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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Ashland Second Quarter 2023 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to the speaker today, Seth Mrozek, Director of Investor Relations. Please go ahead.

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

Thank you, Amber. Hello, everyone, and welcome to Ashland's Second Quarter Fiscal Year 2023 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 Chair and Chief Executive Officer; and Kevin Willis, Senior Vice President and Chief Financial Officer.

We released results for the quarter ended March 31, 2023, at approximately 5:15 p.m. Eastern Time yesterday, May 2. The news release issued last night was furnished to the SEC in a Form 8-K. During today's call, we will reference slides that are currently being webcast on our website, ashland.com, under the Investor Relations section. We encourage you to follow along with the webcastduring 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 '23. 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 an explanation of those risks and uncertainties, and the limits applicable to forward-looking statements. You can also review our most recent Form 10-K under Item 1A for a comprehensive discussion of the risk factors impacting our business. Please also note that we will be referring to certain actual and projected financial metrics on Ashland on an adjusted basis, which are non-GAAP financial measures. We will refer to these measures, as adjusted and present them to supplement your understanding and assessment of the financial performance of our ongoing business. Non-GAAP measures should not be considered a substitute for or superior to financial measures calculated in accordance with GAAP. The most directly comparable GAAP measures as well as reconciliations of the non-GAAP measures to those GAAP measures are available on our website and in the appendix of today's slide presentation.

Please turn to Slide 3. The video we played at the opening of the webcast today, provides a peak at the truly immersive experience that Ashland provided customers, when we launched 8 new personal care products steeped in the foundation of environmental, social and governance, or ESG, during the recent in-cosmetics Global trade show in Barcelona, Spain. To learn more behind the range of these newly launched innovations, visit our web page at www.ashland.com/incos23. Guillermo will begin the call this morning with an overview of Ashland's performance and results in the second quarter. Next, Kevin will provide a more detailed review of results in the quarter. Guillermo will then provide additional commentary related to Ashland's financial outlook for fiscal year 2023. We will then open the line for questions.

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

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

Thank you, Seth, and hello, everyone. Thank you for your interest in Ashland and your participation today.

Results in the March quarter were consistent, with our expectations at the beginning of the quarter. Total sales for the quarter were consistent with prior year. Our global pharma business performed incredibly well, and the inflation recovery actions taken last year and early this year, continue to benefit overall results. However, to state the obvious, we continue to operate in a challenging global environment with ongoing macroeconomic uncertainty and diminished demand visibility. The demand dynamics became even more pronounced in the second half of April. Themes for the quarter were China COVID lockdown and reopening, destocking and the impact of the winter storm. The big question now is, what is happening to volume demand. Given the historic level of destocking activities, I'd reframe the question into 2 parts, how is consumer demand and how is customer demand.

From our position in the value chain, the historic destocking reset has clouded visibility to the true underlying consumer demand. Consumer demand seems to be more robust than our customer demand given destocking. Customer destocking dynamics we saw during the December quarter have slowed, but are still present in certain end markets and continued into April. The reopening of China has been slower than expected and visibility has also been muted given customer destocking. As a result, our demand has varied across segments. While demand for pharma products remain strong, we continue to see weak demand and destocking in other segments in markets like nutrition and construction. Margins and earnings were mostly impacted by the costs associated with the winter storm at the end of last year, and the absorption impact of running plants at lower demand, and we completed $200 million of share repurchase during the quarter. I will discuss our outlook and the actions we're taking later in the call.

Please turn to Slide 6. As you can see in the chart in the left, year-over-year sales growth in Life Science was very strong, while the top line growth in Personal Care, Specialty Additives was below prior year due to factors, I referenced earlier. And despite the margin impact of the winter storm, underlying margins remain healthy. While there are many global uncertainties in the horizon, the Ashland team is performing well, and executing on the actions that are within our control. As you saw in our news release last night, we have adjusted our sales and EBITDA outlook for the fiscal year. I will discuss these changes in more detail at the end of the call, but I want to stress a few key takeaways about the changes. Our reductions to the outlook ranges is a proactive decision, based upon the dynamics we saw unfold in April. We are taking inventory control actions, which accounts for the EBITDA reduction at the midpoint. At the low end of the range, it presumes that additional inventory control actions are required later in the year.

Let me turn over the call to Kevin to review our Q2 results in more detail, and then, I'll come back. Kevin?

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

Thank you, Guillermo, and good morning, everyone. Please turn to Slide 8. Total sales in the quarter were $603 million, essentially flat with prior year, driven by continued inflation recovery and strong demand for pharma ingredients, mostly offset by continued customer destocking. Sales increased by 2% on a constant currency basis. Gross margin declined to 32.7%, as cost recovery by the commercial teams was offset by increased input costs and the $13 million of cost impact from the winter storm in December. When excluding key items, SG&A, R&D and intangible amortization costs were $110 million down from $119 million in the prior year. In total, Ashland's adjusted EBITDA for the quarter was $145 million, down 11% from $163 million in the prior year. Note that, unfavorable foreign currency negatively impacted adjusted EBITDA by $8 million during the quarter. Ashland's adjusted EBITDA margin for the quarter was 24%. Adjusted EPS, excluding acquisition amortization for the quarter was $1.43 per share, down roughly 5% from the prior year. Ongoing cash flow was $37 million for the quarter, a large improvement from the prior year, primarily reflecting changes in working capital.

Now let's review the results of each of our 4 operating segments. Please turn to Slide 9. As Guillermo referenced at the beginning of today's call, Life Sciences delivered another very strong quarter, driven by our global pharmaceutical ingredients business. Pharma demand remains strong. Product mix was favorable. The team executed on disciplined cost recovery, all contributing to margin expansion. Unfavorable currency impact was a partial offset to the strong performance in Life Sciences. In total, Life Sciences sales increased by 18% to $240 million, while adjusted EBITDA increased by 29% to $75 million. This includes $5 million of costs related to the winter storm. Adjusted EBITDA margin increased meaningfully to more than 31%.

Please turn to Slide 10. Personal care sales were impacted by continued inventory destocking actions by certain customers. As with Life Sciences, the team continued to realize disciplined cost recovery through pricing. For the quarter, personal care sales declined by 3% to $167 million, while adjusted EBITDA declined 29% to $32 million. This includes $6 million of costs related to the winter storm. Adjusted EBITDA margin also declined to roughly 21%. Unfavorable currency impact was also a headwind to personal care results in the quarter.

Please turn to Slide 11. Specialty Additives also felt the impact of reduced demand primarily related to continued inventory destocking by certain customers, particularly in the construction and performance specialties businesses. The reduced demand more than offset improved cost recovery for the segment. For the quarter, Specialty Additives sales declined by 12% to $161 million, while adjusted EBITDA declined by 29% to $34 million. This includes $1 million costs related to the winter storm. Adjusted EBITDA margin also declined to about 21% for the quarter.

Please turn to Slide 12. Intermediates reported sales of $51 million, down 23% compared to the prior year, driven by a consistent merchant market pricing, lower volumes of higher-value derivatives. Intermediates reported adjusted EBITDA of $20 million, a decrease of 33% compared to prior year, and adjusted EBITDA margin declining to 39.2%.

Please turn to Slide 13. As we reported last night, during the quarter and into early April, Ashland completed a total of $200 million of share repurchases, under 2 separate programs. The combined programs reduced our outstanding share count by approximately 1.95 million shares or roughly 3.6%. Ashland now has $300 million remaining under the existing evergreen share repurchase authorization, that was approved by Ashland's Board of Directors last year. As of the quarter closed on March 31, we had cash on hand of about $400 million, with total available liquidity of roughly $1.1 billion. Our net debt is $929 million, which is about 1.6 turns of leverage. We have no floating rate debt outstanding, no long-term debt maturities for the next 4 years and all of our outstanding debt is subject to investment-grade style credit terms. We're investing in our existing business to grow organically and continue to pursue our strategy of enhanced profitable growth through targeted bolt-on M&A opportunities focused on pharma, personal care and coatings. Against the backdrop of global uncertainty, Ashland has a strong balance sheet with the flexibility to pursue our targeted growth strategy.

With that, I'll turn the call back over to Guillermo to discuss our outlook for fiscal year '23. Guillermo?

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

Thank you, Kevin. Please turn to Slide 15. On our last call, we mentioned 3 key issues critical to the back half of our fiscal year: the expected magnitude and impact of the recessionary momentum will there be more of a reset or destocking impact, as we move from higher demand and tight supply to a more recessionary environment? and the uncertainty around the impact of China's COVID reopening and the potential changes in the Russia, Ukraine war dynamics. Concerns around the magnitude and impact of a recessionary momentum continue. The reset has slowed but not ended. Although results in our fiscal second quarter were consistent with expectations, order pattern dynamics in April indicated that customer destocking has not ended. These reset actions are very customer-specific and difficult to forecast, creating a higher level of uncertainty. While we expect to gain more clarity on the destocking and market dynamics during the March quarter, visibility continues to remain low. In this environment of greater uncertainty, we are being proactive with our approach to our outlook and planning. We expect the demand for our pharmaceutical products will remain strong through the second half of the fiscal year. Inventory destocking may continue to create uncertainty for demand in personal care and Specialty Additives end markets. On our last call, we indicated that given our tight capacity position on some product lines, we would control inventory, but not take bigger reduction, inventory reduction actions, until we had a greater clarity on the demand outlook. Ashland's inventory level at the end of March was consistent with the close of December. However, given the continued demand and macroeconomic uncertainty, Ashland will take action to reduce inventory levels in certain product lines, during the fiscal third and fourth quarters. We expect an impact of approximately $20 million related to these inventory control actions during the second half of our fiscal year. If customer destocking persists or consumer demand weakens through the June quarter, we may take additional inventory reduction actions. If destocking resides and the market demand normalized in line with historical recessionary performance, we will be well positioned to capture incremental volume and lower inventory reduction actions. As such, we're adjusting our sales outlook range for the fiscal year to $2.3 billion to $2.4 billion and adjusting our Adjusted EBITDA outlook range to $580 million to $610 million. As I've stated before, this is a time for caution. We will continue to operate with strong capital allocation discipline so that we are in a strong financial position to invest and grow our core business. These changes reflect our current forecast, downside absorption risk and upside market strengthening potential. Our customers remain resilient but are clearly taking actions to reset inventory levels consistent with new global demand expectations. We will remain focused on the things we can control, driving innovation, maintaining operating discipline, managing pricing mix, cost, productivity and capital allocation.

Please turn to Slide 16. In closing, I want to restate the key takeaways from the quarter. The results for March quarter were consistent with our expectations. Our global pharma business performed incredibly well. The inflation recovery actions taken last year and early this year, across Ashland continue to benefit overall results. We're being proactive in inventory management based upon the dynamics we saw unfold in April. We are taking inventory control actions, which account for an EBITDA reduction at the midpoint of our new outlook. At the low end of the range includes any additional inventory control actions required later in the year. Despite the challenging environment, we remain confident in the quality and resilience of the markets we serve and the future. I want to thank the Ashland team once again for their leadership and proactive ownership of their business in an uncertain environment.

With that, thank you, everyone, and Amber, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Christopher Parkinson at Mizuho Securities.

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

Guillermo, I just wanted to dig in a little bit deeper on the guidance revision. What would you say to those investors listening on this call that believe that your updated guidance range for the second part of the fiscal year is not "completely derisked". You mentioned that there's the possibility of further deteriorating macro environments for additional destock, would your midpoint include an additional destock to augment the initial $20 million, that you're sitting in your PowerPoint or would it be something different? Just any additional color you could add on the investor perception of this and additional inventory actions in the context of guidance would be particularly helpful.

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

Yes. From the actions that we're taking right now, the $20 million would actions we're taking, planning to take and execute during the third and fourth quarter, that would put us into the midpoint of our range. Any additional actions and that would require that there's destocking number one. I think, in the third quarter continues longer than expected, or in the second half in the fourth quarter, if consumer demand really gets impacted. The biggest concern we have right now is more the destocking, which is where we have less visibility but that would require additional actions and that would take us to the lower end of our range. Equally, if the destocking is lower and things normalize, we would be well positioned. We have the inventory to pick up incremental volume and we would ease off on the upside on the inventory actions.

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

That's very helpful color. And just one of the things you discussed back in your November '21 Analyst Day was improving the performance of personal care. Given, it was actually the one remaining business that was kind of inconsistent. I mean, Life Sciences was really never the problem and obviously, a results speak for themselves on that front. As we're thinking about the adjustments, let's just say, the downtime from the facilities, a $15 million plus $20 million in inventories. When we think, about the adjustments plus the midpoint of fiscal year '23,and I'm just saying hypothetically, versus speaking about '24, I mean off of lower inventory levels, do you still have the degree of confidence in your personal care portfolio that you can continuously grow and leverage not only price cost, but also mix and your new product growth, some of which that I think Seth mentioned were launched recently in in-cos, has that confidence at all changed over the last 6 months, just given the macro volatility? I'd just love to hear thoughts on that.

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

I would separate 2 things, the long term and where we're going, and that is, as you mentioned, innovation-driven. We're very confident in the programs later in the year. We'll talk a little bit more about the innovation. There's a lot of exciting things that we're doing there. That is a segment that is making a big transition to more natural derived clean beauty, all these themes that you saw in the video. So we're very well positioned there and we continue to grow. There's a lot of different segments within personal care and I think the transition, the reset from the tight markets and high demand to a more normalized recessionary environment. It's hitting different customers in different ways so a lot of the activity is really destocking driven and that was why it's making a little bit more difficult. If you look at segments right now that are being impacted, hair, it actually did very well. Skin, especially the high-end skin was a little bit softer, especially with travel still being impacted in different parts of the world, especially if you look at Asia.

Oral care, we're seeing destocking and actions and things like denture adhesives so it's segment by segment. And, I think a lot of the noise is just this transition from the dynamics of 2022 to the dynamics of 2023. They're very different, and we're going through a difficult reset. I think you're seeing it with other companies. And if you look at even our own customer base different companies are in different places, and it really depends on the segments that they're in. I think we are not losing confidence in our long term. I think that's all about innovation, and we continue to invest and are very excited about the portfolio.

Operator

Our next question comes from Joshua Spector of UBS.

Lucas Charles Beaumont ***UBS Investment Bank, Research Division - Associate Analyst***

This is Lucas Beaumont on for Josh. So I was just wondering, could you give us a bit more detail on the guidance changes you're making. So you're cutting your sales by $250 million but EBITDA by only $20 million. So what are the offsets there, please?

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

So let me make some comments and then Kevin you can give a little bit color on the segment level. The segments that are getting impacted are not uniform so there is some impact, different impact between sales and EBITDA based on the margins. What's interesting for us right now, the segments that have been impacted the most and destocking now, are not necessarily our core pharma is doing well, as we said, Personal Care has been segment by segment, Specialty Additives, actually, coatings is slightly down, but it's not as big of a surprise. Most of the areas are in our Performance Specialties, which are a broader base of industrial-type markets, inks, lithium-ion batteries, catalysts. So it's a broader range. Specifically, I would point out our nutrition and construction in Europe. Most of our construction businesses in Europe. We're the most impacted. Those tend to be product lines and spaces with much lower gross profit margin for us. So the impact, there is some gross profit impact. So there's a difference there, but it's mostly in the absorption side that we're getting impacted. So it's really going to be segment by segment that is driving that. But Kevin, do you want to add any other color on any specific segments?

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

Yes, just a little bit. You covered it really well. So I think, the combination of lower margin segments that saw more destocking like construction and nutrition was certainly part of the story. I think, as we look back at Q1, we were still within the revenue range. We didn't talk much about that. I mean, we talked more about the EBITDA range and kind of where we expected to be. But frankly, based on where we were forecasting back in Q1 call, revenue has not really dropped $250 million from that standpoint. It's a lower number. So, when you combine those things, it's less gross profit, therefore, less EBITDA impact, but that's really primarily the story. And our SG&A is a little bit, a little bit lower as well, which also helps.

Lucas Charles Beaumont ***UBS Investment Bank, Research Division - Associate Analyst***

Great. And then, in terms of your updated guide for the second half, it's implying EBITDA of about $340 million. What are you assuming in terms of phasing between 3Q and 4Q? Traditionally, 4Q seasonally lower but would that be bigger this year with the recovery that you're assuming?

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

I mean we're moving back into the normal seasonality. I think the last 2 years we lost a little bit of that just because of some of the tightness of supply and the inflationary dynamics we saw in '21 and '22 so, we're forecasting a more normalization. Usually, Q3 is a little bit stronger than Q4. Probably this year, they're going to be more in line with each other. Last year, I think our Q4 was a little bit weaker so it's moving back more to a normalized level, and they're probably going to be more even than traditionally in historic levels.

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

Yes. A couple of things to add to that as well. I mean, we had the impact of the winter storm that's rolling through the first half. Obviously, we don't expect that to repeat in the second half to Guillermo's point, we tend to be stronger in Q3 and Q4 than we are in Q1 and Q2, just in general. And we've also been very focused on cost control, and we'll see some of the benefits of that more on the operations side roll through in the second half as well.

Operator

Our next question comes from Michael Sison at Wells Fargo.

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

Just a couple of questions on personal care. When I think about each of the buckets that you have skin care, hair care, oral care, household. Obviously, two of them are doing well, two of them are struggling a little bit, but in the hair care and household side, is there a destocking there? Is that something that we need to worry about or is that just been really good growth and that you guys have seen in that business?

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

I would say the destocking is customer specific rather than segment specific. And, I would say that to all segments, not just personal care. And that's one of the difficulties of having better visibility. We do think the skin and certain areas that there's variances in the mix that we have across regions. I do think some of our higher-end skin care, for example, were impacted, travel, things like that in Asia have had an impact on some of the segments, where we're very well positioned. So in general, we continue to see strength in hair, the skin as the destocking, we get past that, and we're getting now into the summer season so travel should increase. Sun protection will also pick up so we're going to really look at what happens to the dynamics of each of the segments. I think home care is a smaller segment for us. We sell mostly additives so that's more broad-based use type thing. It's not the core of what we do. We're much more focused on the personal care side of the equation. And in oral care, that one is just one that it's a little been traditionally more difficult. It's a concentrated market, both in customer and products, and we have a big position in denture adhesives and that one, we have seen some destocking and actions in that area. So it's segment by segment and customer by customer. And I'll say, Mike, in the same segments, we've had customers that have gone up and or been flat and others that have destocked and it really is what positions they took in 2022.

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

Got it. And then, I know you have new capacity that you're scaling up soon. And as I recall, it was really because customers really wanted more of your product. How do you think about sort of timing now, given things are weaker? Will you delay it? Or is it just make sense to bring it on, and start maybe specking in with customers?

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

Yes. I think some of these are big projects, especially, if you look at HEC, we're investing in our core businesses. We're not investing in the secondary markets. Frankly, a lot of the areas where we're seeing a lot of the impact is not where we're investing so HEC, there's still going to be a core need for new capacity. We're probably going to be one of the first ones to come in. We're not delaying the project. Remember, just a few months, we didn't have a lot of volume in our business plan. It was mostly pricing, as we didn't have capacity. So we need the capacity depending on how consumer market. I think this year, it's this reset that we have to get through. It's what's real consumer demand at the end of the day. And, if that sort of normalizes, we're still going to need the volume and we'll invest. There's a few projects, probably not the bigger ones that we are managing timing. We're still continuing them. We're not maybe moving as quickly as we want, into next year but the core ones, we continue to see the need for the volumes moving forward. And just to remind to everybody, I think as we see with all these destocking, the pendulum tends to move one side to the other, if demand normalizes and everybody's destocked, you could see some noise on the upside. So this is just a noisy time and we just want to be taking precautionary actions, in the sense of we'd rather position ourselves to have a strong balance sheet to be driving results through inventory. As we've talked about in the past, it's not something we're going to do so we're going to be positioning ourselves to be good stewards of our capital. And, if the volumes pick up, we will build.

The other point I would make, Mike, is where we're reducing inventories, most is in the lower-margin businesses. So, we are well positioned in the higher end so that if demand comes up, we're not going to impact our ability to supply on that side. And on the lower end, if demand spikes and we can't supply, we'll deal with it. These are not the higher segments that we shouldn't be investing higher levels of the inventory there.

Operator

Our next question comes from John McNulty of BMO.

John Patrick McNulty ***BMO Capital Markets Equity Research - MD & Senior U.S. Chemicals Analyst***

I guess similar to the last question, I think, investors were pretty comfortable that you were sold out in a lot of the businesses in Personal Care and Specialty Additives and now, we've got this big inventory destock to work through. Does that make you rethink, what the supply/demand actually really was last year? And did the supply chain problems of last year kind of masked, what real demand was versus everybody grabbing as much as they could. I guess how should we be thinking about that and what the normalized supply demand is for things like HEC.

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

Yes. I would split out, John, HEC from the others. I mean HEC, the demand has been stronger. We are seeing adjustments across the chain. But I would say, and specifically, if you look at coatings, it's a well telegraphed dynamic that's going on there. It's been a little bit softer. Some customers have actually been very strong across the region. So there's been noise there, but that's really not what the biggest issue has been. It's really been other segments that are driving it. So our lower-end segment, CMC and construction, MC construction. These are not areas that we're not investing in, for new capacity necessarily. So that's really where we're seeing a lot of the noise. And so, we feel confident on the core markets and where we're going. We feel confident that the market demand will be there longer term that the capacity is needed and we'll continue to invest. In the areas, where we're seeing the biggest impact, we are not adding capacity, so we'll continue to manage with the asset and the capacity that we have today.

John Patrick McNulty ***BMO Capital Markets Equity Research - MD & Senior U.S. Chemicals Analyst***

Got it. Okay. And then, with the destocking that you're doing internally, like the self-help or writing to the right levels whatever, can you help us to think about how much working capital that releases, as we kind of look through the second half of the year and into early next year?

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

The old rule of thumb and, Kevin, you can talk a little bit about it more. It's like 2:1 so for every dollar of absorption $2 of inventory reduction. The push, I'm trying to work through now is how do we reduce that ratio so that we manage more of the variable costs down as we make these actions. So there's still work in progress, but that's sort of the old rule of thumb that we had. But Kevin, I don't know, if you have to add any color.

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

Yes, that's right. So John, if we do the full $20 million, and again, it's going to be spread over the back half of the year based on our current thinking. So we'll do it, as we need to but we're planning on the full $20 million at this point, that's way we adjusted the numbers. That would imply $40 million to $50 million of the inventory reduction.

Operator

Our next question comes from Mike Harrison at Seaport Research Partners.

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

I was hoping, Guillermo, that you could give us a little bit more color on what drove the strength in the Life Sciences margin. If we back out some of the winter storm impacts, you were 300 or 400 basis points higher on that margin level than you've ever seen before. How sustainable is that?

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

I think what you're seeing, one, we did take pricing action, all that to recover inflation last year, and we continue to benefit from that like all the other segments, but it's really the mix change. Pharma continues to be very strong and some of the segments that are getting impacted and in the destocking and all that are the low-end segments. Nutrition has been a big impact. It's a few big customers that have been taking massive steps on inventory reduction. And in the nutraceutical, those tend to be lower margin segments for us. So strength in the stronger pharma segment, weakness in the weaker lower-margin segments and that's what's shining through. There is still some noise, I would say, in the quarter because of the freeze that there was some impacts there, but as you look at normalization, it's going to be more of what that mix dynamic is.

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

All right. And then, I wanted to maybe understand the volume impact that you saw in the Specialty Additives business. I think volumes, there had to be down high teens or maybe even 20% year-on-year. Is there any way to break out how much of that destocking, how much of its weakness in areas like construction and specialties and how much of it is architectural paint demand? And, is this volume weakness impacting your ability to hold pricing within that Specialty Additives business?

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

I think the biggest change, I would say, is not the coating side. I mean, we're managing through that with a good position. In coatings, what we continue to see is North American as an example, weaker DIY, the contractor is still holding up around the world. Latin America continued to be strong. Asia, we see the big customers gaining share, as capital tightens and the midsized companies get impacted. So coatings, there is noise, but it's not the biggest issue. The biggest part we saw, was in our performance specialties, that's very fragmented. Most of the Specialty Additives slowdown that we saw, especially in April, for example, in the back end, the last 10 days, we saw for both personal care and Specialty Additives, the order intake really dropped, and it was a lot of midsized customers. The distributors -- the big distributors have already finished most of their destocking. It was regional players and now customers, and it was more the midsized type customer base in other regions that we saw that. And that aligns with the performance specialties. I mean, it's midsize for us. It can be big customers. But we sell into like inks and automotive, and it's just a broad base of segments. That's where we saw the biggest drop that was pretty significant across the portfolio. So it seems like it's much more of a reset, and we'll come back. These are Specialty Additives for a fragmented market. It's not like they're stopping buying or shifting like share or shifts or anything. We see it more as an inventory reset by a lot of those customers.

Operator

Our next question comes from David Begleiter at Deutsche Bank.

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

Guillermo, in the destocking, do you think it will be done by the end of the June quarter? And, is there any evidence of that in your May order books?

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

Our view would be that destocking should be ending sometime during the third quarter, at least the bigger segments. If you look at the most impacted ones, nutrition construction has 2 big segments, the nutrition destocking started in our Q2, and it's continuing this will end eventually. And I think there's only so much time that customers can't order so I think those should normalize. We're waiting to see how most of our businesses in Europe. Summer is coming. Let's see how that develops. I think what we want to look at is that switch from be destocking to what's the consumer demand really going to beand how will affect the inventory numbers? So I think, we'll see that transition in Q3 at some point in time. I think in performance in the performance specialties part of Specialty Additives, that's a broader-based issue. I think that one, there's for us, smaller volumes, midsized customers, even if it's a large company in automotive or in some of these other areas, they're smaller for us. So those types of adjustments probably will not be long lasting, but it could take a month or 2.

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

And can you discuss the price cost tailwind you saw in the current quarter, and the cadence of that, how that might increase in the back half of the year?

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

We're holding on pricing. We're seeing pressures in certain areas in intermediates, as an example. We're still holding up versus historic levels, but BDO has come down, and we're managing through some of the other intermediates. In some of our lower-end segments, we're managing that volume price dynamic nutrition and those types of segments. But overall, we continue to hold up on the core. If you look at raw materials, it's improving across the board, but it's not all coming down. If you look cellulose continues to be stable. It hasn't really dropped significantly. Energy has improved. Butane has improved. The petrochemical side of the equation, which is a lot of those process chemicals we use EOPO have improved a little bit. Caustic has improved but still is very high in Europe. It's came from a peak but it's still, I think, 2x higher than historic levels. So it's going to vary. I think, we'll continue to see improvement as we move forward. As we said in the inflation, we protected our margins. We did increase margins. we will manage with our customers what we need to do, as things improve. But we're being very cautious because raw materials are not dropping. A lot of companies are still trying to deal with other inflationary pressures of labor, and now I think even plant loadings with lower production volumes. So I think there's going to be a few months more of working that through in the market.

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

Amber, do we have additional questions?

Operator

Our next question comes from John Roberts at Credit Suisse.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

Are you seeing a divergence in the price for BDO that you use internally with the price for the BDO derivatives that you sell externally?

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

So BDO pricing, market prices, and that's a much more broad-based material going into many different segments has come down. Our transfer pricing internally has also come down. The intermediates, there is a linkage, but it's not they're delinked right now, in terms of supply demand just based on the markets that we serve, which are one of the few merchant players in North America and Europe and more segments that are in region sourcing, the battery lithium-ion battery, being a big segment for us.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

And secondly, could you give us an update on the M&A environment? It looks like you beefed up your capabilities there recently.

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

We will work through all this inventory destocking. I think the longer-term dynamics for each of our segments have not changed. Our innovation focus, pharma oral solid dose and injectables continues. If you look at personal care, you saw some of the things, all of the natural, the shift of technologies that are happening has not changed. And in the coating side, expanding our portfolio. I think both organically, you'll hear more later in this year, we'll have a little bit more focus on innovation and some of the new platforms that we're launching. We're very excited about them. These are big opportunities that can create a lot more momentum in our portfolios longer term. And in that line, most of the M&A activities we're doing, are looking specifically in those areas. I think there is going to be opportunities. That's why we are making sure that we're very balanced in our capital allocation. We'd rather use the resources that we have to do bolt-on M&A than to build inventory to drive short-term financial results. I don't think it's appropriate, we can create much more value with disciplined investment of our capital. And I think, there are going to be opportunities and the valuation should be improving in this environment.

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

And also, John, just as a reminder, we're also investing organically in our pharma business as well. I mean, while we look for M&A opportunities, we're also expanding both our Klucel and Benecel footprint at existing facilities to increase capacity and those businesses continue to do really well. So it's going to continue to be a balanced approach. And we're not favoring one over the other. We want to actually be very balanced in all of that. And you should continue to expect us to do so.

Operator

Our next question comes from Laurence Alexander at Jefferies.

Laurence Alexander ***Jefferies LLC, Research Division - VP & Equity Research Analyst***

What are you seeing in terms of the cadence of client inquiries about new projects and what they're telling you about their R&D budgets. Is any of the past few quarters had any impact on the interest in pursuing new R&D projects with our new development projects with you. Can you just talk about what the kind of cadence of incoming activity is like?

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

Yes. I would split it, Laurence, in 2 groups. I mean the pharma is a very long term, so they don't tend to move around and look through some of these short-term hiccups. Obviously, the market continues to be strong but that part of the portfolio continues to be very robust and study, both in our oral solid dose, with the main primary pharma as well as generic producers. Injectable portfolio continues to grow so we're very happy in the pharma side. I would say in the Personal Care and the Specialty Additives side, the innovation hasn't slowed down, interest commitment, I mean, Personal Care. All our customers have made big commitments in terms of their switchover of technology so that has not changed. I do think in 2022 and into this year, maybe some of the short-term focus has been more in reformulating looking at cost, looking at alternative raw materials last year. So there has been a little bit of noise in maybe the near-term cadence. But I don't think, we've seen anything that's changed in terms of the longer-term more strategic focus areas in their reformulation work.

Laurence Alexander ***Jefferies LLC, Research Division - VP & Equity Research Analyst***

And if I may, just two follow-ons on that. I shouldn't reformulation activity be if anything, a better return on capital for you because you have basically the solutions in the library, and you're differentiated that way? Or is it just too competitive and some other aspects? And then, just on the pharma side, if biotech funding ever comes back, or when it comes back at scale, do you have parts of your business that would materially benefit from that or are you just sort of 2 downstream?

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

Well, let me start with the last question. We would benefit. If you look at a lot of the biotech, both in the oral solid dose and in the injectables, a lot of the new biotech drugs have been more on injectable form so we are working with some of these polyresorbable polymers. We're expanding our portfolio of high purity that we want into the injectable area. But you look at, for example, some of the mRNA applications. Lipids have been the big focus area and a lot of companies looking at delivering some of these new drugs using some of these polyresorbable polymers so that they can go to higher use level. So there's a lot of interest. We're working not just RNA new cancer drugs, things of that nature with our customers. We've expanded into the animal health, also working with customers there to maybe accelerate some of the developments in some of those segments. So a lot of activity that I think is exciting for us. Equally, I would say in the oral solid dose, the big change would be, can they start delivering some of these new biologics in oral form, and we see opportunities for new technologies there, and we're working with some customers on that front. I think in the first part of your question on formulation, we have a pretty big portfolio, so on reformulation. We're always there with our customers, a lot of our regional, we have a very strong regional lab footprint. So we're working with them and reformulating the work to optimize their formulations to replace raw materials that were in shortage on ours or anybody else, they have to rebalance formulations when they do that. And that's part of the sort of the innovation process in Personal Care. In Personal Care, you have two innovation activities. One, developing the new ingredients and introducing them, working with the central groups and our customers so that they approve them and incorporate them in their core list of ingredients and then the regional labs can formulate into new products. So we work both at that cutting-edge innovation side, then we work with them also on the formulation side, enabling those new ingredients and the old ingredients into their optimized new improved formulations type activityso we do both.

Operator

Our next question comes from Jeffrey Zekauskas at JPMorgan.

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

Have you changed your idea of cash flows from operations for the year or free cash flows, and that your cash flow for the first 6 months is pretty minimal?

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

Let me make a comment and Kevin, you can put a little bit more color. The cash flow impacts last year and into the first part, inventories this is a whole issue of inventory reset has been a big use of cash with inflation last year. So we've seen that as we move forward. That's one of the reasons we are taking action where we're applying our cash right now has been the CapEx that we're investing that Kevin talked about earlier in the call on HEC, Klucel, Benecel, Aquaflow. So these higher-end segments that we're doing. The inventory has been a use of cash, and that's one of the things that we don't want that to continue. And we've also done some of the share repurchase. But Kevin, I don't know if you want to give any other color on the cash flow and the outlook cash flow.

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

Yes. Free cash flow always tends to be stronger in the second half of the year. That's when we normally will generate all the majority of our cash. So presuming we hold the line on working capital and in fact, reduce inventory. So I would expect cash flow in Q3 and Q4 -- our Q3 and Q4, it would be pretty solid.

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

And then lastly, is the trend in operating income in Intermediates & Solvents downward or upward or flat?

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

So the trend clearly has softened in the intermediate segment. We don't sell a lot of BDO so if you look at our total segments, BDO pricing has come down. So our transfer pricing internally has come down. So that's sort of a little bit pocket switch in terms of it will benefit our downstream at the expense of intermediates, and we're seeing that. We don't sell a lot of BDO, but in this BDO we sell, we have seen the price erosion. I think as the market reopens, that goes into high-volume segments in fibers and polyurethanes and things of that nature. So it's just where we put our swing volume. It's not the core of what we do. The core areas for us is the NMP and the DLO and that's a lot of it is going into lithium-ion battery. There's a huge investment going in, in the U.S. and Europe. A lot of that -- so people are buying, a lot more. It has slowed down. People have taken some inventory corrections in the space but if you look at 2024, when the new capacity comes in, this is really a lot of investment that's going on for 2024 and 2025, in both regions as a lot of this investment to -- for the energy transformation of both Europe and the U.S. that sort of feeds into that. So we're one of the big suppliers there. We're well positioned. And we have linked our pricing. They're not totally separated and in PMBLO, will be more volatile than our other parts of our portfolio. But they're not tracking BDO at this point in time. They're sort of tracking independently based on their own dynamics.

Operator

At this time, I would like to turn it back to Guillermo Novo, Chairman and CEO, for closing remarks.

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

Great. Amber, thank you so much, and thank you everybody for your questions and your interest. We will be on the road over the coming weeks. Hopefully, we'll get a chance to meet many of you and answer other questions but we appreciate your interest and look forward to seeing you soon. Thank you.

Operator

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