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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Ashland Inc. Fourth Quarter 2022 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

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

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

We released preliminary results for the quarter ended September 30, 2022, at approximately 5:00 p.m. Eastern Time yesterday, November 7. The news release issued last night was furnished to the SEC in a Form 8-K. During today's call, we will reference slides that are currently being webcast on our website, ashland.com, under the Investor Relations section. We encourage you to follow along with the webcast during the call.

Please turn to Slide 2. As a reminder, during today's call, we will be making forward-looking statements on several matters, including our outlook for fiscal year 2023. These forward-looking statements are subject to risks and uncertainties that could cause future results or events to differ materially from today's projections. We believe any such statements are based on reasonable assumptions, but cannot assure that such expectations will be achieved.

Please refer to Slide 2 of the presentation for a more complete explanation of those risks and uncertainties and the limits applicable to forward-looking statements. You can also review our most recent 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 of Ashland on an adjusted basis, which are non-GAAP financial measures. We will refer to these measures as adjusted and present them to supplement your understanding and assessment of the financial performance of our ongoing business. Non-GAAP measures should not be considered a substitute for or superior to financial measures calculated in accordance with GAAP. The most directly comparable GAAP measures as well as reconciliations of the non-GAAP measures to those GAAP measures are available on our website and in the appendix of today's slide presentation.

Please turn to Slide 3. Guillermo will begin the call this morning with an overview of Ashland's performance and results in the fourth fiscal quarter. Next, Kevin will provide a more detailed review of financial results for the quarter. Guillermo will then provide additional commentary related to Ashland's financial results in fiscal year 2022, progress made related to our operating strategy, our goals for environmental, social and governance commitments and an overview of our financial outlook for fiscal year 2023. We will then open the line for your questions.

Now please turn to Slide 5, and I will turn the call over to Guillermo for his opening remarks. Guillermo?

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

Thank you, Seth, and hello, everyone. Thank you for your interest in Ashland and for your participation today. Having spent the last 2 weeks in Europe, meeting with customers and our teams, today, we're holding this call from London. It seems appropriate given the central development in Europe will be critical to the results in 2023 and maybe longer. Ashland's results for the quarter were consistent with our expectations, and we delivered sales and adjusted EBITDA for the year at the top end of our expected ranges.

Customer order dynamics remained strong across our core end markets, and we continue to make significant progress on taking appropriate pricing actions to recover costs across all segments. Global supply chain challenges have demonstrated some signs of improvement. Given the tightness in markets globally, our teams have taken steps to improve the mix of high-value products we're selling.

We continue to invest on future forward, sustainable innovations to drive profitable growth, accelerating the pace and impact of new product introductions. And our internal investments to expand capacity for high-value products in key markets are well underway and on schedule. Ashland performed well during this quarter and fiscal year, delivering strong results which I will review later in the call. Our ability to respond quickly and operate nimbly is a result of the intentional changes we made to the company over the past 3 years. I'd like to congratulate the entire Ashland team for the excellent results and the progress made.

Let me share with you some of the highlights for the fourth quarter results. Sales of $631 million grew by 7% compared to prior year. Against a backdrop of strong global demand, all businesses contribute to our growth. Adjusted EBITDA declined by a modest 1% to $147 million as strong results were offset by unfavorable foreign currency, higher incentive compensation and planned facility turnaround costs. Adjusted EBITDA margin declined 190 basis points to 23.3% compared to prior year quarter with FX and turnaround negatively impacting margins by 310 basis points.

For the full year, Ashland achieved an adjusted EBITDA margin of nearly 25%. Returns to shareholders continued to grow during the quarter, with adjusted EPS up 20% to $1.46 per share, reflecting the impact of share repurchases, lower interest expenses and favorable effective tax rate.

Please turn to Slide 6. As I noticed previously, all segments contributed to delivering sales growth in the quarter, driven by inflation recovery pricing, mix improvement and many product lines remaining capacity constrained. And segment adjusted EBITDA margins remained strong despite the headwinds I referenced earlier. In a moment, Kevin will provide more detail on the results for each of the segments. 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. I look forward to discussing our outlook for fiscal '23 and reviewing the broader progress made by the company later in the call.

In the meantime, I'll turn over the call to Kevin to review Q4 results in more detail. Kevin?

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

Thank you, Guillermo, and good morning, everyone.

Please turn to Slide 8. Total Ashland sales in the quarter were $631 million, up 7% versus prior year, driven by continued inflation recovery and mix improvements. Unfavorable foreign currency negatively impacted sales in the quarter by 6%. Gross margin was relatively flat at 33.1%, reflecting cost recovery and mix improvements by the commercial teams in the face of significant cost inflation. Excluding key items, SG&A, R&D and intangible amortization costs increased to $123 million in the quarter, primarily due to higher variable compensation accruals.

In total, Ashland's adjusted EBITDA for the quarter was $147 million, down only slightly from the prior year adjusted EBITDA of $149 million. It's important to note that unfavorable foreign currency negatively impacted adjusted EBITDA by $15 million in the quarter while the planned turnaround at the intermediate facility in Lima resulted in $13 million of incremental cost. Ashland's adjusted EBITDA for the quarter was 23.3%, with FX and the turnaround negatively impacting the margin by 310 basis points.

Adjusted EPS, excluding acquisition amortization for the quarter, was $1.46 per share, up 20% from the prior year quarter, reflecting a lower diluted share count, lower interest expense and a favorable effective tax rate. Ongoing free cash flow was $93 million for the quarter, a reduction from the prior year, primarily reflecting an increase in working capital, given the inflation in raw material and other input costs we have seen globally.

Now let's review the results for each of our 4 operating segments. Please turn to Slide 9. Life Sciences had yet another strong quarter, and the team executed very well. Pharma demand remained strong, product mix was favorable, the team executed on disciplined cost recovery and the plants operated well, all contributing to margin expansion. Unfavorable currency impact was an offset to the strong performance in Life Sciences. In total, Life Sciences sales increased by 13% to $213 million, while adjusted EBITDA increased by 19% to $57 million. Adjusted EBITDA margin increased meaningfully to nearly 27%.

Personal Care also had a strong quarter with good execution by the team. There was strong organic demand across all end markets, and the microbial protection acquisition we made last year is performing above expectations. The team delivered disciplined cost recovery through pricing and our plants operated well. As with Life Sciences, these results were partially offset by unfavorable currency headwinds. For the quarter, Personal Care sales increased by 3% to $188 million, while adjusted EBITDA increased 10% to $56 million. Adjusted EBITDA margin again increased to nearly 30%.

Please turn to Slide 11. Specialty Additives had a solid quarter overall with good performance by the team. While demand remained healthy and mix improved during the quarter, capacity constraints and unfavorable foreign currency limited overall sales growth. For the quarter, Specialty Additives grew sales by 3% to $187 million, while adjusted EBITDA declined by 9% to $43 million, primarily reflecting higher operating costs, including higher energy costs at our European cellulosic manufacturing facilities. This was partially offset with inflation recovery. Adjusted EBITDA margin also declined to 23%, due primarily to the higher operating costs.

Please turn to Slide 12. Intermediates reported sales were $64 million, up 7% compared to the prior year, driven by higher merchant market pricing and improved product mix management. As discussed on previous earnings calls, the intermediates team performed a planned turnaround at the Lima, Ohio facility during the quarter. The turnaround was executed on time and budget resulting in costs of $13 million, which impacted segment profitability in the quarter. Intermediates reported adjusted EBITDA of $17 million, a decline of 19% compared to prior year and adjusted EBITDA margin declined to 26.6%.

Please turn to Slide 13. As we discussed at our Investor Day last November, capital allocation discipline continues to be an important component of Ashland's value creation strategy. The actions we have taken over the past year have improved our financial position and provide for increased flexibility. Since August of 2021, we have executed on $650 million of share repurchases, representing approximately 11% of our outstanding shares. And earlier this year, Ashland's Board of Directors approved a new $500 million evergreen share repurchase authorization. As of the quarter close on September 30, we had cash on hand plus available liquidity totaling roughly $1.3 billion.

Our net debt is reduced to $624 million, which is about one turn of leverage. We have no floating rate debt, and all of our outstanding debt is subject to investment-grade style credit terms. We are investing in our existing business to grow organically and continue to pursue our strategy of enhanced profitable growth through targeted bolt-on M&A opportunities focused on Pharma, Personal Care and Coatings. Against a 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 fiscal '22 results and our priorities and outlook for fiscal '23. Guillermo?

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

Thank you, Kevin, and please turn to Slide 15. I'd like to take a few minutes to recap Ashland's very strong results in the recently completed fiscal '22. We experienced strong resilient demand from our consumer-focused end markets following the global pandemic impact of 2020 and 2021. Given the strong demand, we are largely sold out across many product lines, resulting in capacity constraints for our segments.

Our commercial and operations teams were able to continue with a stated strategy of mix improvement, and we're also able to drive productivity improvements. Global supply chain and logistics challenges remain elevated throughout the year, though are now showing some encouraging signs of easing. Cost inflation, particularly for raw materials, freight and energy, were significant throughout the year, and our teams did an excellent job on recovering inflation and maintaining our overall margins. Our operations team executed at a high level to drive robust plant loading and operating discipline.

Innovation has been a central theme of our strategy and of who we are as a company. During the year, we launched a record number of new products, which also have significantly higher sales growth potential, in line with our goal of increasing innovation, speed and impact. And they are all aligned with our sustainability goals. It is very rewarding and encouraging to see these new technologies receive so many awards and recognition from our customers and the industries we serve.

In addition to these factors, changes in the global economy and the strengthening of the U.S. dollar drove significant unfavorable foreign currency impact to both sales and earnings. In spite of the challenges faced, Ashland delivered sales and earnings growth for the year that surpassed our original expectations.

Furthermore, Ashland completed numerous steps this year to further strengthen and enhance our balance sheet. We closed the sale of the Performance Adhesives business earlier in the year and used the proceeds to repurchase a significant number of our shares and reduced our outstanding debt. As a result, we now have low net leverage with no floating debt outstanding, and we [maintain] (corrected by company after the call) with significant liquidity.

Also substantial cost inflation resulted in an increase in working capital balances and lower ongoing free cash flow for the year, we expect those trends to moderate next year, enabling cash flow generation more consistent with our stated targets. As we've discussed on past earnings calls, we began numerous large capital investments to increase capacity for key product lines to support our Pharmaceutical, Personal Care and Architectural Coatings businesses. These expansions are well underway, and we continue to expect production to come online towards the end of calendar year 2023 and into 2024.

And finally, we continue to work to rebuild inventory levels in key regions, not only in response to the supply chain challenges, but also in preparation for some of the challenges the global marketplace has experienced. In summary, Ashland's balance sheet gives us a strong footing in an uncertain world, and we have the flexibility and discipline to execute our growth strategy and reward our shareholders. We continue to strengthen our internal innovation portfolio management to both accelerate the pace of new product launches and to ensure that those launches create the most value for our customers and for Ashland.

Please turn to Slide 16. Before I turn to our financial outlook later in the call, I'd like to review key financial highlights for the year. Ashland sales grew 13% for the year to nearly $2.4 billion. Each of our operating segments returned double-digit sales growth. As discussed, these strong results were driven by resilient end market demand, mix improvements among capacity constrained assets and disciplined cost inflation recovery, partially offset by significant foreign currency headwinds of $77 million.

Please turn to Slide 17. Earnings growth also greatly outperformed our prior fiscal year. Ashland adjusted EBITDA grew $95 million or 19% to $590 million which was well above our outlook at the beginning of the year. All segments grew adjusted EBITDA by at least double digits, reflecting early cost recovery action, sustained quality margins and continued mix improvement by our commercial teams. And as I stated before, our operations team executed at a high level running our facilities efficiently and productively.

And as with sales results, adjusted EBITDA for the year was partially offset by significant foreign currency headwinds of $38 million.

Adjusted EPS, excluding acquisition amortization for the year was $5.70, up 52% from prior year.

Please turn to Slide 19. Our priorities remain focused on growing our business while maintaining its quality, driving profitable growth opportunities, margin and free cash flow expansion while leveraging ESG as a core value and enabler. From all the comments I've shared, our teams continue to demonstrate strong progress on all fronts, demonstrating operating resilience, strategic focus, innovation and growth, and capital allocation discipline.

Please turn to Slide 20. We opened our call this morning with a video that coincides with the launch of Ashland's inaugural ESG report, Materiality Matrix and experiential web pages. You can access the material, which includes many videos from our leadership team on our website. The report is a manifestation of our commitment and execution behind our global, environmental, social and governance activities and includes an interactive Materiality Matrix, which transparently shows Ashland's agenda relative to ESG and that we consider a key competitive advantage.

The report underscores our company's transformation and rightsizing, the integration of ESG into our strategy and within the lenses of the business and profitable growth. It is also the holistic convergence of everything, interconnecting, environmental, social and governance as well as sourcing, operations and solutions. The report and many supporting web pages show how everyone in the company fits into Ashland's ESG program. As previously mentioned, Ashland is in the process of setting science-based targets, and we expect to share more information in early 2023.

Please turn to Slide 22. As we think about Ashland's operations and results for fiscal year '23, we recognize that there are many known macroeconomic dynamics impacting not only our company but our customers, suppliers, competitors and the consumer. While some of these factors could be negative, some could also be positive.

Known dynamics include global recessionary trends, continued inflation, supply chain and logistics challenges, European energy cost and availability, pricing arbitrage in certain areas of the globe, rising interest rates and higher cost of capital, global currency volatility and a decelerating M&A environment. We also recognize that there are known factors about how Ashland is positioned in this environment. This includes a business portfolio that is focused on serving resilient consumer-focused end markets, with cohesive and disciplined teams. We have a number of capacity constraints until new investments come on stream.

Our strong operation performance and pricing momentum and reduced exposure to petrochemical-linked raw materials have been important during this period of rapid cost inflation. We also maintain a strong balance sheet and are able to pursue growth capital investments, many of which are well underway.

Furthermore, we acknowledge that there are risks and uncertainties in the world today that are difficult to assess and quantify. A more significant global recession, the war in Ukraine, regional weather impacts, energy availability and cost, COVID, government-mandated lockdowns and continued currency volatility are all factors that could have an impact over the coming years. And these risks could impact us in different ways, both positive and negative.

As in the past, we do not see significant value in trying to forecast very uncertain events. We will focus on the things we can control and prepare contingency plans to address these bigger uncertainties, if or when they happen. As such, we are not factoring in these high risk, high uncertainty events into our outlook. If and when they occur, we will update our outlook accordingly.

Please turn to Slide 23. Our financial outlook for fiscal '23 takes into account the known macro operating environment and Ashland's unique position within that landscape. Although we're expecting a recessionary environment during 2023, our businesses and markets we serve have historically demonstrated resilience. We do not have any indication that this resilient profile has changed. We believe our core markets will remain relatively strong even in this recessionary environment.

We have continued pricing and mixed carryover into this year based on the actions taken during fiscal year '22, and we will take additional actions as needed to recover any additional cost inflation. We expect to be capacity constrained this year until new capacity comes online in late calendar year 2023 and into 2024. In line with our demand outlook, we expect no changes to our underlying operating performance, and we do expect some improvement in specific raw material availability and costs, despite some lingering challenges in Europe.

In terms of potential headwinds, we have factored in several risks. Although resilient, we are not immune to some softening of consumer demand from a global recession. We expect to see some customer destocking in several markets and regions during the early part of the year. While energy and labor inflation will be more broad-based, raw material inflation will vary by technology. As such, there will be more supply and pricing arbitrage in certain parts of the world. We also expect continued negative impact from unfavorable foreign currency.

Given these risks and the potential for increasing volatility, we are providing a broader-than-usual guidance range. Taking these factors into account, for fiscal year '23, we expect sales in the range of $2.5 billion to $2.7 billion, which represents nearly 9% growth at the midpoint, with inflation recovery and mix improvement remaining the major growth drivers. We also expect adjusted EBITDA in the range of $600 million to $650 million, which represent a 6% growth at the midpoint and close to 10%, excluding currency impact. These outlook ranges do not incorporate all unknown risks and uncertainties.

Let me be clear, as we have done in the past few years when uncertainty was high, we're being pragmatic and focusing on the things we can control and forecast. For what we cannot control, we will focus on planning and building resilience. We do not see a lot of value in being overly optimistic or pessimistic based on external factors we cannot control or forecast. This would only create more noise in our planning process.

As external developments become clear, we will maintain our current level of transparency and we'll communicate any changes in our outlook as appropriate. Ashland is well positioned. We have confidence in the company's business portfolio, market focus, global teams and our plans and actions that we are taking. We have demonstrated strong sales and earnings growth during the last 2 years, and we are confident that we will maintain that resilience in 2023 and beyond.

Please turn to Slide 25. Over the last decade, Ashland's journey of transformation has sharpened our focus as an additives and specialty ingredients company. As we systematically identify and tackle the thorniest problems, we concentrate on areas rich in opportunities to innovate and drive value for our customers, where innovation and expertise in one business can be leveraged across others.

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

Thank you, everyone, for joining us. And Bella, let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

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

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

Awesome. Guillermo, just out of curiosity, just given the wide guidance range, could you just talk a little bit more specifics regarding what would imply the lower end of that range and perhaps what would imply the higher end of that range, specifically by subsegment, if you're comfortable?

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

Thanks, Chris, for the question. So on the lower side, I think we're sold out. So one of the issues that we have is for the higher side volume is less of a driver. So if you look on the lower side is that we do see some more recessionary impact in our businesses or that there's more inventory adjustment from customers. So a volume impact that could impact both gross profit generation and absorption.

Lower mix that could kick in. Obviously, FX is a big challenge and continues to be a big impact for both upside or downside scenarios. And I think on both -- it's very interesting. I mean, inflation is driving a lot of the revenue growth for everybody in this environment. So depending on how you look at it, I mean, protecting margins is a high priority, but the growth and the EBITDA generation will also vary depending on the inflationary outlook. On the high side, it really is more about inflation continuing to be strong, robust movement on pricing recovery, and mix improvement and the FX is a little bit more favorable.

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

I would say mix; we also have a positive impact on the upside as well.

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

Right. Helpful. And just, Guillermo, going back to the Analyst Day, which I guess was about a year ago. I mean, there's a lot of debate and discussion around longer-term Personal Care growth. You've done pretty well. You've exited some business lines. It seems like you've launched some new products, specifically in hair care and added some preservatives from Schülke, could you just give us your updated, let's say, intermediate-term view of the Personal Care portfolio, where you stand, where you want to be and anything you're particularly excited about?

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

I think the core parts of the business, the teams are focused, we're driving margin recovery. And I think it's important to note for the core businesses, Science, Personal Care and Coatings and Specialty Additives, the inflation recovery maintained our margins. Any improvement really came more on the side of the mix impact on those businesses, which is a little bit different from the intermediate side of the equation.

So they move to maintain and protect margins. I think they're all focused on where we can share gains, where we can drive growth with our underlying business. Eliminated in some of these underpinning areas so that's creating less noise in our portfolio. And I think it's about innovation. I mean, the real impact now for us, this 2022 and into 2023 is getting that pipeline moving. I mean, we're introducing a lot of new products. The revenue of those products really will start kicking in in 2024 because between introducing it, customers start working them, like the product and they really start introducing into new formulations- there is a pipeline process.

So what excites me right now is that that pipeline's filling is going very well with a lot of very strong launches and I think the Personal Care team has done a great job on the innovation front. Not just a lot of products with higher impact. As I said in my comments, the amount of recognitions that we're getting, the awards, if that's a leading indicator, I think that was very positive that we're hitting the sweet spot of what our customers want.

Operator

Your next 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, are you seeing much destocking in your end markets? And when do you think if you are, when do you think it will come to a conclusion?

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

It varies by segment, Dave. We're monitoring that very closely because there's 2 dynamics. One, the pressures - working capital for everybody has been a big issue with inflation so you have a lot of companies looking at what they do, end of the year comes and this first quarter probably will be the noisiest in terms of that inventory.

But at the same time, there is still some significant challenges of product availability and you're seeing it especially here in Europe where force majeures, the economics are of the situation are bringing down production in certain areas. And I'll comment on raw materials probably in some of the questions that I'll get, but there is a risk of supply also, it's not gone.

So depending on the industry, if I look at Pharma, they're much more worried about supply reliability. They're looking at risk management, contingency planning. They want to make sure we have inventory. Other suppliers, especially European, are having challenges so that part of the portfolio is not moving as aggressively to drive inventory reduction. I'm much worried about security of supply.

On the other side, I would say, some of the industrial areas are looking more at some adjustments in the inventory. And in Personal Care, it depends on the customers and where they stand so it really is customer and industry-specific depending on where they stand on the risk tolerance of supply issues moving forward.

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

And what does that mean for FQ1 EBITDA relative to last year? I assume up, but up by how much?

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

The Q1 is probably the one that's going to be a little bit more noisy, and it's more the inventory side of the equation. The advantage we have is there's a lot of carryover pricing and mix momentum so we have a lot of momentum tailwind coming into the year. So I think this is where the bigger range that we're giving is having an impact.

To be very transparent, we were looking at do we give annual guidance or do we give a quarterly guidance. It's a very difficult environment right now to forecast because of all these variables so we acknowledge that there might be a little bit more variability in terms of inventory and demand in the first quarter, but we also come forward with a lot of that tailwind from 2022. And we're sold out anyway so we'll be producing to rebuild inventories, and we can always shift supply across regions in different parts of the world where some of the supply is still tight.

Operator

Your next question comes from the line of Joshua Spector with UBS.

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

This is Lucas Beaumont for Josh. So in the fourth quarter, just trying to sort of work out sort of what you guys had here from sort of pricing volumes. So I mean it looks sort of outside IMS, we sort of saw more of a slowdown on the pricing side. So just in the context of that, could you kind of talk about your 9% sales growth next year and just walk us through what you're assuming there from a price and volume perspective?

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

Okay. And specifically to the Intermediates segment?

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

No, sorry, all the specialty segments, excluding Intermediates so yes, everything other than Intermediates. Yes.

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

If we just go down each of the segments, we still see continued demand in Pharma. I think the core market is robust. We're experiencing a little bit higher demand because other suppliers are having problems and we've been very reliable, so I think we've been a go-to supplier by many of our customers, so we expect that resilience to continue.

In Personal Care, it's going to vary by player and region. I think a little bit more noise here in Europe, but in other parts of the world, we still see continued growth. Again, if the segment continues to behave as it has in the past, this is not something that you wake up and stop brushing your teeth in a recession or using shampoo, conditioners or some of these products. So it should remain resilient.

And in Specialty Additives, we do see that scenario, especially in Europe, where we expect to see a little bit softer demand. There is clearly a shift from the DIY normalizing. Contractor market still remaining pretty strong in the U.S. and parts of Asia, but slowing down a bit in Europe. So our issue, as I said, we don't have a lot of volume so it's really going to be more around that pricing mix impact. A lot of it is carryover from prior year so we should be robust and really then the issue is new inflation.

And I think the part that we're looking at is energy is still a big issue, especially in Europe. You're going to see merit increases across the world, they're going to be higher than last year for most companies and that will include us. Our question is, will we have to do more throughout the year depending on how things evolve? Higher inflation, those broad-based inflations, I think would push everybody to take action to pass it through the chain.

And I would say, from the raw material perspective, and again, it drives your question of growth and although raw materials, many the general inflation has resided a little bit for our segments and all the players, our competitors are here, the energy side is a big impact and the specific raw materials, we do see some major pushes on cost and availability. So I would highlight for us, 50% of our new inflation that we're seeing are coming out of caustic and iodine as an example.

So for those product lines, any competitor is going to face the same world that we do. It's significant. Caustic, as an example, was a nonissue raw material for us in 2021. It doubled towards the end of 2022 and now the price is 5x to 6x what it was in '21 so it's become a major cost item, which for our cellulosics for us, for our suppliers is a big cost so we're passing it on. So that will be a big driver in terms of the pricing dynamic.

And I think the other part of it is availability. Caustic is expensive because the general demand has come down so the chlorine is not being used by automotive, construction, so they can't make caustic. So we're very concerned about availability. In some of our product lines in the same world we were last year, but in a more micro dynamic that it impacts certain technologies. And I think that's really, for us, what's going to drive that revenue growth potential.

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

Just for a little more detail, pricing realization in Q4 was almost exactly the same as it was in Q3. So pricing remained very strong in Q4.

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

Great. And then just sort of touching on your capital allocation priorities. So I mean, your leverage is very low. You've got the sort of stated sort of target there of trying to do the bolt-on M&A. But I mean, at the moment, you're building cash and in the context of, I guess, if the deal environment sort of remains challenged and you continue to kind of build cash, I mean, you have enough capacity at the moment to do multiple sort of Schülke size type deals. So kind of how do you think about the cash level where you would start to kind of do some more meaningful shareholder returns if something doesn't kind of eventuate in the next 6 to 12 months?

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

No, I think, well said. I mean, we have a lot of flexibility, and I think the issue now is prudent on how we move. Obviously, being well positioned from a balance sheet also, not just the income statement, puts us in a very strong position. M&A is softening. Hopefully, some of the prices and multiples expected come back down a little bit so there might be some interesting opportunities. So we want to be patient and focused. We want to do bolt-on M&As. We don't have to do it so I think this gives us an opportunity to invest organically, to look at M&A and to reward our shareholders.

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

We have an authorization place to do that. We have a $500 million share repurchase authorization the Board put in place earlier this year. So along with the flexibility we have, we also have the authorization to do it.

Operator

Your next question comes from the line of Mike Harrison with Seaport Research Partners.

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

Was hoping you could comment on the Personal Care and Household business, the sustainability of the margin improvement there. And I was curious, is there something special about Q4 that leads to higher margins just from a seasonality perspective? As I look back through history, it seems like Q4 is kind of the peak for the year in terms of margin performance in that segment.

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

No, I think, Mike, it was mostly around mix and good performance on the cost side and all our plants and all that the mix was the bigger driver. We had a very strong last 6 weeks of the quarter with very favorable mix in terms of the results, and that's what drove most of the performance.

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

All right. And then on the Specialty Additives business, it seems like that maybe is the area where you're seeing the most impact from energy volatility, maybe also the area where you could see the biggest impact from some destocking. So I guess, as we're looking forward, is that what we should kind of think about the risk being more concentrated in that Specialty Additives business, at least as you look over the next 3 to 6 months?

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

Yes. I think several things just to remind. When we talk mix improvement, one of the places we take volume from to move is in the Specialty Additives. So they are more constrained than others because some of the lower-end segments that's where we take. So their constraints are a little bit different, in the sense, it's not just market, it's going to be our own prioritization of segments.

So you could see volumes clearly as inventories get reset, we see most of that in Europe, not as broadly in other parts of the world. There's still concern about availability of supply to us and the industry remains tight in capacity. So we'll see a little bit of variances there. Energy is a big issue, and they're the landlords of all of our cellulosic plants. So clearly, that's where we see a lot of the impact of the energy side, and we're moving on it. Most of it is in Europe, and it's impacting everybody. So we're not alone in having to address those energy concerns. The good news for us is that most of our plants are in Netherlands, Belgium and France. So we're a little bit more advantaged situation than some of the other players that are located in Germany.

Operator

Your next question comes from the line of John McNulty with BMO.

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

So when you think about the balance of trying to squeeze cash out of working capital, and at the same time, making sure that you have all the supplies that you need. I guess, how do you think about balancing that as we look to 2023? And I guess how should we think about how much cash you could free up out of working capital as we look through the year?

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

Yes, John, I'll take that one. I think as we look at what we expect to be our growth rate in fiscal '23 versus '22 looking to say at the midpoint, I think one of our biggest objectives is maybe less about taking cash out of working capital and more about managing down how much working capital grows, which is going to primarily be a function of inflation. And also based on how we can improve mix, we want to strategically add some inventory to those higher-margin product lines and SBUs, so that we can provide the right level of service there and continue to drive mix improvements.

So as we look at our fiscal '23 plan internally, normalizing free cash flow for fiscal '23 is less about trying to squeeze cash out of working capital, primarily inventory and receivables. We will continue to manage those with a lot of discipline. We want to make sure that we manage very closely against any increases that we see. Given what we expect inflation to be, et cetera, there's likely to be some increase there. But incredibly modest compared to what it was in fiscal '22, again, unless we see a lot of accelerated inflation, which we're not currently planning for.

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

I think John, the other part that we are fortunate, that we have a strong balance sheet, that we are also looking at when we want to take actions, if we want to reduce inventory or not. I think one of the biggest concerns that we have right now is if everybody reduces inventory and then there is a supply problem in Germany or any issue that we go back to 2021, and we start having a lot of issues. And we're looking at it through the lens of our markets, not the broad market, what commodity materials are doing, but just relative to ours.

So we think this next quarter is going to be the highest risk one, although everybody is moving on inventory now. I think we'll have a much better view of what's happening in the world in the second quarter. And maybe that's a more appropriate time for us to reassess what we want to do on the working capital side.

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

Got it. Got it. No, all makes sense. And then I guess, Guillermo, from your advantage point, I mean, when you start seeing threat of recession, all the kind of difficulty out there, I guess, how would you say that's impacting the M&A markets at this point? Do you see more assets coming up where people are just kind of throwing in the towel and saying, okay, it's time to get out? Or are you seeing less because nobody wants to sell at the bottom? I guess, how would you characterize the opportunity set as you're looking to 2023 for you?

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

I think clearly, everything stopped. So there is a pause that's evident in the market. I do think there is a resetting of valuation that is both from a buyer and a seller side is causing that pause. If you have a good asset, you're probably not going to just move on it immediately. So I do think it's going to be a period of time of everybody just taking a breath on what they want to do and move.

I think part of the challenge that everybody has is for the assets that we want, they tend to be very specialized, higher-end type applications. It takes time for people to change what they want to do over time. But I think that's where we need to be patient, don't rush into something. I think the opportunities are going to come up. Some of these smaller, very niche spaces that are critical for our bolt-ons, I think people will start reconsidering it throughout the year, and that's where we want to be positioned to be able to take advantage of those opportunities when they come. But to be prudent, we don't want to rush and buy anything. The growth with quality, it's not growth just for growth's sake.

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

John, I think the familiar piece of the equation is I think people are also waiting to see what the interest rate environment kind of settles into. For companies out there with a lot of floating rate debt, they're probably paying a lot of attention. I mean, given that most bank debt trades off of 3-month rates, which are up 400 basis points this year and most bond trades off 10-year treasuries, which is up 270 basis points this year.

So I think a lot of companies are kind of in wait-and-see mode just to see if things kind of settle in. Is this the new normal? Or do we pull back? Does the Fed start to loosen over some period of time? Currently, that's certainly not been the case, but I think that also plays into the M&A environment as well.

Operator

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

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

Just thinking about the interplay between your expectations for the year, I mean, the range and the mix shift strategy. Do you expect, in your base case, nutraceuticals and skin care sales in, I guess, U.S. dollars just to make it consistent to be up in 2023?

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

Skin care is pretty a global business for us so I think it's not just a U.S. dollar-based position. Actually, that was one that was very strong for us in the last quarter. So I think that is more in line with the normal parts of our portfolio.

I think in nutraceuticals, I mean, we've sort of stabilized it over the last 2 years. I don't think we're happy where we are yet. I think there's more self-help that we're looking at doing in that space so it's not so much about growth that we're going to be looking, but really -- revenue growth are really driving earnings and profitability improvement. So that's sort of the agenda for that. It's a smaller piece of the business, $100-plus million. So it's more of that improvement that we're going to be focusing on. But the demand is still holding up, it's more about us. It's not much about the market.

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

And specifically, within Europe, are you seeing any verticals where the volume trends have been surprising relative to kind of your baseline kind of playbook for how each of the subsegments should be operating?

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

No. As I said, this is where the supply issue is important that we can't forget about -- we're not going by macros of whatever -- We're not looking at what every company does; we're looking at what we need to do for our products, for our technologies. So we are seeing in Pharma, as an example, very strong demand because others are having much bigger supply problems. So that has been stronger. So we do see demand has been strong from a customer's period. But our performance has been better than market just because we're in a good position to supply. And that's why we want to maintain that focus as we go into the next 2 quarters.

Operator

Your next question comes from the line of John Roberts with Credit Suisse.

Edlain S. Rodriguez ***Crédit Suisse AG, Research Division - Research Analyst***

This is Edlain Rodriguez. I mean, you've talked about how the portfolio is very resilient, which is clearly the case, but in the event of a recession next year, like which businesses would you say, would you expect to be the most impacted and is there anything you can do to mitigate that impact?

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

Yes. I think we focus mainly our message on the 3 core businesses: Pharma, Personal Care and Architectural Coatings. I think if you look at historically, and again, we can just refer back to what's happened in the last recession, they all were very resilient. I would say, Coatings maybe at the beginning of a recession, there's a little bit more volatility, inventory actions, things of that nature.

But at the end of the day, they're more consumer-driven also. They're not high ticket. Architectural Coatings were not on the industrial side, so they tend to recover pretty quickly. So those 3 pillars are pretty strong.

I think as you look at the other areas that we're selling, you have some segments in Life Science or Food, Nutrition, those are pretty robust, more consumer-oriented. In Personal Care, it's the whole Personal Care segment. In Specialty Additives, we have the energy side, it's a small part, but it's actually more robust because of just the energy production needs going up. But you have areas in our Performance Specialty specifically that maybe service the automotive industry, ink industry. There are certain applications that we are seeing some softness so they're on the margin right now, but more products going more into that normal industrial area that we see some of the softness.

Operator

We have no question at this time. I will now turn the call back over to Guillermo Novo for closing remarks.

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

Okay. Well, everyone, I appreciate all your participation, your interest in Ashland. As always, we look forward to seeing all of you in the coming weeks and talking to you. But the most important message, really right now, is for our teams, and I just want to reiterate, this has been 3 years of surprises after surprises, challenges after challenges, and they've performed in a big changing environment, external and internal extremely well. And I think the issue now is stay calm, stay focused on the things we can control, and I'm certain we're going to have a good year and that we'll be able to address any surprises and changes as they come forward. So thank you for your attention, and I look forward to seeing you soon. Bye.

Operator

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