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Q1 2020 Ashland Global Holdings Inc. Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ashland Global Holdings First Quarter 2020 Earnings Call. (Operator Instructions) Please be advised today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker, Seth Mrozek, Director of Investor Relations. Please go ahead.

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

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

We released preliminary results for the quarter ended December 31, 2019, at approximately 5:00 p.m. Eastern Time yesterday, January 27. The news release issued last night was furnished to the SEC in a Form 8-K.

During this morning's call, we will reference slides that are currently being webcast on our website, ashland.com, under the Investor Relations section. The slides can also be found on the Investor Relations section of our website. We encourage you to follow along with the webcast during the call.

Please turn to Slide 2. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our outlook for fiscal year 2020. These forward-looking statements are subject to risks and uncertainties that could cause future results or events to differ materially from today's projections. We believe any such statements are based on reasonable assumptions but cannot assure that such expectations will be achieved. Please refer to Slide 2 of the presentation for a more complete explanation of those risks and uncertainties and the limits applicable to forward-looking statements.

Please also note that we will be referring to certain actual and projected financial metrics of Ashland on an adjusted basis, which are non-GAAP financial measures. We will refer to these measures as adjusted and present them in order to supplement your understanding and assessment of the financial performance of our ongoing business. Non-GAAP measures should not be considered a substitute for or superior to financial measures calculated in accordance with GAAP. The most directly comparable GAAP measures as well as reconciliations of the non-GAAP measures to those GAAP measures are available on our website and in the appendix of today's slide presentation.

Please turn to Slide 3. Guillermo will begin the call this morning with an overview of results in the first fiscal quarter. He will then provide an update on the work that has been done to realign the Ashland business structure. Next, Kevin will review financial results for the fiscal first quarter and discuss the debt offering and redemption that was completed in January. Finally, Guillermo will close with key

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accomplishments that have been achieved over the past few months in addition to providing his thoughts on important next steps. We will then open the line for questions.

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

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

Thank you, Seth, and good morning to everyone. It's an exciting and dynamic time here at Ashland, and I'm incredibly energized by what we have accomplished and the opportunities that lie ahead. I want to thank the Ashland team for the strong support and enthusiasm you have demonstrated during this transition.

Today, I'll start with comments about the high-level drivers of our performance in Q1 then discuss the business realignment that continues as we speak. Following my remarks, I'll turn the call over to Kevin to take you through the details.

Q1 performance was below prior year driven by softer market demand, prior year carryover items and our catalyst change at our Lima facility. We experienced no significant surprises in Q1 other than the extended turnaround costs at our Lima facility as a result of an unexpected need for additional maintenance work.

We had another strong quarter in terms of EH&S performance. And we continue to advance our sustainability objectives in terms of innovation and operations.

As expected, market demand remained soft in the quarter in both the industrial and consumer markets. In pharma, we had a difficult comp relative to a very strong prior year Q1 and saw some customers adjust their inventory levels. In personal care, we continue to see demand softness in hair care. In oral care, results were stronger than planned driven by some new product introductions by key customers. For adhesives, we saw general softness across most segments, especially transportation, but the construction market was strong. We continue to see deflationary pressures in both pricing and raw material costs. Coatings demand remained soft during the quarter.

As we communicated, we also had the prior year carryover headwinds of business losses and tailwinds of improved costs. From a cost perspective, we continue to realize benefits from the cost reduction program and have begun taking additional cost improvement actions. I will talk more about these actions later in the call.

Now I'd like to speak to you about the progress we have made realigning Ashland's business structure. Please turn to Slide 7. As we've discussed during the last call, we are moving from a functional model to a business-led one. As part of this change, we are putting in place a new business structure to better align strategy, resources and capital allocation and improve execution. This change recognizes that we have a diverse portfolio of specialty businesses with different profiles and requirements to drive success. This will move decision-making and accountability to the business units and their leaders. Incentive compensation will be heavily aligned to business unit results. In forming the teams, we are leveraging our internal talent and complementing it with targeted external talent. I'm very pleased with the progress we've made in such a short period of time.

Please turn to Slide 8. Our business will be made up of the following. The consumer specialties group will include our life science and our personal care and household business units. Note that the life science BU will hold our current pharma and health and wellness businesses. The health and wellness business will include Ashland's core food additives business as well as Pharmachem's nutrition activities. Personal care and household BU will include Ashland's existing businesses as well as the Avoca fixative business from Pharmachem. The industrial specialties group will be made up of our specialty additives and performance adhesives business units. Specialty additives will contain our coatings, construction and performance additives business lines. Performance adhesives will remain unchanged. We will continue to run our intermediates and solvents business as a separate segment and business.

Although we will allocate to the business units some of the corporate managed costs linked to their operating activities like IT, HR, EH&S and other functions, we will have a corporate segment that holds all corporate governance costs. Note that in addition to aligning our resources to the businesses, we are also aligning our core assets to them. Each business will be accountable for the operations and

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performance of the assets in their business and for the supply of all the demand of the other business units.

Please turn to Slide 9. This business model change will be a fundamental change in how we run our businesses and the company. We expect these changes to increase our focus and in turn improve decision-making, our agility and build ownership and accountability.

Business units will own their strategies and be accountable for their operating performance. This is not a one-size-fits-all model. They will have the dedicated resources and full empowerment to make decisions, including their business models and cost structures. The intent is for the new business structures to better align strategy, resources and capital allocation and, of course, improve execution.

Aligning our incentive compensation to the line of sight of our business units and their teams is also a significant change. Their decisions and actions drive our performance, and as such, BU incentive comp will be heavily aligned to the business units' results.

We have accomplished a lot in a short period of time. All the general managers have been selected and will all be in place starting February 1st. We have defined the business units, their teams and aligned their assets, and we're now in a process of finalizing the financials.

As part of the actions taken, we have started to reduce our cost structure. For this coming quarter, we will be focused on operationalizing the new business units. We expect them to update all their strategies and define their business models and cost structures. As the BUs take control of their operations, we will begin the process of rightsizing other corporate structures.

Let me now pass the call over to Kevin to review our results, and then I'll come back with some closing comments. Kevin?

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

Thank you, Guillermo, and good morning, everyone.

If you will, please turn to Slide 12. First, I'll begin with a broad overview of results during the quarter. As you may recall, the December quarter is our seasonal trough during the year as demand tends to be slowest as our customers manage inventory in anticipation of planned downtime at their facilities. We also schedule much of our planned downtime to coincide with our customers' planning. This quarter was no different, and our results demonstrate the same normal seasonality patterns that we would expect. That being said and as expected, heading into the quarter, global demand in both consumer and industrial end markets remained weak.

We also continue to work through the business losses that occurred last year at both Pharmachem and within the personal care end market. We did, however, realize continued improvements to our cost structure as both SG&A and raw material costs were down compared to the prior year. While overall result were consistent with expectations, they were below the results of last year's December quarter.

Please turn to Slide 13. Total Ashland sales in the quarter were $533 million, down 7% from the year ago period due to lower sales in specialty ingredients. Negative currency represented 1 point of this decline.

SG&A costs again declined significantly in the quarter as we realized positive impact of the cost reduction program, including the benefit of eliminated stranded costs. We did incur higher-than-anticipated costs during the planned catalyst changeover at the Lima, Ohio facility within intermediates and solvents.

Total Ashland's adjusted EBITDA was $88 million compared to $100 million in prior year. Adjusted EPS was $0.13, down $0.01 from the prior year. Our tax rate was favorable due to income mix and the benefit of discrete tax items.

Now let's look at the segment results in the first quarter. Please turn to Slide 14. Specialty ingredients sales were $505 million, down 9% versus prior year due primarily to weaker demand in both consumer and industrial end markets plus the prior year business losses, which I already referenced.

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Gross profit margin benefited from lower raw material costs, though this was somewhat offset by unfavorable product mix.

Favorable price versus raws continues to be a good story for specialty ingredients as the commercial teams have been diligent during a prolonged period of raw material volatility.

Operating income and EBITDA both declined versus prior year as lower gross profit was partially offset by lower SG&A costs. All in, EBITDA margin was basically flat at 20.2%.

Please turn to Slide 15. Turning to intermediates and solvents. Sales in the quarter were $28 million, up 22% from the year ago period, though the December quarter last year was particularly weak for the I&S segment. As previously mentioned, the planned catalyst changeover plus the unexpected maintenance work at Lima resulted in $12 million of additional costs versus prior year. As a result, both gross profit and EBITDA were negative during the quarter. The good news is that the plant returned to normal operations during the quarter and no additional costs are expected related to this maintenance work.

Now I'd like to review some important balance sheet work that we've recently completed. Please turn to Slide 17. To improve our debt maturity profile and better match the currency of our earnings, assets and liabilities, in January, we issued $500 million of unsecured euro-denominated bonds at 2%. We also finalized a new unsecured U.S. credit facility consisting of a $250 million term Loan A and a $600 million revolver. We used these proceeds to retire approximately $766 million of higher-rate debt this month. This move extends maturities and reduces our weighted average cost of debt as well as cash interest expense. It also provides a natural hedge for our euro-denominated balance sheet and income statement. We expect this refinancing to result in approximately $18 million to $20 million of lower cash interest expense on an annual basis. This Eurobond issuance debut is an important step as it demonstrates new capital sourcing options for Ashland outside the U.S.

Please turn to Slide 19, and I will now turn the call back over to Guillermo for his closing comments. Guillermo?

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

Thank you, Kevin. As we discussed in our last call, our key objectives are to drive profitable growth driven by organic sales and adjusted EBITDA growth, margin expansion and improved cash flow generation.

Please turn to Slide 20. My priorities continue to be to develop and articulate our strategy for our business and the company to improve our operating performance and to align and right size our cost structures to the needs of our business and run as a best-in-class company for our size and profile and to maintain a disciplined capital allocation focus. Most importantly, we want to move with a strong sense of urgency and ensure that our actions result in visible improvement momentum in our performance.

Please turn to Slide 20. Our near-term focus is very clear. First of all is to enable our business units. This is at the core of driving fundamental improvement in our results. If our business units are focused and performing well, this will drive core value creation. We are targeting to have them fully operational with their new strategies, plans and structures by early fiscal Q3.

We will drive cost improvement actions. Our -- it's important to note that our company has undergone significant portfolio changes for a long time. We recognize that the organization is a bit fatigued with change. Because of this, we want to make sure that we move with urgency on defining our future structures and implementing the cost actions we plan to take.

We will be acting on cost across 4 levels of the company. The first level is around our BUs. BUs will drive setting their business models and improving their direct cost structures. Second, as the BUs define their needs and service level requirements, we will take action on corporate managed costs that are allocated to the business based on these new service levels. Third, we will ensure we have in place a best-in-class governance structures and costs in line with a $2 billion to $3 billion company of our profile. It's also important to note that although we are a smaller company now, we do have some legacy costs from our history. We will ensure that we have the appropriate cost structure to manage these legacy activities efficiently and effectively. And lastly, we're going to focus on driving our operating performance. Although the business units will drive the core operations, we do have some specific challenges where I plan to spend more time. One would be addressing revenue growth on a few challenged businesses. Another area is about accelerating productivity

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initiatives. And the last area is improving our working capital and getting opportunities to impact free cash flow.

Please turn to Slide 22. Because as I've outlined, our focus for 2020 is very clear. Our #1 priority is to take the necessary self-help actions that will drive near-term and long-term performance improvement for our company. We will move with focus and a strong sense of urgency. We are still finalizing the financials for our new business, which will be critical for the work that lies ahead. We already have a lot of issues we need to address, but there's still more work to define other actions we need to take and dimension both their near-term and long-term impact. As such, we will not be providing guidance.

In terms of the outlook, we will provide the following insights. Although there's still a lot of macro uncertainty, based on current assumptions, we expect market demand to start improving especially in the second half of the year. We continue to make progress on new business development and innovation, which will support our underlying business. We expect pricing and raw material dynamics to stay balanced. At a minimum, we expect to see the $25 million SG&A carryover improvement, but we will work to expand that impact throughout the year with new cost actions. We will begin to act on some working capital improvement initiatives especially on inventory. This will liberate cash, but we still need to dimension the operating impact these actions may have. For our Q2 call, we will plan to present the new business structures and give further color on our strategy and path forward.

Please turn to Slide 24. Although there's clearly room to improve our performance, we are already a premier specialty materials company. We have an enviable portfolio of businesses focused on high-quality markets with exciting growth opportunities. We have leadership positions in our core markets with strong and experienced teams, customer relationships and innovation capabilities. We already have a profitable and high-margin portfolio, and our businesses generate strong free cash flow. Our focus now is on making a good thing even better.

I want to thank all of you for your interest and support. And I also want to thank -- give a very special thank you to everyone in the Ashland team. Your support and dedication is greatly appreciated. Note that together, we will be making Ashland an even better company where we can innovate with our customers and grow together. Your work counts and is critical to our future. So thank you very much.

Operator, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Christopher Parkinson with Crédit Suisse.

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

Great. So Guillermo, we understand you've only been on the ground for a few weeks, but we also know you're familiar with some of these platforms from your past experiences. Just given investor concerns regarding systematic business loss due to some Pharmachem weakness, can you just give us a quick review of your perspectives on the longer-term competitive positioning of the ASI portfolio by end market but particularly in the life sciences and PC&H platforms?

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

Okay. Yes, I would highlight 2 big items in terms of some of the events that happened last year. And I think we talked about it a little bit in the last call. And first is, yes, we had some business impact in our portfolio, but we did not lose share to competition. It's not like we're not playing our game. We lost business because some of our customers made reformulations and took some of the business internally. So if you look at actually the core businesses across the portfolio, we are still in a very good position. There's the normal puts and takes of share wins, share losses that happen. We don't go into that level of detail on an ongoing basis. But I'm pretty confident that if you look at some of our core business in pharma, in coatings, in adhesives, we're doing very well and in a lot of our traditional construction and other such segments. So I'm not as concerned that there's something systematically broken.

Now the oral care we were addressing, it's now -- capacity, it's done. We actually -- versus our plans, we had a better quarter than we had

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planned through innovation, new products. Customers are taking some of our newer technology. So the teams now, that's one of the areas that I want the new business units and leadership teams to focus and really make sure that we're getting more traction. I think we can get much more leverage out of our innovation investments that we're making that I don't think we are where we need to be in those areas.

On the Pharmachem side, I -- this is one of the areas that I need to spend more time. We have an issue there. I mean there's no doubt that this is more structural, and I'd rather comment that in the next calls as we move forward. But clearly, we have some good businesses that are stable. We look at our active ingredients business, the margins can improve, but it's a stable business that we can grow. In some of our fixative business and some of our custom manufacturing, obviously, we've had some bigger challenges. There's a lot of great technology there especially if you look at our Avoca business to grow into -- taking into new directions, but this is going to take a period of time. So this is definitely an area where we'll spend a little bit more time and effort.

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

Got it. And just as a corollary of that question, for those investors that are concerned about the long-term growth profile of the ASI platform, what do you believe are the overall macro key thematic top line drivers we should be monitoring? And what's your general thought process regarding how long it will take senior management and the new business unit heads to better align the company's cost structure with that outlook?

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

I think on the cost and organization, the expectation is that we'll move quickly on those. So within this year, I'd like to see most of those things in place. I think the ones that you're going to have probably a broader time line, some things we can do now, some things that will take a year, some things that might take a little bit longer, is more on the corporate side. We can -- structural things we can do, certain footprint changes or even if we want to change our IT strategy, things of those nature, take a little bit more time. So that area, I think, you're going to have a broader spectrum. But definitely, on the business side, the cost part will be very critical. I think we should be getting much more benefit on the revenue side on focus. And that's been the experience that I've had with other businesses that we've gone through this transformation. Obviously, the innovation one is the part that is a longer lead time, and that's why we're moving with urgency. The sooner we can get to it, the better.

The good news there is that we actually do have really great capabilities. Every lab facility they go, the projects that we're working on, I think it's about getting more traction. But there's a lot of exciting things that are going on that are probably not as visible to the outside, and that's one of the things that we want to show our investors and our customers on the things that we're doing. These are things like innovation around sustainability about biodegradable products. It's about natural products, new pharma products to help our customers improve productivity in the manufacturing of their pills, expanding into markets on bio -- on injectables in the pharma area. In coatings, we have a real premier group in rheology. I've competed against them for a long time. They're expanding into other technologies to expand the portfolio.

So there's a lot of exciting things. That's why I'm very excited. The sooner we can get through some of these cost actions and restructuring, the sooner we can get to the real exciting stuff, which is really about innovation and organic growth.

Operator

And our following question comes from John McNulty with BMO Capital Markets.

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

With regard -- you had indicated there were some opportunities around the working capital side. I guess can you give us some preliminary thoughts on where you think you can actually make the improvements there and if you can quantify it at all?

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

Well, that's -- the part of quantifying is why we're not being specific on some targets yet. But if you just look at our balance sheet and the inventory levels relative to others -- other companies, we have a high inventory level. And especially if you look in some of our bigger asset plants, that's where we want to focus, and it's not an insignificant amount.

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Now the issue is what actions do we take commercially moving the material if we -- if it impacts running our plants. That's the balance of things that we want to do. And this is something I need the new business groups really to own and drive. So that's part of the time line issues that we need to work through.

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

Got it. And then just as a follow-up, so when you think about the key issues that have maybe caused the company to struggle a little bit in certain areas, do you think it's a lack of focus? Or do you think it's a lack of investment? And if it's on the investment side, how much do you think you have to put in to actually kind of revitalize the platform? Or is it really just getting the right people in the right places?

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

I don't think it's an investment question. If you look at our R&D investments, the levels that we have, if you look at our -- the capital investments we're doing, our plants are well positioned, we're adding capacity as needed. So that's not the issue. I think it is an issue of focus. I mean it's very interesting, even before we put all the business in place, just changing how we're looking at our income statements and balance sheets by businesses and aligning them, we have smart people that are involved in these -- at these businesses. They're seeing the issues, and they're already moving on it. We're not waiting on some of these things.

I think the biggest disconnect -- and when we say focus, it's not that people weren't doing their thing. It's that when you have these functional organizations, in nichey business, specialty business like these where everything is actually very interconnected, our sales, our innovation, our manufacturing decisions, these are big customers that we're working with, it's much more intimate. If you're in the commercial side and you're just looking at revenue and contribution margin, you will -- you try to make the right decisions based on those things. But what happens when you generate business that short term, we increase the sales and contribution margin, but it costs you a lot of extra cost to deliver that, and you make no money on those transactions, we -- the groups don't have that full view of the P&L. And that's really the fundamental change.

If you go down, it's not that we're not focused, we have marketing people that don't know their space or that we have R&D people that don't know their technology or the customer interaction. It's connecting all that in a much more one focus, one agenda that we're attempting to do. And frankly, we're already seeing benefits of just changing the narrative internally, and that will help us bring more traction.

Operator

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

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

Guillermo, I know you're not putting up targets, but the prior team had a longer-term margin target for the specialty ingredients business of 25% to 27%. Is that still reasonable? Or is that even too low perhaps in your longer-term thinking of the potential of Ashland?

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

I think as we said in the last call, I mean we're not changing our targets. That's still the target. I think that there's opportunities to do more than that especially as we look at each of the business units. This is -- a lot of the discussion of costs has been really around our corporate structures and all that. Actually, it's really about the business models, service levels, things that we want to do differently across the different business units. So I think as was the case with the prior company I was in, the bigger surprise really came out of those activities where -- that were much more intimate to the business and that provided some upside momentum both in terms of costs and in terms of mix improvement.

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

Very good. And just on the innovation engine and pipeline, Guillermo, when would you hope that will begin to really impact the top line? Is it a few quarters? Is it longer than that perhaps? What's your time line for that improvement?

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

We are trying now to support the key initiatives. So we're identifying which are the major projects, major initiatives, how do we focus on them to accelerate them so that we can increase the level of impact. And I think the other issue is for the business units. It's not surprising, I mean, for some of you that look at this across many companies. Just aligning now our incentive comp and our actions to business units, I can guarantee you that there's going to be a different sense of urgency for each of those businesses because the majority of -- their line of sight, are they going to be rewarded for it? What they do matters, and that just creates a very positive sense of urgency across the organization that we want to foster and develop.

So I think we can move much faster. I think the things that'll take longer are more as we step back, and this is something that I'll work with our CTO on more of the portfolio, is -- are there some changes that we want to shift into bigger activities? Are we doing -- we're doing -- we've got a lot of great projects on sustainability. Where can we do more on some of these areas especially on the consumer side where this is a business imperative as we move forward.

So there's a lot of exciting things. I think we have a lot of options because of the core capabilities we have. So that puts us in a good position to choose. We're not having to start things from scratch at this point in time.

Operator

And our following question comes from the line of Mike Sison with Wells Fargo.

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

Welcome back, Guillermo. Just curious, I know you've got a lot of things going on in terms of improving the company. But when's a reasonable time frame to start to see EBITDA growth for Ashland? Should you see some this year second half? Or is it really a 2021 event?

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

So I think 2 things that I mean -- or 3 points that I would make. One is we've been focused really on all these things that happened last year, are we -- stabilize it so that we're not getting any more negative surprises. And that -- this quarter, we've seen that. And as the business teams go, my level of confidence increases because we're going to have very focused teams addressing those issues.

I think that the second issue is going to be just general market demand that there's still a lot of uncertainty, but all indications are most of the markets are starting to improve. And especially in the second half, that will help us drive EBITDA growth.

But the most important part -- and we don't control that, that will be the market, I think, is really our self-help actions. And it's on both the prior question and on the discussion of our cost actions that we need to take. Making -- getting the businesses focused so they can drive their portfolio with what I would call the exciting EBITDA growth drivers, which is really the revenue and the innovation, mix improvement drivers that they have, and they are already developing, they're already identifying things that they can do. And second is obviously on the cost side of things, the actions that we need to take. So those self-help actions.

So if you look at the time line, I think the second half of the year is where we're going to see the biggest benefit. What we've been trying to do, as you've seen now, is to show -- I know there's been a lot of concern of our -- has the company been moving too slow on some things? And what we want to make sure is, if we can't show it yet on the financial results, that we are showing it externally that we're taking actions, that we are moving with a high level of urgency in all these activities. So next quarter, you're going to see -- hear more about the actions we're taking. I think we will see some benefits on cost and on revenue, but the bulk of that will come in the second half of the year.

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

Got it. And then in order to get to that mid-20s type of EBITDA margin for the total company, is getting there primarily from your own actions? Or do you need a little bit of growth and sort of organic growth to get there?

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

I'd like to target through our self-help actions, but obviously, organic growth is the bigger driver. What I don't want to use is organic growth as a reason not to do things. I think right now, it's really about our self-help actions and moving with urgency. I don't think it's healthy for the organization given our history to -- 6 months, 8 months from now, a year from now, to be talking about this again. Let's get it behind us. Let's move forward. It's not going to be easy, but it's something we need to do. And then we can focus on more of the positive story moving forward. So self-help is at the top of our list of drivers for our performance.

Operator

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

Kevin Estok ***Jefferies LLC, Research Division - Equity Associate***

This is Kevin Estok on for Laurence Alexander. My first question -- so my first question has to do with the end markets. So you mentioned that there would likely be an inflection likely coming into the second half of 2020. And I was just curious to know if you're already seeing some of those inflections happen. And if so, which specific end market?

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

Yes. I think we're -- this is sort of our seasonal low if you look at it in this normal type of the year, but we are seeing already indications. If you look at, as I said, pharma had a tough comp, but there was a lot of actions in Q1 from customers around inventory, things that they did, and we're starting to see the pickup of that. We saw a few in personal care, a few customers delay orders just because as an example, in the sun care area, it was a softer year for our customers last year, so there was some inventory impact, but we're seeing those orders already coming in now. And for coatings, I think the indication is more -- for us, seasonally, it's more the back half of the year. And indications is that that'll start picking up. Architectural coatings are the big driver for us, and that's more of a seasonal driver.

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

We also saw some nice momentum in oral care. I mean set the business losses aside that we're still working through, we had some new product introduction there that drove some top line and bottom line growth for that business.

Kevin Estok ***Jefferies LLC, Research Division - Equity Associate***

Okay. Great. That was very helpful. And I guess the second question has to do with your restructuring effort that you've talked a bit about. I'm just curious to know, I guess the relationship between just realigning the different segments versus cost-cutting and rightsizing, I guess should most of the cost-cutting be done in 2020 and then sort of the realigning kind of -- or still work in progress?

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

So we are already realigning the businesses. I think the essence -- once we define these businesses, as we've laid out to you, we are building the P&Ls. Each leader now is looking at it. And no surprise, we have a very diverse portfolio of businesses. They're all nice, healthy, but they're not all the same. Some are much healthier, much nicer than others in terms of margins potentials. But the cost structures are also very different. So you might have some that have very high gross profit margins but higher R&D costs, others that are good gross profit but not as high and lower R&D, more productivity-driven. So each business now needs to align their structure to the P&Ls.

In the past, a lot of these support costs have been -- and we try to align them, but they've been much more across the company. Everybody gets their charge. We're now enabling the businesses to say, "Hey, I don't need that service. That's not important. I want to reduce it or increase it." In some of the cases, they might want more services in a certain area. We're going to give them that freedom. But we would like to get most of that done this year.

I think on the business side, these are not things that we need to delay. This is about structure. This is about how we focus. I think the structural side that take time are some of the more systems, process-related activities, and that's probably more on the corporate side.

Operator

And our next question comes from John Roberts with UBS.

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

First, a manufacturing question and then I have an R&D question. But will the industrial segment manufacture cellulosics for the consumer segment so that most of the manufacturing assets are going to end up over in industrial? And you chose not to merge the BDO or intermediate and solvents business into industrial. I guess you could have done that. It's kind of small. But maybe talk about how the manufacturing is going to work in the new organization.

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

Okay. Yes. So we are aligning who are -- we look at who are the big volume drivers of the assets and who are the best owners in terms of taking the full P&L and management accountability. So of the assets, it's going to vary by business. The cellulosics in general tend to be -- or will be falling into the specialty additives business. They're the bigger volume. And they need to really make sure that we're running the assets that if there's capacity, that they're the ones that need to fill it out. The other, pharma, personal care, you can't sell out those assets. I mean those are specialty, very nichey products, and it's really more about innovation and getting into customer formulations. So they're going to own that. In the acetylenics, it's going to be more on the consumer side. They are the bigger driver on that. And then each one has their own assets. Adhesives, as an example, is a big driver of a lot of our acrylics or a lot of our polyurethanes. But as specialty additives expands their portfolio of new rheology modifiers, new products, there's going to be that interrelationship.

I've been -- if you look at companies and business that I've been involved in, in the past, this is -- running coatings in a prior company, we ran the network. It's very efficient. You have one owner. You can make sure that you're running things very efficiently. The part that you need to work with your other businesses and make sure that demand planning is robust, and there's a good dialogue of understanding their needs so that we can service them appropriately.

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

And then R&D as a percent of sales, just under 3% for all of the company. Do you have in mind a target for the consumer specialty segment?

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

For -- I mean each one of them are going to now drive their agenda, so I don't want to speak for them. This is about empowering them to own this. So I don't want to put boundaries on what they're going to do. But clearly, we have different businesses, and they're going to spend differently. And it's not just the dollar spend. The questions that we're asking them is, where are you investing your money? When we look at our portfolio, we're looking at new product development, which are some really big new platforms that we're investing in. What are you investing in, in process technology, productivity? So some businesses should be investing more on productivity, as an example. Others should be more on new products as they have a robust portfolio. Others, hey, we should be looking at some of these longer-term initiatives and developing new platforms. In the consumer segment, a great example is biodegradable. That's one area that we're making a lot of progress, but we need to do -- we'd like to do more. One area that we've done very, very well and now we're trying to get more products out the door is the biofunctional. That part of our business has been very good. So not one size fits all, and each business will drive their agenda.

Operator

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

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

Earlier in the call, Guillermo, you spoke of there being structural issues at Pharmachem. What's a structural issue? And how did it arise?

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

Well, I think it's clear to say that we have been -- we've lost some important pieces of business, and it's not across the board. If you look at the core, the 3 buckets of activities within Pharmachem, one of them, Avoca, we've moved to household. We've had issues there. But that technology -- actually, they have a robust road map of things that they can do, taking that technology in other areas, and they're working it. So working with them to make sure that we are able to leverage that extraction and purification technologies that we have in that area is a good thing, but it is a change. So that's a structural change that we -- that they're doing.

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In the active ingredients, I think that part is okay. Its margins could be higher. That's -- we need to improve. We're bringing in some new products, but how do we leverage that and our food additives business in a more systematic way, we need to restructure how we do things.

Part that is structural is the custom manufacturing-type activities that we had at Pharmachem. That has been hit. That's where most of the assets are. It's a more of a U.S.-based business, and we need to address that. So Pharmachem, to be very direct, relative to our expectations, how it's turned out has been very different, and we need to address that in a more specific way. So I need a little bit more time to work with the team on that.

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

Were Pharmachem volumes down 20% in the quarter?

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

Actually more than that. The volume were significant gap for us in terms of the overall company. If you take out Pharmachem, I think you would see the rest of the businesses have been pretty stable, and you wouldn't really -- we wouldn't have to be having a lot of these conversations in terms of the overall performance at this point in time.

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

So the other businesses inside of specialty ingredients were maybe flat to down and the large decrement in revenues really came out of Pharmachem?

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

So yes, if you look at specialty additives and talking in terms of some of the businesses the way we're going to talk about them in the future, coatings was definitely slightly down just in market demand, but we -- it's a business that we have very strong positions in. I think the part that probably we didn't spike out as much is we had Nanjing that we talked about at the last call that did have some costs in -- not so much revenue but cost in the quarter. And then last year, we did close down a CMC plant in China. That impacted revenue but not so much profit. So if you combine the 2, it looks like the business is down, but it's 2 different things. So I would say coatings is much more market-driven at this point in time if you look at some of the big customers here that have merged some of their activities, just seasonality around the world with weather and things like that. So we're -- I'm not that concerned on that part of the portfolio.

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

And then lastly, does the coronavirus make any difference to your business? Does it affect, I don't know, supplies of raw materials? Or does it affect demand? Can you see any alteration in your business patterns in any way from the onset of the virus?

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

Well, I think you look at it in several different areas. One is our business in China. And like everybody else, I mean if demand gets impacted, and obviously, it's an issue. Obviously, now just movement of people and things is impacting operations. We don't really export a lot from there. So we -- I don't expect that that's going to be a big issue, but we're monitoring our customers. I mean at the end of the day, I think this is much more of a macro market issue, very different from other industries that are -- have structural issues around supply or customer bases there. For us, that's not so much the case.

Operator

And our next question is from Jim Sheehan with SunTrust Robinson.

James Michael Sheehan ***SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst***

Could you please give us a sense for the special ingredients organic growth rate excluding Pharmachem? I said -- I think you just said it was relatively stable. But excluding the Pharmachem business loss, was your growth rate in -- your organic growth rate better or worse in this quarter relative to the prior quarter?

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

We were down versus the prior quarter. If you remember, the -- we had -- the oral care was an issue and then just general demand. Pharma, as an example, we were down, but it's really the comp that was a very tough one. On the other ones, I would say a few percentage, 1% or 2%, and it's more macro-driven than anything else.

James Michael Sheehan ***SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst***

Okay. And could you please quantify the proportion of EBITDA that represents the more challenged structural portion of Pharmachem or any other way to estimate the proportion of that business that you think needs attention?

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

I guess we'll outline that as we roll out the new businesses and finance. But I would say it's not an insignificant amount, to be very direct. I think if you look, our Avoca business was sizable, so some of the impacts have been significant. I think towards the back end of the year, some of these new developments will come in and offset. So that's good news. On the nutrition side of Pharmachem, that's going to take a little bit more time and work. But it's not an insignificant amount of revenue or EBITDA.

Operator

(Operator Instructions) Our next question comes from Mike Harrison with Seaport Global Security.

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

Guillermo, you made a comment that the organization was somewhat fatigued with change. And obviously, there's been a lot of change from a portfolio standpoint, I think, maybe some change as well at the management level or strategic standpoint. But can you give a little bit more detail on how that's factoring into your approach to the restructuring and reorganization? How do you overcome that fatigue and turn it into an organization that's more energized about the path forward?

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

Okay. I think the first action that we're taking is focusing on the business. And I use the example of in airplanes, when there's an emergency, the air mask comes down and they say, put it on first and then help others. In our case, put it on the business and they will help us. So energizing our strengths, which is really strong business capabilities, and enabling that has to be at the forefront of what we do and how we're going to move forward in terms of driving performance. And that also generates excitement because that's where innovation, that's where our engagement with customers. So making that much more visible and enriching because I think as people get the freedom to take action, they're the ones that are going to drive the actions up. We're not going to do a top-down realignment of businesses. It's the business teams, their leadership groups are really going to define where we go.

That's difficult work, but it is also very energizing because they are able to see where they want to go. They are able to see why they're doing things in a much more clear line of sight way. And that generates excitement and clarity. And the majority -- the reality is the majority of the organization, things aren't going to change. It's really more to the better, not to the cost reduction side.

I think on the other part is we're just going to be very honest and direct on what we need to do. And that's not easy, not the thing that people want to do and wake up in the morning, but it's something that we need to do for the better good of the company and the future. And we're just going to be honest and direct about it and make sure that we're treating everybody in a fair way.

The other part is that this is not about just cutting costs on people. It's about driving simplicity and rightsizing to a company our size. The hardest part, when you are moving from a $8 billion company to $5 billion to $3 billion, is that you're not starting with a blank piece of paper. You're sort of evolving what you have. And that is very difficult and emotionally more hard. I think what we want to try to do is, where are we today, what do we need, and start with that blank piece of paper and then connect the 2. But I need to have these discussions internally with our teams. I don't think it would be appropriate to go into details with the external world without giving the benefit of the discussion and communications internally. So we need a little bit more time to really give more details on that area.

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

No, understood. That's good color. And then my other question is on the coatings business, you mentioned down modestly, and it sounds like that was related more to market weakness. Just wanted to get your sense if there's any inventory destocking that happened during the quarter or still is yet to come. Do you feel like there's been any deformulation or any other share movements going on just as we head into the seasonal period of potentially rebuilding inventories? I think a lot of the coatings guys are going to talk about relatively easy comps related to weather. And so I just wanted to get a sense of how you're viewing your position in that market heading into the spring season.

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

Yes. No, we're very well positioned, I mean, if you look at especially the rheology side but also the other additives. But in rheology, clearly, Ashland is -- has a strong position in cellulosic. Aquaflow also extremely well positioned for some of the higher-end paints, and they're doing more. I think this is an area that we have -- I think I mentioned last call, our capabilities are higher than the portfolio we have. We can do more. And that's what the team is doing, trying to expand the number of products that we have to bring to the market. So as the market improves, we should see this business do very well.

Operator

And at this time, I'm not showing any further questions.

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

Good.

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

Okay. Well, thank you all for your interest. I'm really looking forward to seeing all of you in the coming weeks. And I thank you all for your support. And again, to everybody from the Ashland team that's listening, thank you for all your help. So looking forward to seeing you.

Operator

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

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