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EDITED TRANSCRIPT

ASH.N - Q4 2026 Ashland Inc. Earnings Call

EVENT DATE/TIME: NOVEMBER 04, 2026 / 2:00PM GMT

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PRESENTATION

Operator

Okay. Thank you for standing by. Welcome to Ashland's fourth-quarter 2026 earnings conference 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 today, Sandy Klugman, Director of Investor Relations. Please go ahead.

Sandy Klugman - *Ashland Inc. - Director, Investor Relations*

Thank you, operator. Good morning, everyone, and welcome to Ashland's fourth quarter and full year fiscal 2026 earnings conference call and webcast. My name is Sandy Klugman, and I am Ashland's Director of Investor Relations. Joining me today are Guillermo Novo, Chair and CEO; William Whitaker, CFO; as well as our business unit leaders, Alessandra Faccin, Life Sciences and Intermediates; Jim Minicucci, Personal Care; and Dago Caceres, Specialty Additives.

Please note that we will be referencing slides during today's call. We encourage you to follow along with the webcast materials available at ashland.com under Investor Relations. Please turn to slide two. As a reminder, today's presentation contains forward-looking statements regarding our fiscal 2027 outlook and other matters, as detailed on slide two and in our Form 10-K. These statements are subject to risks and uncertainties that could cause future results to differ materially from today's projections.

We believe these statements are based on reasonable assumptions, but there can be no assurance that the expectations will be achieved. We will also reference certain adjusted financial metrics, both actual and projected, which are non-GAAP measures. We present these adjusted figures to provide additional insight into our ongoing business performance. Reconciliations are available on our website and in the appendix to the presentation.

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I will now hand the call over to Guillermo for his opening remarks.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Thank you, Sandy, and welcome to everyone joining us. I will begin with an overview of our fourth quarter and full-year fiscal 2026 performance. William will then review our financial results, cash generation, and fiscal 2027 outlook. Our business leaders will then provide additional insight into their segment performance, and then I will return at the end to discuss our innovation platforms and priorities for the year ahead. Please turn to slide 5.

We closed fiscal 2026 with continued strong commercial performance across our core segments: Pharma, Personal Care, and Coatings and Performance Specialties within Specialty Additives. Intermediates delivered solid profitability improvement. Life Sciences sales increased 4%, led by broad Pharma growth across major regions and technology platforms. Pharma delivered its sixth consecutive quarter of year-over-year volume growth, supported by continued momentum of our globalize and innovate strategies.

Personal Care sales increased 8%, with double-digit growth in biofunctional actives, microbial protection, and hair care, along with high single-digit growth in skin care. In Specialty Additives, Coatings delivered 9% growth and Performance Specialties 14% growth. China delivered its third consecutive quarter of year-over-year sales growth. Intermediates was stable, and profitability improved with favorable merchant mix, pricing, and cost performance for supporting margin expansion.

Despite raw material and freight volatility, our teams executed well, with disciplined pricing action offsetting cost inflation across all our business units. At Hopewell, key process improvements and critical investments are in place, with our focus now on execution to increase output and productivity, and to improve Specialty Additives profitability. Cash generation was another area of strength, with lower working capital supporting higher operating cash flow and ongoing free cash flow conversion. Please turn to slide 6.

On the top line, sales increased 4%, with volumes up 3%, led by Life Sciences, Personal Care, Coatings, and Performance Specialties, and pricing up 2%, covering cost inflation across all business units. Overall, the fourth quarter was a strong underlying earnings quarter, with double-digit adjusted EBITDA growth in Life Sciences, Personal Care, and Intermediates, partially offset by Specialty Additives' operating performance.

Taken together, the quarter demonstrated strong underlying performance across much of the portfolio, while highlighting a clear opportunity to convert continued commercial momentum into stronger consolidated profitability through improved operating execution. Please turn to slide 7.

Looking across the portfolio, two things stand out for the quarter. First, our higher-growth Life Sciences and Personal Care businesses continue to perform well. Life Sciences delivered a record adjusted EBITDA margin of approximately 36%, while Personal Care delivered a margin above 30%. Both businesses generated strong top-line growth and meaningful margin expansion, supported by outperformance for our execute, globalize, and innovate priorities.

Second, our core Specialty Additives businesses, Coatings and Performance Specialties continue to outperform their markets. Strong performance in these businesses was offset by the impact of the Iran war on our energy and resources business, as well as our actions to reduce exposure to the construction segment. As expected, Hopewell productivity levels impacted overall Specialty Additives profitability.

Intermediates made good progress, delivering margin expansion despite challenging market conditions. As we enter fiscal 2027, our focus is on driving growth in our core businesses, maintaining margins, and improving manufacturing operating performance.

Before turning the call over to William, I wanted to step back and put our full-year performance in perspective. Please turn to slide 8.

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Fiscal 2026 demonstrated the underlying strength of our portfolio, with strong growth and profitability in Life Sciences and Personal Care, and improving commercial momentum in Coatings and Performance Specialties. That momentum strengthened as the year progressed. The second half sales increased approximately 6% year over year.

Our globalize and innovate strategies outperformed their growth targets, and our teams demonstrated strong pricing discipline, recovering cost inflation across the portfolio. Operationally, we recovered from the Calvert City outage, supporting stronger operating and financial performance across the portfolio.

We also delivered strong cash generation, further strengthening our financial flexibility. We enter fiscal 2027 from a position of strength, with good commercial momentum, disciplined pricing, and solid financial position. Our focus is clear. Sustain growth in our high-value businesses, advance our innovation pipeline, and convert improved manufacturing performance into stronger earnings and cash flow.

With that, I'll turn over the call to William for a more detailed review of our fourth quarter financial performance. William?

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

Thank you, Guillermo. Please turn to slide 10. Fourth-quarter sales were $498 million, up 4% from the prior year quarter. Volumes increased 3%, led by Life Sciences and Personal Care, and continued growth in Coatings and Performance Specialties. Pricing increased 2% and covered cost inflation across the business units. Foreign currency reduced sales by approximately $3 million.

Adjusted EBITDA was $121 million, up 2% from the prior year quarter. Higher volumes, favorable mix, and pricing were the primary drivers of growth, supporting double-digit adjusted EBITDA growth in Life Sciences, Personal Care, and Intermediates. These benefits were partially offset by unfavorable absorption in Specialty Additives and higher unallocated corporate expense, primarily incentive compensation. Foreign currency also reduced adjusted EBITDA by approximately $2 million.

Adjusted operating income increased to $77 million from $71 million. Adjusted income from continuing operations, excluding intangible amortization expense, was $52 million, or $1.12 per diluted share, compared with $50 million, or $1.08 per diluted share in the prior year quarter. Cash flow provided from operating activities was $90 million, compared with $40 million in the prior year quarter, driven primarily by lower working capital.

Ongoing free cash flow was $74 million, compared with $52 million, representing a 61% of adjusted EBITDA conversion versus 44% in the prior year quarter. As we enter fiscal 2027, we expect working capital to modestly increase from these year-end levels. We ended fiscal 2026 with $480 million of cash, $976 million of total liquidity, and net leverage of 2.3 times, supporting financial flexibility as we enter fiscal 2027.

With that, I'll turn the call over to our business unit leaders for a closer look at segment performance. Alessandra, over to you for Life Sciences.

Alessandra Assis - *Ashland Inc. - Senior Vice President, General Manager - Life Sciences and Intermediates*

Thank you, William. Good morning, everyone. Please turn to slide 11 for Life Sciences. Life Sciences delivered another strong quarter, with sales increasing 4% to $180 million. Pharma sales increased approximately 6%, representing our sixth consecutive quarter of year-over-year volume growth. Performance was broad-based across major regions and technology platforms, including VP&D, Cellulosics, injectables, and film coatings.

Nutrition sales declined slightly on lower volumes, primarily reflecting the timing of new customer wins in Latin America, which are expected to contribute positively during 2027. Pricing increased approximately 1% compared with the prior year and covered cost inflation. Foreign currency reduced segment sales by approximately $1 million. Our globalize and innovate strategy continues to support pharma growth, including strong performance in injectables and film coatings, and increasing adoption of recently launched high-value offerings.

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During the quarter, we launched permexa, a sodium caprate, a permeation enhancer for oral biologics, with more than 60 active customer engagements underway, advancing our strategy to build differentiated solutions for the oral delivery of biologic therapies.

Turning to profitability, adjusted EBITDA increased 16% to $64 million, and adjusted EBITDA margin expanded 380 basis points to an all-time high of 35.6%, reflecting the continued shift towards high-value applications and strong execution across the business. The increase was driven primarily by broadly higher volumes, favorable product mix, pricing, and cost performance.

Life Sciences enters fiscal 2027 with strong commercial momentum, supported by sustained pharma growth and significant opportunities to expand our differentiated portfolio globally and scale recently launched high-impact innovations.

Please turn to slide 12 for Intermediates. Intermediates sales were $33 million, in line with the prior year quarter. Merchant sales increased 4% despite slightly lower volumes, reflecting favorable mix with continued strength in NMP, partially offset by lower merchant BDO volumes. Captive sales declined by approximately $1 million, reflecting lower downstream production requirements. Pricing covered raw material cost inflation, while foreign currency had a negligible impact on sales.

Turning to profitability, adjusted EBITDA increased to $6 million from $5 million, and adjusted EBITDA margin expanded 300 basis points to 18.2%. The improvement reflected favorable merchant mix, disciplined pricing, and strong cost performance, partially offset by lower volumes. Importantly, we deliver meaningful margin improvement while broader BDO market conditions remain challenging.

Looking ahead, we expect new customer wins to start ramping during fiscal 2027, providing an additional growth catalyst as we continue to manage the business with discipline.

Now, I will turn the call over to Jim to discuss Personal Care.

James Minicucci - *Ashland Inc. - Senior Vice President - Strategy, Mergers and Acquisitions, and Portfolio Management*

Thank you, Alessandra. I will now highlight our Personal Care results. Please turn to slide 13 for Personal Care. Personal Care delivered another strong quarter, with sales increasing 8% to $163 million, representing our third consecutive quarter of mid-single-digit growth. Consistent with prior quarters, performance was driven primarily by broad-based volume growth across all regions and most major markets.

Our commercial engine continued to gain momentum, with strong execution accelerating growth throughout the year. Our globalized businesses, biofunctional actives and Microbial Protection, both delivered double-digit growth, reflecting strong customer adoption and demand. Within biofunctional actives, Collapeptyl andEternight continued to deliver strong commercial wins. Microbial Protection continued to gain share, benefiting from investments made to strengthen our regional manufacturing capabilities and cost position.

Care Ingredients sales increased approximately 7%, led by double-digit growth in hair care and high single-digit growth in skin care, while oral care and household combined declined slightly, primarily reflecting order timing. Pricing covered raw material cost inflation, while foreign currency reduced sales by approximately $1 million.

During the quarter, we launched easy-hance, a super-wetting agent designed specifically for curly hair, enabling faster and more efficient wetting while improving detangling, fiber alignment, and product performance across leave-on and rinse-off applications.

Turning to profitability, adjusted EBITDA increased 14% to $49 million, and adjusted EBITDA margin expanded 160 basis points to 30.1%. Higher volumes and favorable mix together with disciplined pricing and cost performance supported margins above 30%, while we continue to invest for growth. Personal Care enters fiscal 2027 from a position of strength.

Our commercial engine is gaining momentum, our globalized businesses are growing, and our innovation pipeline continues to create new opportunities with customers. Our focus is clear. Sustain the momentum, gain share, and translate our innovation into durable, profitable growth.

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With that, I will turn the call over to Dago to review Specialty Additives.

Dago Caceres - *Ashland Inc. - Senior Vice President, General Manager - Specialty Additives*

Thank you, Jim. Please turn to slide 14. Specialty Additives sales were $130 million, in line with the prior year quarter. Coatings sales increased by a high single-digit percentage, and Performance Specialties delivered double-digit growth with continued share gains across regions despite challenging end market conditions.

China delivered its third consecutive quarter of year-over-year sales growth. These gains were offset by softer end market demand in energy and resources, while lower construction volumes reflected deliberate portfolio choices to prioritize higher value applications.

The team also continued to execute well on pricing. Pricing increased approximately 5% and covered raw material cost inflation, demonstrated continued discipline in a volatile cost environment. Foreign currency reduced segment sales by approximately $1 million.

Turning to profitability. Adjusted EBITDA was $20 million compared with $29 million in the prior year quarter, and adjusted EBITDA margin was 15.3%. The decline primarily reflected the expected lower Hopewell productivity output. We have addressed key process gaps and completed the critical investments needed to support near-term performance.

Our focus is now on execution, with the team working to increase output and productivity over the coming months. Importantly, the team continues to deliver strong commercial performance across Coatings and Performance Specialties, with share gains across regions and disciplined pricing execution.

With that, I will turn the call back to William.

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

Thanks, Dago. Please turn to slide 16. Let me now provide a year-end update on our execute strategy and manufacturing productivity initiatives. We completed several important structural elements of execute during fiscal 2026. Our VP&D optimization and small plant consolidation initiatives delivered approximately $18 million of benefits, including $15 million from VP&D and $3 million from small plant consolidation. VP&D outperformed our expectations with strong execution in several areas that contributed to margin improvement.

At Hopewell, we are making progress against our comprehensive plan to improve productivity and output. Actions across people, process, and assets are beginning to translate into better manufacturing performance. The plan and key investments are in place, and our focus now is execution. Increasing output and asset utilization will support the strong commercial opportunity across our portfolio and drive improved profitability.

In summary, our execute initiatives have reduced the structural cost base and strengthened the operating foundations. With our footprint actions complete, our focus now shifts to capture the full economic benefits.

Please turn to slide 17. Turning to globalize and innovate, fiscal 2026 was an important proof point for both strategies, with each delivering results well ahead of the goals we established entering the year. Together, Globalize and Innovate generated approximately $52 million of incremental sales, nearly 50% above our combined fiscal 2026 target of $35 million.

Importantly, the contribution broadened across the portfolio as our investments in new capabilities, technologies, and geographic expansion increasingly translated into commercial growth. Globalize delivered approximately $26 million of incremental sales compared with our fiscal 2026 target of $20 million.

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Growth was supported by continued momentum across biofunctional actives, microbial protection, injectables, and tablet coatings, reflecting the investments we have made to expand our capabilities and strengthen our presence in key regions. Innovate delivered approximately $26 million of incremental sales compared with our fiscal 2026 target of $15 million.

Performance reflected increasing commercialization and customer adoption of differentiated technologies and recently launched products across our markets. We are very pleased with the progress our teams made during fiscal 2026. These results demonstrate that the investments we made are translating into commercial outcomes while also giving us a broader pipeline of opportunities to build upon.

As we enter fiscal 2027, our focus is on building on that momentum by scaling these opportunities with the strongest customer traction, expanding adoption across customers and regions, and continuing to advance new opportunities through the commercial pipeline.

For fiscal 2027, we are targeting approximately $20 million of incremental globalized sales, as well as $45 million of incremental innovate sales, representing a 25% increase in the combined incremental sales versus 2026.

Now I want to take a step back, as Guillermo Novo highlighted earlier. Fiscal 2026 showed that the transformative actions we've taken in recent years, reshaping our portfolio, streamlining our footprint, and investing in globalize and innovate have laid a very strong foundation.

We saw that in our recovery from the Calvert City outage earlier this year, with adjusted EBITDA margin up roughly 400 basis points from the second quarter to the fourth, and including a record margin for Life Sciences and 30-plus margins for Personal Care. Globalize and innovate beat their combined target by nearly 50%, VP&D optimization outperformed, and our pricing actions are recovering cost inflation across the businesses.

We also delivered our free cash flow conversion above our 50% commitment and brought net leverage down within our long-term target range. With that foundation in place, our focus in fiscal 2027 is about execution and converting these gains into durable earnings growth.

Please turn to slide 18 for the outlook for fiscal 2027. Our planning reflects continued commercial momentum and improving operating performance, balanced by a measured view of global demand, raw material and freight volatility, and a stronger US dollar.

For fiscal 2027, we expect sales of $1.905 billion to $1.975 billion and adjusted EBITDA of $405 million to $435 million. For ongoing free cash flow, we expect a conversion greater than 40% of adjusted EBITDA. This reflects an expected modest increase in inventory, as well as capital expenditures of up to approximately $140 million.

Demand in Life Sciences and Personal Care is expected to remain resilient, supported by continued pharma momentum and growth across our higher-value personal care applications. Within Specialty Additives, we expect Coatings and Performance Specialties to build on recent commercial momentum. While construction and energy and resources continue to face soft end markets, year-over-year comparisons begin to ease in the first quarter as we lap prior year declines.

We have our planned maintenance across our cellulosic assets in the first quarter this year, resulting in some additional weighting of Specialty Additives earnings towards the balance of the year. In Intermediates, recent customer wins provide additional growth opportunities in fiscal 2027, with the timing and pace of new volumes dependent on customer production ramps.

Across the portfolio, we expect Globalize and Innovate to build on the strong progress from fiscal 2026 and continue contributing to growth. We also expect continued volatility in raw material and freight costs. We will continue to manage pricing with discipline in response to changes in input costs, and our outlook assumes pricing offsets anticipated inflation over the course of the year.

For fiscal 2027, Ashland is targeting approximately $10 million of net productivity and manufacturing optimization benefits, driven by continued progress across HEC and VP&D networks and full realization of the small plant consolidation initiative, partially offset by the carryover impact of lower Hopewell output in fiscal 2026.

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At Hopewell, we expect to continue to build on recent progress we discussed earlier, with improving output and asset utilization supporting progressively stronger Specialty Additives performance throughout the year. First-half results are also expected to benefit from lapping the prior year Calvert City operational impacts, supporting improved margins in Life Sciences, Personal Care, and Intermediates.

Our outlook also reflects a stronger US dollar based on recent spot rates, resulting in estimated headwinds of approximately $20 million to $25 million in sales and $7 million to $10 million in adjusted EBITDA.

With that, I'll turn the call back over to Guillermo to discuss our innovation pipeline and our priorities for FY 2027. Guillermo.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Thank you, William. Please turn to slide 19. Innovation remains a core driver of Ashland's long-term growth and differentiation. As we discussed during our September innovation webinar, we have made significant progress advancing our technology platforms from technical and commercial validation towards commercialization. Customer engagement remains strong, and we are increasingly working with our customers to translate these technologies into specific products and applications.

We have also advanced the regulatory and manufacturing capabilities needed to support commercialization and scale of these technologies. Across our seven scalable technology platforms, we have filed over 50 patents and launched 23 products, including 12 launches since May of 2025. These technologies create opportunities across Pharma, Personal Care, and Coatings.

We're also seeing tangible commercialization progress across the portfolio. Several platforms have moved beyond validation phase into commercial launch and broader commercial adoption, giving us multiple paths to growth.

Our focus is now on commercialization, customer adoption, and disciplined scaling. We are prioritizing opportunities with the strongest customer validation and clearest paths to scale. Importantly, we are taking a disciplined approach to investment.

We can support the early stages of commercialization largely through existing manufacturing capabilities and infrastructure, with additional investments aligned with customer adoption and demand. The breadth of the portfolio, strong customer engagement, and continued progress towards commercialization reinforce our confidence in innovation as an important long-term growth driver for Ashland.

Please turn to slide 20. As we enter FY 2027, our priorities are clear. We will build on the differentiated growth we are seeing across Pharma, Personal Care, Coatings, and Performance Specialties, and continue expanding our higher-value business globally.

We will advance our progress across our manufacturing network, translating our optimization actions into greater reliability, productivity, and profitability, with continued improvement at Hopewell remaining a key priority. We will accelerate commercialization and customer adoption across our innovation platforms and continue scaling our globalized initiatives. We will maintain our focus on cash generation and disciplined capital allocations, supported by our strong balance sheet and financial flexibility.

Fiscal 2026 demonstrated that we can deliver even against a challenging market backdrop. We generated strong commercial momentum, made meaningful progress across our strategic initiatives, and delivered strong cash generation.

As we enter Fiscal 2027, our focus is on carrying that momentum and converting the progress we have made into sustained growth, improved profitability, and strong cash flow. We have the right priorities, a strong portfolio, and clear opportunities within our control to continue to improving performance.

I want to thank our employees for their continued commitment, customer focus, and execution throughout fiscal 2026. I also want to thank our shareholders for their continued support and engagement. Operator, please open the line for Q&A.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Parkinson, Wolfe Research.

Reed Halpert - *Wolfe Research - Analyst*

Hi, this is Reed on for Chris. Thanks for taking my question. I am wondering if you could talk about Personal Care markets. It seems like they are inflecting after some years of choppiness, and I am just wondering how sustainable you think this is and what you are hearing from your customers.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Okay. Jim, do you want to take that question? I just comment overall, it is pretty robust across all the regions and areas. Obviously, as Jim said, a lot of the growth are things that we are controlling in terms of new innovations and globalize and innovate side. There is a lot of levers that are favorable to us moving forward. But Jim, you want to go in more detail?

James Minicucci - *Ashland Inc. - Senior Vice President - Strategy, Mergers and Acquisitions, and Portfolio Management*

Yeah, thanks, Guillermo. Thank you for the question. As we've shared in the prior calls and prior quarters, we continue to see growth accelerate as we move through the fiscal year. If you unpack just the Q4 growth of 8%, I think the real point to highlight is, one, it was predominantly volume-driven. We were favorable on price versus prior year to cover cost inflation. As we've shared in the past, our ingredients are a small portion of the customer cost stack.

We're really the performance engine. But we took the price actions required to cover costs, but the majority of growth, roughly 7%, was volume-driven. That's one of the key indicators that give us confidence in the sustainability of the performance, that it's volume-driven. I think also when you look at the growth of 8%, it's really broad-based across the portfolio.

Roughly half of it being from our globalized segments, biofunctional actives, and microbial protection, each growing north of 10%. The other half came from our Care Ingredients portfolio, the polymer part of the portfolio, which was a combination of the innovation launches that we've had, plus the base business. So, really, really broad-based.

Reed Halpert - *Wolfe Research - Analyst*

Got it. Okay, thank you. Then just to follow up on Life Sciences, could you talk about the margin improvement there? Again, how sustainable do you think it is? Overall, how excited are you about your pharma pipeline?

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Alessandra, you want to take that?

Alessandra Assis - *Ashland Inc. - Senior Vice President, General Manager - Life Sciences and Intermediates*

Yeah, sure. Basically, from a margin standpoint in Q4, it is what we talked about. We have strong volumes in pharma, favorable mix, so definitely the strategy with the growth momentum focused on innovation and globalize.

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We are seeing the results with the top line and now some favorable mix. Pricing very similar to what Jim described for Personal Care. We have implemented a price increase to cover inflation. But really, the top line, bottom line came from the growth momentum.

And yes, there is certainly excitement with pipeline. This is a business where pipeline is very important and tied to our customers' pipeline so the growth momentum we are seeing, it is a reflection of that. Q4 specifically, overall 51% of growth, 0.4 coming from Ashland.

Definitely we are seeing the reflection of our focus on share gains, globalize, and innovate with wins in Cellulosics, film coatings, and injectables, as we talked about also VP&D in the third and fourth quarter has been positive. We have seen the stabilization on VP&D, which is very good.

Sandy Klugman - *Ashland Inc. - Director, Investor Relations*

Operator, can we please move to the next question?

Operator

Laurence Alexander, Jefferies.

Kevin Estok - *Jefferies - Analyst*

Hi, good morning. This is Kevin on for Laurence. Thank you for taking my question. First one on free cash flow conversion. You are calling for about 40%-plus conversion in 2027. I am curious what we should view as a more normalized free cash flow conversion rate beyond 2027.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Yeah, let me make just a high-level comment, and William, you can give the details. We are not really changing a lot in our CapEx side. The only thing, I would say major thing we have done is in our HEC with the network optimization. We have two things. One, we are just working to optimize the productivity of one product line, one plant. That has been the issue this year.

But if we look at longer term, we do want to make sure that we are building capacity, debottlenecking for 2030. Right now, the macro demand in Coatings and Performance Specialties has been sort of muted. We had, example, this year, we expected some pickup in North America. That did not happen. For next year, we are also forecasting sort of a muted environment. The issue is there is a lot of pent-up demand in housing and real estate. There is a lot of things here.

Equally, we could see a pickup in 2027, 2028 of demand. Rather than waiting to add those debottlenecking projects in late 2027, 2028, we have just decided we are going to move them forward so that we are prepared for any upside that could come in the later years of our planning process. It is really more of a timing of the CapEx rather than anything else. But William, I do not know if you want to give any more.

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

Kevin, good morning. In terms of the free cash flow, over time, we still expect greater than 50% free cash flow relative to adjusted EBITDA. This year quite strong at 60%. This year, we are guiding greater than 40%. Guillermo highlighted some of it, but on the CapEx side, it is an increase from $90 million to $140 million in the guide.

I do want to underscore that is the up to. We wanted to give ourselves some room on the project timing, so we will update you as the year progresses in terms of the timing of those key projects. But really, from a capital allocation priorities perspective, that element does not

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change. Maintenance CapEx, disciplined on that front. We have continued to have and recognize the savings from some of the asset footprint rationalization over the years. We have set the guide prudently on the CapEx side.

This year was a tailwind on the inventory side, about $85 million in terms of inventory reduction in the fiscal 2026. I expect that to have a modest build next year, and it is select areas, HEC being one of them. The combination of those two gives us the greater than 40%. But I do expect over time, as CapEx normalizes, we will be closer to that 50% that we have guided to in the past.

Kevin Estok - *Jefferies - Analyst*

Okay, understood. Thank you. Just on the pharma durability, just curious what your order books and maybe customer activity suggest about growth, I guess, in 2027, and whether you were seeing any customer inventory normalization that could possibly change that trajectory?

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Yeah. If you look at the overall, the order book is pretty solid. Actually, I would say even in October, looks in line with our expectations. No big surprises. If you look at the inventory builds and dynamics over history, normally, customers, pre-inflationary environment, maybe build up some inventory, or when there is shortages, they build up some inventories.

As Jim mentioned, we are not the biggest driver of costs. Our things are a small portion of our overall cost. So, for inflation, this is not where they save money. They probably build in other higher value areas for their cost structure. So, that is the driver right now. So for additives, I do not expect that that is going to be - wedo not see it, and we do not expect that that is going to be the big driver because it is very little value for customers.

What we saw was really like in 2022 when there were shortages. Additives and ingredients are small volume, and you cannot. It is like a restaurant, you cannot cook if you do not have the spices. You do not want to run out of that. That is where we see the inventory build that impacts additives and ingredients. That is what we saw in 2022 and then the destocking in 2023. That is not the dynamic right now, so we do not expect that as we move forward.

Operator

John Roberts, Mizuho Securities.

Edlain Rodriguez - *Mizuho Securities USA LLC - Analyst*

Thank you. This is Edlain Rodriguez on behalf of John. Good morning, everyone. I mean, quick one on Personal Care. I mean, maybe this is for Jim. So we are seeing some softness in oral care and household care. Anything specific going on in those markets, or is it, as you say, just a timing thing? Does that mean we should expect to see better comps next quarter, once the timing issue is resolved?

James Minicucci - *Ashland Inc. - Senior Vice President - Strategy, Mergers and Acquisitions, and Portfolio Management*

Hey, thanks for the question. Yes, exactly as I shared in my prepared remarks, it was really just isolated to one region. It was an order timing specifically in North America. If you looked at oral care and home care across the other regions, they were all up in the other regions versus prior year.

Even if you look in places like China on a full-year basis, we have seen tremendous growth in oral care with local oral care companies in China through the course of the year. We had a launch this year, a new thickening polymer for toothpaste that is getting great market adoption. So overall, really good year for oral care, and we expect that to continue in 2027.

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Edlain Rodriguez - *Mizuho Securities USA LLC - Analyst*

Okay, great. Another one on raw materials, maybe for Guillermo or William. Can you talk about raw material cost increases you have seen and your ability to raise prices to offset that? What is the conversation been like with your customers? Also, do any of the businesses have an easier or more challenging time to pass through those costs?

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Again, let me give just a high-level question, and William can give you some of the details on the inflation and all that. In general, again, we are additives. We are not the biggest driver for our customers, one. Two, we are not petrochemical. Our exposure to petrochemicals is much lower.

Do not expect us to do price increases like companies that are exposed to propylene, ethylene, all those kinds of chains. Ours is much more muted with 1% to 3% growth, depending on the business. We not only cover inflation, we can cover the margin protection for what we do. We do not grow and drive performance by pricing because of inflationary times. We value price, so this is more about protection. You launch, we position the product well, and then volume growth is what is going to drive our performance. This is no different.

We tend to try to go in, do this quickly, get out of the way of customers. They got bigger problems and bigger challenges with other costs and other raw materials. We want to make sure that they understand that we are not abusing the situations. We do not do anything of that nature, and it has been pretty smooth. Last few years, you have seen that we have been able to do this pretty well, and I think the team did a fantastic job to move quickly to do what we needed to do and just that with our customers.

William, if you want to add more detail.

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

Yeah, Edlain, good morning. On the pricing side, I hope it is clear that going back a couple earnings calls ago when inflation really started to move on the space, and we committed to cover that and gave some guidance on what that could look like in terms of the impact, and ultimately we did that.

Pricing was down 2 points in Q2, up 2 points in Q4, so it is a 400 basis point swing over the last couple of quarters, and the team has done a really nice job across all business units. I would say the areas in terms of the business units that maybe have the All of them are experiencing it, but the one with the larger impacts to date has been Specialty Additives and Intermediates, and clearly you can see that in our pricing numbers that we have been able to go out and get that.

As we look ahead to next year, what does that look like? A lot of the actions we took were based on the costs earlier this year, and so while things have been volatile, we have not really seen things gap out well above where we were then.

At this point, we are assuming we can do what we did this year, and any incremental changes we will go out and cover across the business units. Carryover pricing should be a modest tailwind in the first half, but you do have the raw material carryover based on where the raw material basket is today. Overall, we feel good about our ability to manage pricing in the context of a volatile environment.

Operator

Steven Haynes, Morgan Stanley.

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Steven Haynes - *Morgan Stanley - Analyst*

Hey, good morning, everyone. Thanks for taking my question. I wanted to ask on the EBITDA guide. I understand that you haven't given any specific quarterly commentary, but could you help us think about the shape of the year a little bit, how you see maybe at the midpoint, first half versus second half, anything unusual to call out in that regard?

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

I think nothing major unusual from an external perspective. I think the timing issue, and William, you want to cover just timing of when we do turnarounds or all that? But that's more timing issues.

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

Yeah.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Do you want to comment?

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

That's right. Hey, Stephen. Good morning. So some of the moving pieces, I'd say, at a high level in terms of the shape of the year, I don't expect it to be drastically different than what we've experienced in the past. Typically, second half for us is 55%-60% of the full year EBITDA. I would say in 2027, it should be less pronounced to the second half than it was this year, and that's because of one, obviously, we had the Calvert City and weather impact in first half last year. That was a $20 million number, so quite sizable.

So I do expect a nice margin uplift across Life Sciences, Personal Care, and Intermediates in the first half. From a seasonality perspective, nothing unusual, to Guillermo's point. Q1 is our seasonal low. I do expect that to remain to be the case.

We do have volume mix momentum in several areas, as you heard from the team, on the globalize and innovate, as well as lapping some of the impact on our secondary markets, both construction as well as energy. Pricing carryover will be most pronounced in the first half of next year as well.

The other piece, too, to Guillermo's point, and this is typical for us, we tend to do our turnarounds on the Cellulosics assets in the December quarter, and that's the seasonal low for the coatings season. We are doing that this year. The last piece I'd add is the Hopewell element. Because it is the seasonal low, this gives us an opportunity to go out and build inventory in that area.

We do expect Hopewell's throughput to increase throughout the year, although we do have a negative carryover impact in Q1 based on how it ran in the second half this year. I hope that covers it, but those are really some of the moving pieces as we think about the shape of next year.

Operator

Josh Spector, UBS.

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Joshua Spector - *UBS AG - Analyst*

Yeah. Hi, good morning. Apologize if I missed this, but I did want to ask on the CapEx step-up. It kind of surprised us, at least, because we thought a lot of the innovation-led growth was going to be repurposing, kind of lower capital intensity so why the step-up now?

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Yeah. As we got that question a little bit earlier, Josh, the issue is more of a timing issue. As part of our network optimization with HEC, right now, we're focused on just stabilizing, normalizing the productivity at Hopewell, and we've made investments there.

But if you look at longer term, we do need to do some debottlenecking. The plan was to do it in the outer years, more 2029, 2030. We decided that we're going to move that forward, and the comment I mentioned was really, there's a lot of pent-up demand, especially in coatings, in the coating space. This year, we expected some recovery in North America, Europe. That did not happen. But there is a lot of pent-up demand, the real estate market, construction around the world, especially here in the US.

There is a probability that is not insignificant that we could start seeing a pickup in demand after a very muted market, both in the new construction, in the real estate, and I would say in the DIY market. We don't want to risk anything, and we're just saying, look, let's move it up. It's just year – year and a half forward. Have the capacity ready, and we'll move on so that we have more normalcy in our production planning, and we're not rushing in the last minute to add capacity.

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

The other piece, Josh, just to, I would say, just to reinforce, we set the guide prudently, right? That we're intentional on the up to $140 million, so we've given ourselves some room on the project timing. We'll update you as the year progresses, but I expect this to also normalize once we get through this.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Normally, we probably won't be able to spend that kind of money, so there will be flow over into the next year. That is sort of a max level if you just assume 100% of the project is all spent in one year.

Joshua Spector - *UBS AG - Analyst*

Okay. I mean, I guess that makes sense. I mean, I will follow up later. It just seemed like odd timing to be pulling forward for a coatings recovery. No one seems super excited there at the moment. I can shift gears and ask just on the innovation-led growth, $45 million. How would you break that down between kind of incremental products versus some of the more, call it, new-to-the-world type products you have? What does that split look like, and does that change your level of confidence at all?

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Yeah. So, Josh, two things. One, just to go back on your comment on HEC and what we are doing there. Remember, our plants are running pretty well across the board in terms of the capacity utilization rates. We had an issue in one product line, one plant, but the rest is pretty well.

So we want to make sure that we are in a good position from a supply perspective, because any pickup, we do want to be ready for it across our network. We now have three plants, not four, so that is part of the logic of that. In terms of innovation, in the near term, still, core innovation

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is a bigger part of the driver, just the timing of things, and the nature of the portfolio. If you look at Life Sciences, it is a pipeline, right? New things will take longer to come in.

But equally, for the other businesses, we are launching some of these newer products, but a lot of the wins that we are getting on are things that we have been working on in the last two years, in the globalized especially. That is a big driver. Also, if you look at Coatings, a lot of the growth that they are getting is on new rheology modifiers in the synthetic side, new multifunctional HECs and multifunctionality in the additive base, new additives.

So all those are more in the core area. Then obviously, the focus with the new technologies is launches and commercialization. The ramp rates will come over time as these new technologies really start getting hit. So they will be more in the outer years, but not too much in 2027.

Operator

David Begleiter, Deutsche Bank.

Emily Fusco - *Deutsche Bank - Analyst*

Good morning. This is Emily Fusco on for Dave. Just wondering if you could maybe provide any color on the potential sale process, given some of the recent news, or if there's been any developments there that you can share. Thank you.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

So, there's not much we can share. As usual, we don't comment on speculation and rumors and all the noise that is out there. I think, as we've said, we're focused on the things that we can control, on execution of our strategy.

The biggest value creation driver in any scenario you want to do is performance. And that's really where we have the team focus on. It's about execute, get the productivity going. That has been our challenge in 2026, not the external world. It's really that part, and if we fix that, we'll be in a very strong position in 2027, drive globalize and innovate, and just execute our portfolio. So that's the primary focus for everybody at this point in time.

Emily Fusco - *Deutsche Bank - Analyst*

Got it. Okay, thank you. Maybe just to pivot here, and sorry if I missed this, but did you or can you quantify the EBITDA impact from Hopewell in 2026 or Q4, and maybe how much year-over-year improvement, if any, is embedded into the 2027 guidance?

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

Yeah, of course. Hey, Emily, it's William. In terms of the impact for the full year, in terms of operating, let me start there, and then I'll translate that to the financial impact. In terms of the operating performance, we were under-absorbed versus our initial plan this year, about $17.5 million. That doesn't all sit in Specialty Additives, but the vast majority of it does.

The key piece to keep in mind, a portion of that does roll over in the next year, so about $5 million of that $17 million will impact us in Q1, based on how the site ran in the second half. Then I think what's really important is the operational ramp from here, right? What we do from here in terms of driving throughput and productivity at the site to support existing sales, existing demand.

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As we look out for 2026, 2027, 2028, that trajectory, we expect to increase output by about 25% roughly, along with another order of magnitude similar in the following year. The plans are in place, and that's really a key part for us.

Then as you look at fiscal 2027, you have the $5 million carryover. We do expect to more than offset that for the balance of the year, so it should be an incremental positive for fiscal 2027. Really, where you get the EBITDA leverage is going into fiscal 2028 as you're producing at that higher output on the fixed cost base. If that helps.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Emily, the other part is the other impact, the total impact was significant because there was another $20 million. If you look at the outage, the equipment failure in Calvert was about $15 million, and the weather was another $5 million. Those two we've lapped, and production's normalized, as William said in his comments. That one is already behind us.

The year on year, this year, all the external things, all the execution of strategy went according to plan. The miss was in the operating side. I think we've lapped 60% of it already, and now really focus on the Hopewell side, on one technology that we want to increase productivity.

Operator

Mike Harrison, Seaport Research Partners.

Mike Harrison - *Redburn Partners LLP - Equity Analyst*

Hi, good morning. In the Specialty Additives business, you noted that there have been some deliberate actions to reduce your exposure to lower margin sales, I think particularly in the construction market. Maybe just give us a little more detail on what you're doing there and maybe what the revenue and kind of the timing looks like as you're walking away from some of that lower margin business.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Thanks for the question. This is an area that we really do want to clarify. As we said in our comments, energy and resource and construction are the two areas that are out. They are smaller businesses within the portfolio, but the movement has been significant. I would say if you look at energy and resource, it is about the Iran war. It has really disrupted a lot of demand there.

Again, probably impact about small business, but impact probably around $30 million overall in the net impact. Now the business is pretty much at the bottom, so we expect, as we move forward, that that will be a recovery. Construction is different. I mean, we were at $120 million-plus when we were running the business for absorption and just trying to load the plant. That is now much smaller in terms of our overall portfolio.

The purpose of this, we have some very good businesses within construction, so the higher end, we are committed to those customers, and we want to make sure that we have the demand and supply. There is still a margin that we use to fill up the MC unit that we have. The priority is Pharma. We will make sure that the volumes, we use this as a filler, right?

Construction is never going to grow for us in a significant way. When we talk about the construction market not growing, that is not the driver. This is just going to be a sort of a steady state business that will go up and down depending on our need to load the plant. We will try to keep the higher end portions of construction that we like and that we are committed to the customer base.

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William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

Guillermo, just to add too, I think another perspective here is, it is not a new dynamic. I think it became apparent in Q4 and Q3 because the team has been doing such a nice job in performance specialties and coatings, so you do have some offset on the construction side clearly.

One of the things I think is important is, it is not new, so we are going to lap that impact in Q1 in terms of some of these choices, because you had asked, how much are you X? This has already happened. I would expect the construction business to be relatively stable year-on-year going into Q1 of fiscal 2027, just to be clear on that.

Mike Harrison - *Redburn Partners LLP - Equity Analyst*

All right, thanks. Very helpful. The second question is on the Personal Care margin from here. It seems like maybe we are seeing some benefits from the volume leverage, from plant optimization, maybe mix is getting better. Just wondering where margin can go from this kind of 30% EBITDA margin level, as we are thinking about the next year or two. Thanks.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

I'll let Jim take this. Obviously, as you said, mix is a big driver. There's a lot of really good stuff coming out of our biofunctionals, our microbial protection, and even the new projects that they're launching in the All those have higher than average margins, so the mix is a big part of the story as we move forward based on our strategy. But Jim, you want to give any other color?

James Minicucci - *Ashland Inc. - Senior Vice President - Strategy, Mergers and Acquisitions, and Portfolio Management*

Thanks, Guillermo and Mike. Thank you for the question. As you said, we're really happy to have 30% margins in the quarter. As we've been talking for the past couple years, that's really something that we've been working towards to get into that high 20%, 30% margin range. We still see upside and additional headroom to go from here.

Clearly, in the first half of 2027, we should see some margin uplift and benefit versus prior year due to the one-time items not repeating, specifically Calvert City event and the weather event from last year. Then going forward, as we said, our commercial engine's really taking hold. We're seeing really robust growth. Our high margin businesses, biofunctional actives, microbial protection, growing at double digit, which we expect to continue in 2027 and beyond.

We're going to get favorable mix through volume growth that'll add additional margin uplift. Now we're focused on getting to that mid-30% range.

Operator

John McNulty, BMO Capital Markets.

Margarita Margulis - *BMO Capital Markets - Analyst*

Hi, this is Margarita Margulis on for John. Thanks for taking my question. Could you provide a little bit more color on the new energy storage customer wins, including the size of the opportunity and maybe when you expect these volumes to ramp up?

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Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Yeah. I'll comment on that. We don't comment on specific contracts and things of customers, but it's a big, a long-term contract, US, big battery, EV, and energy storage so it's a multi-year, significant volume. It'll provide a lot of loading stability to our Intermediates business and our integrated footprint.

The first year is the one that we'll look at it. We have our numbers of what they've given us. The first year is usually the noisiest because of just ramp rates, which is this year. But everything is moving. It's now support the customer and what they're going to be ramping over the next six to 12 months.

Margarita Margulis - *BMO Capital Markets - Analyst*

Got it. Thank you. And just broadly on capital allocation, with leverage just over two times, has your appetite for M&A changed heading into FY 2027? Separately, has anything changed with the Capital Allocation Advisory Committee? Any updates there?

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

No. Nothing has changed. We have a clear strategy. I hope everybody's seeing everything that's happening is in line with the strategy and things that we're doing. The invest, we're very clear on what we want in terms of bolt-ons around Pharma and Personal Care being a priority around assets to support maybe growth of some of the new technologies in geographic growth around the world. So those are the biggest areas.

On your question on the Capital Allocation Advisory Committee, they're very engaged and focused, and it's really, one, deeply embedded into what we're doing in our strategy around growth. So understanding where we are in terms of our execute, capital allocation for our productivity initiatives, getting all our plants performing, and able to long-term up on their productivity curves in contributing to the business and making us competitive.

On the globalize, it is not just capital, resources, all the investments that we are doing to drive the execution of our strategy, which is delivering very well, and we want to keep that momentum. They are looking and understanding our innovation portfolio, deep diving into our technologies, understanding them, but more importantly, looking at which are the more scalable ones, and what capital needs that we need in those areas, and how do we make sure that we maintain the momentum, and obviously, understanding our bolt-on type activities.

As is normal, I mean, long term, we have been working on our bigger strategy on scale, for us, and things we are going to do. Over the last two years, the committee is deeply working on all those things, as they always have been. Pretty robust and everything is around execution of our strategy and growth.

William Whitaker - *Ashland Inc. - Interim Chief Financial Officer, Vice President - Finance, Director - Investor Relations*

The only other piece I would add to that is, very intentional this year on capital allocation, strengthening the balance sheet, and part of that is making sure that we have a full suite of options as we approach the upcoming debt maturity we have. We have a January 28 bond tower, EUR500 million. Feel really good about the cash position at $480 million plus undrawn revolver. Gives us a lot of flexibility as we are thinking through that.

Credit spreads are still quite attractive, but base rates have obviously moved in many jurisdictions. We like the flexibility we have with building cash on the balance sheet in advance of that, and more to come as we work through what we will do to address the bond tower.

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Operator

Thank you. I am showing no further questions at this time. I would now like to turn it back to Guillermo Novo for closing remarks.

Guillermo Novo - *Ashland Inc. - Chairman of the Board, Chief Executive Officer*

Great. Thank you. Thank you, everybody, for your questions and participation. I hope you see and feel the excitement we have. I know 2026 actually has played out very well in terms of our overall strategy, commercial execution. Obviously, we had our gaps in the operating side. These are one-time issues. Sixty percent of them are already behind us. We are working on the other ones. These are one-time things. We made a lot of changes.

What excites us is -- look, we have completed our transformation. The last few years have been a lot of work and a lot of moving parts and change. It is done. We have organized ourselves and changed our cost structure as a company. We have driven significant change in our portfolio focus, more in additives and ingredients and consumer, the manufacturing network we have optimized.

We have identified four businesses to drive globalization, market share gains, and we have reset entirely our innovation portfolio. Stronger toolbox, new opportunities that create incremental growth for us. All those things are done. Our team is focused on execution, and if you see the results in 2026 from a commercial perspective, they align extremely well with what we have said. Resilient markets, higher quality growth, and all the drivers. That is why we are excited about 2027.

I think the issue now is fix the things that we need to do with one product line, one plant, in terms of our productivity, and then just focus on execution. We have the right strategy. The teams are really advanced, and we are not starting these things. We finished the transformation at a time where the rest of the industry is still in the process of starting their transformations.

This gives us an advantage to stay focused, execute on our strategy, independent of what the external market is. I think we have a lot of company-specific growth drivers that really can drive our performance moving forward, and that is our number one priority.

So I look forward to talking to everybody over coming weeks, and I appreciate your support, and thank you.

Operator

Thank you. Thank you again for your participation in today's conference. This does conclude the program, and you may now disconnect.

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