold out. I think as an industry, we should be in a good place. That supply side and inflation side is the one that I'm looking at more.

Operator

There are no further questions at this time. I would now like to turn the conference back to Guillermo Novo for closing remarks.

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

Well, thank you, everyone, for your interest, your questions. We look forward to connecting with all of you in the coming days and weeks. Obviously, a very interesting time for everybody. But I'd leave you with the thoughts that I think we have a very strong portfolio, both in terms of markets and the technologies that we have.

Our team is very focused. We know who we are. We know what we're going to do. We know what we're not going to do. So as we did in COVID, I think staying focused on the things we can control, staying calm and preparing ourselves to react to minimize any headwinds and maximize any opportunities is where our mindset is right now.

So I look forward to talking to all of you in the coming days, and thank you for your support and attention. Thank you.

Operator

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