PARTICIPANTS

Corporate Participants

Jason L. Thompson – Director, Investor Relations, Ashland, Inc.
J. Kevin Willis – Senior Vice President and Chief Financial Officer, Ashland, Inc.
James J. O'Brien – Chairman & Chief Executive Officer, Ashland, Inc.

Other Participants

Ram Sivalingam – Analyst, Deutsche Bank Securities, Inc.
Michael J. Sison – Analyst, KeyBanc Capital Markets
Rob Walker – Analyst, Jefferies LLC
James M. Sheehan – Analyst, SunTrust Robinson Humphrey
Mike J. Harrison – Analyst, First Analysis Securities Corp.
Ernie Ortiz – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Dmitry Silversteyn – Analyst, Longbow Research LLC
Chris L. Shaw – Analyst, Monness, Crespi, Hardt & Co., Inc.
Charlotte Robertson – Analyst, Goldman Sachs

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Ashland Inc. Fourth Quarter Earnings Conference Call. At this time all participants are in a listen-only mode. After our prepared remarks, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] And as a reminder, this call is being recorded.

I would now like to turn the conference over to your host, Jason Thompson, Director of Investor Relations for Ashland. Please go ahead.

Jason L. Thompson, Director, Investor Relations

Good morning, and welcome to Ashland's fourth quarter fiscal 2013 conference call and webcast. We released results for the quarter ended September 30, 2013 at approximately 6:00 AM Eastern Time today, and this presentation should be viewed in conjunction with the earnings release. These results are preliminary until we file our Form 10-K with the Securities and Exchange Commission.

On the call today are; Ashland's Chairman and Chief Executive Officer, Jim O'Brien and Kevin Willis, Senior Vice President and Chief Financial Officer.

As shown on Slide 2, our remarks today will include forward-looking statements, as that term is defined in securities laws. We believe any such statements are based on reasonable assumptions, but cannot assure that such expectations will be achieved. Please also note that during this presentation we will be discussing adjusted results. We believe this will enhance understanding of our performance by more-accurately reflecting our ongoing business.

Please turn to Slide 3 for our fourth quarter highlights. We reported earnings of $5.13 per share from continuing operations. This includes $3.98 of income related to our standard year-end pension valuation. I will describe this on the next slide. When adjusted for key items, EPS was $1.54 as compared to $1.87 in the year-ago quarter.

Ashland's overall sales during the quarter were $1.9 billion, a 7% decline over the year-ago period. Nearly all of the year-over-year decline was concentrated in Ashland Specialty Ingredients, primarily in the more commoditized product lines of guar and intermediates and solvents. Sales of elastomers, which is part of Ashland Performance Materials, also fell. Collectively, sales for these more-economically sensitive products declined $128 million. Excluding this effect, Ashland's overall sales would have been down 1% versus prior year.

Adjusted EBITDA was $310 million, and EBITDA margin was 16.2%. Cash flow for the quarter was strong as we generated $173 million.

We have initiated several strategic actions that we expect will lead to performance improvements in 2014. First, the sale process for our Water Technologies commercial unit is underway, offering memoranda have been distributed and preliminary bids are due later this week. Second, we have announced a global restructuring program aimed at driving growth and streamlining the organization. Once complete, this program is expected to reduce costs by $150 million to $200 million including the approximate $75 million of expected stranded costs associated with the divestiture of Water Technologies.

This restructuring program is intended to bring Ashland's cost structure and EBITDA margin more in line with the top quartile of our specialty chemical peer group. We expect the majority of run rate savings to be in effect within 12 to 15 months. We also plan to provide an update on our progress during our first quarter earnings call in January.

Lastly, we have realigned our senior leaders of the Water Technologies and Specialty Ingredients businesses. John Panichella is now leading our Water Technologies commercial unit. He has 25 years of water industry experience, having held roles in sales and marketing, operations and general management with General Electric and BetzDearborn.

In addition, Luis Fernandez-Moreno is now leading Specialty Ingredients. Luis has 30 years of specialty chemicals industry experience, having previously held various leadership positions with Rohm & Haas and Arch Chemicals. These changes are aimed at maximizing the industry experience and skills of each of these two leaders to drive improved business performance.

Slide 4 details our key items. In total, five key items had a net favorable EPS impact on continuing operations of $3.59 in the fourth quarter. The first key item is a $23 million after-tax, non-cash charge or a negative $0.29 per share related to an impairment of the in-process research and development acquired with ISP.

The second key item is a $9 million after-tax charge or a negative $0.12 per share related to cost restructuring efforts and integration activities.

The third key item is a $313 million after-tax benefit or a positive $3.98 per share related to our annual pension adjustment. As described in the past, Ashland recognizes pension gains and losses in the year they occur. This non-cash book gain was primarily due to an approximately 100 basis-point increase in our discount rate since last year's actuarial valuation.

The fourth key item is a $14 million after-tax charge or a negative $0.18 per share. This is related to a contractually-required buyout of service station leases associated with the MAP transaction.

Lastly, we incurred in a net $16 million tax benefit or a positive $0.20 per share. This is primarily due to a deferred tax adjustment related to foreign corporate income tax rate changes.

In the year-ago quarter, five key items combined for a net unfavorable impact on earnings of $5.34 per share. To aid in your analysis versus the peer group, Ashland's results included $29 million of intangible amortization expense during the September 2013 quarter. We carry higher-than-average amortization due to our corporate transformation and prior acquisitions. Without this amortization, earnings would be roughly $0.26 higher or $1.80 per share.

Please turn to Slide 5 for Ashland's adjusted results. Ashland had mixed results in the fourth quarter. Specialty Ingredients faced several challenges during the quarter that negatively affected results. Kevin will describe these in a moment.

Water Technologies showed continued sales and profitability improvement both on a year-over-year and sequential basis. Performance Materials' core businesses of adhesives and composites had year-over-year sales and profitability gains. The elastomers business within Performance Materials was negatively affected by declines in volume and butadiene pricing.

Consumer Markets' profitability was flat with prior year on slightly lower sales. This was driven by lower overall selling prices due to softer input costs. Geographically, we continued to see improvement in North America and Asia-Pacific, while Europe remained weak. Gross profit as a percent of sales was 29.2% down 30 basis points compared to a year ago, but up 100 basis points sequentially.

Selling, general and administrative and research and development expenses, collectively referred to as SG&A, decreased 3% year-over-year. EBITDA declined $39 million versus the prior-year, and EBITDA margin decreased 80 basis points to 16.2%.

Now turn to Slide 6 to review our volume trends. This chart shows underlying volume trends on a normalized and rolling-four-quarters basis. By totaling the trailing four quarters for each period, we are eliminating seasonality and showing yearly growth. The data have been normalized for acquisitions, divestitures and joint ventures. As shown here, we saw volume improvement over the prior-year quarter in three of the four commercial units.

Volumes in Specialty Ingredients were negatively affected by the commodity product lines of guar and intermediates and solvents. Excluding these two businesses, volume was up 3% versus prior year. The adhesives and composites businesses within Performance Materials reported another strong quarter with combined volumes up 7% over prior year.

For the fourth consecutive quarter, Water Technologies' volumes were up versus prior year. Volumes in Consumer Markets increased modestly due to continued strength in the international business.

Now let's turn to Slide 7 for Ashland's overall EBITDA bridge. This chart shows what led to the September quarter's performance as compared with the year-ago period. Volume and mix improvements in Water Technologies and Performance Materials were more than offset by volume weakness in Specialty Ingredients, leading to the $40 million headwind shown on the slide.Significant declines in guar pricing offset margin gains in Water Technologies and Consumer Markets. SG&A which is adjusted for currency translation was a $16 million tailwind to EBITDA. In total, EBITDA decreased by $39 million compared to a year ago.

Now let's turn to Slide 8. Total liquidity which is cash plus available revolver and AR capacity was $1.5 billion at quarter end. During the quarter, we paid down $155 million of debt. The majority of this was in our revolver and credit facility. Our gross debt now stands at $3.3 billion and our net debt is $2.9 billion. We have approximately $300 million of pre-payable debt and have another $600 million of bonds that will mature in early 2016.

Before I hand the presentation over to Kevin, I'd like to note that Ashland released its monthly business fundamentals this morning and a copy is available on our website. However, this will be the last edition. We have decided to eliminate publication of the monthly fundamentals, as we believe the data points between quarters leads to unnecessary volatility and promote a very short-term focus on performance.

I will now turn the presentation over to Kevin Willis who will begin with Slide 9.

J. Kevin Willis, Senior Vice President and Chief Financial Officer

Thank you, Jason, and good morning everyone. Specialty Ingredients' overall results for the quarter did not meet our expectations. Volume fell by 3% over prior year and 14% sequentially. This sequential decline is partially due to seasonality as we typically see volumes fall by 3% to 4%. Intermediates and solvents' volumes declined significantly due to a change in customer order patterns. Excluding these combined effects; volume would have been roughly flat with the June quarter.

On a year-over-year basis, coatings, construction and core energy, which excludes guar, saw volume gains. Overall, Specialty Ingredients' sales declined 19% from the prior year and were down 17% sequentially. The majority of the year-over-year decline is attributed to guar and intermediates and solvents with combined sales falling by $102 million. The remaining $36 million is primarily due to issues related to the ERP Go-Live.

Of the $36 million, approximately $10 million is due to missed shipments resulting from ERP system-related issues. Half of this amount was lost. The other half was delayed into October and has been shipped. We believe the remaining $26 million is due to pre-buying by customers in anticipation of the ERP rollout in early July.

To ensure product delivery and maintain customer service levels, while working to repair Go-Live issues, we reduced inventory below our normal target levels. We're now in the process of rebuilding inventory back to normal levels and expect to have this completed by the end of November. Let me note that the ERP-related issues have been resolved.

Compared with prior year, pharmaceutical sales were down 11%. Roughly half of the decline is related to our fine chemical product line, which is not a core part of our product offering. The remainder is primarily related to customer pre-buying previously described.

Excluding the combined effects of these two items, sales would have been down 1% versus prior year. It's worth noting that for the full year, excluding the fine chemical product line, pharmaceutical sales were up 3.5%, roughly in line with the overall market.

Personal care sales declined 2% versus prior year, primarily due to delayed shipments to European customers. Coatings' sales increased 1% from the prior year on 7% higher volumes with particular strength in Asia. To offset raw material inflation, we announced a price increase of 6% in our HEC product line that will primarily affect our coatings business.

Specialty Ingredients' gross profit as a percent of sales was 30.5%, a 200 basis point increase over the June quarter. This is largely the result of a one-time, $7 million utility credit received at one of our plants. Excluding this effect, gross profit percent would have increased by roughly 80 basis points over the June quarter. SG&A decreased 9% from the prior year to $116 million.

Overall, EBITDA fell 31% to $132 million with EBITDA as a percent of sales at 22.1%. Slide 10 shows Specialty Ingredients EBITDA bridge.

The significant decrease in guar sales and profitability versus the prior-year quarter was the largest driver of year-over-year decline in EBITDA. Guar accounted for $53 million of this difference. Lower volume and negative mix accounted for most of the remainder.

SG&A, excluding the effects of foreign exchange, was a $12 million tailwind to the quarter. The $4 million decline within the other category reflects lower equity earnings from our joint ventures. Versus the prior-year quarter, EBITDA was down $61 million.

Please turn to Slide 11. As Jason mentioned earlier, Luis Fernandez-Moreno is now leading Ashland's Specialty Ingredients. Luis brings a wealth of specialty chemical experience to this business. He is a proven operator who has improved our Water Technologies business in a short amount time.

Looking ahead, I'll remind you that the December quarter is our seasonally weakest. However, due to lower-than-expected results in the September quarter, we anticipate overall Specialty Ingredients sales to be roughly flat sequentially.

Looking out over the whole year, intermediates and solvents will present a significant headwind. As we described a moment ago, pricing continues to deteriorate in the BDO market. This led to a $20 million headwind in 2013 versus 2012. Based on our view of the market today, we anticipate pricing to continue falling to even lower levels than our previous expectations. We also have several scheduled turnarounds next year that will negatively affect volumes.

Lastly, we expect cost of goods sold to increase, primarily due to normalized utility costs. In total, we expect these effects to result in a $50 million to $60 million headwind for the full fiscal year. We intend to provide an update on this each quarter.

Let's go to Slide 12 for a review of Water Technologies. Water Technologies' performance improved substantially over the prior year. Sales increased 2% from prior year to $441 million, led by a 7% increase in our pulp and paper business. Overall, we are seeing consistent top line improvement in Water Technologies.

Enhanced market segmentation and a streamlined organizational structure had led to a dramatic improvement in the pulp and paper business. New product launches have led to top line growth, and better supply chain execution and tight cost control have led to increased profitability.

The industrial water side of the business has stabilized, showing three consecutive quarters of sequential sales growth. While continuing to support existing customer relationships, our focus will move toward winning new business in 2014. We've gotten off to a good start with several wins in the heavy industry markets in North America, China and Brazil.

It's worth noting that for the second consecutive year, Ashland Water Technologies was recently recognized as the best chemical supplier of the year by the Brazilian Pulp and Paper Association.

During the quarter, we announced that John Panichella is now leaving the Ashland Water Technologies commercial unit. John's background in the industrial water business is a natural fit to lead this business.

Profitability in the quarter improved dramatically over the prior-year. Gross profit increased $13 million compared with the year-ago quarter. As a percent of sales, gross profit is up 210 basis points year-over-year and 50 basis points sequentially.

As indicated on the June quarter call, initiatives taken earlier in the year, are leading to improved results. SG&A decreased $5 million from the June quarter. Much of the decline is attributed to the cost reduction program described on the March quarter call. EBITDA increased 55% over the prior year to $51 million, and EBITDA as a percent of sales increased 390 basis points to 11.6%.

Now let's turn to the EBITDA bridge on Slide 13. Pulp and paper volume increased 3% versus prior year, adding to the $2 million contribution to EBITDA shown on the slide. Pricing discipline and better supply chain execution contributed $9 million to EBITDA for the quarter. When normalized for currency, SG&A expenses declined by $5 million. Currency translation and equity income had a combined $2 million positive effect on the quarter. In total, EBITDA increased $18 million over the prior year.Please turn to slide 14 for a review of Performance Materials' financial results. Performance Materials' core business, adhesives and composites, had another solid quarter. Combined, volumes and sales were up 7% and 8% respectively over the prior year.

Overall, Performance Materials' volume and sales including elastomers, were roughly flat with the year-ago quarter. The elastomers business was negatively affected by a rapid decline in butadiene pricing, which led to overall sales and gross profit.

Adhesives and composites gross profit improved considerably in the quarter. As a percent of sales, gross profit increased 130 basis points over prior year to 18.9%. Geographically, North America and Asia continued to improve and Europe remains weak. We expect to see the usual, seasonal declines in volume and sales in the December quarter and expect the results to be roughly in line with the prior year. SG&A was down modestly from the prior year to $42 million.

While not explicitly shown on the slide, equity income from our Casting Solutions joint venture declined $3 million from the June quarter. The majority of this decline is due to normal seasonality. In total, Performance Materials' EBITDA was $29 million and EBITDA margin was 7.9%.

Now let's turn to Slide 15. Lower elastomers volumes and margins were drivers to the year-over-year decline in EBITDA. Adhesives and composites volumes and margins were up versus prior year. In North America, our largest market, adhesives volumes were up 12% and composites volumes were up 10%. Butadiene prices fell 33% from July to September, leading to margin compression and inventory valuation adjustments resulting in the $9 million headwind shown on the slide. SG&A adjusted for currency was a $2 million tailwind. In total, EBITDA was down $2 million from the prior year.

Now let's go to Consumer Markets on Slide 16. Consumer Markets had another strong quarter. In total, lubricant volumes increased 1% over the year-ago period. Sequentially, volumes were down 1%, in line with normal seasonality. Volume gains in our international and do-it-for-me businesses offset declines in our do-it-yourself business. Looking forward to the first quarter, we expect volumes to decline by roughly 3% largely due to seasonality.

Year over year, sales fell 3% to $508 million. This is primarily due to lower overall selling prices as a result of lower raw material costs. Gross profit margin increased 240 basis points from the prior year to 32.1% driven by lower input costs. Due to seasonality, we expect gross profit as a percent of sales to fall approximately 100 basis points to 31% in the first quarter.

SG&A increased 9% from the prior year. Much of this supported the Valvoline advertising campaign to further build brand awareness in key growth markets. Overall, Consumer Markets generated EBITDA of $83 million with an EBITDA margin of 16.3%.

Now please turn to Slide 17 for Consumer Markets EBITDA bridge. Approximately $10 million of margin improvement was driven by lower raw material costs versus the prior-year quarter. Increases in advertising and promotion spend were the primary drivers to the $9 million SG&A headwind to EBITDA. In total, EBITDA was flat with the prior year at $83 million.

Please turn to Slide 18 for a look at some corporate items. A roughly 100 basis-point increase in our discount rate led to the $498 million pre-tax pension and other post-retirement benefit Jason mentioned earlier in the presentation. This results from Ashland's mark-to-market pension and other post-retirement accounting where actuarial gains and losses are recognized in the year in which they occur. Increased interest rates result in offsetting effects to our pension under this accounting methodology.

Rising rates reduced the liability on the balance sheet. Required cash contributions have further improved our balance sheet, leading to a $669 million reduction to the under-funded balance of our pension and other post-retirement plans over the last year. This brings our total underfunded status to $1.1 billion.

As a result of the improved funded status, Ashland's required contribution to our plans has been significantly reduced. We expect the cash pension funding to be roughly $45 million in fiscal 2014, $83 million below last year.

The final effect of higher interest rates is lower pension income on the P&L. The service cost element of these plans is included in our commercial units and typically doesn't change much from year-to-year.

The interest cost component, however, fluctuates as a result of the interest rate environment. We record this component in our segment reporting under the corporate unallocated and another caption and expect 2014 income of approximately $55 million compared to $79 million in 2013. Capital expenditures were $125 million for the September quarter, bringing our year-to-date total to $314 million. We expect roughly $275 million of capital spending for fiscal 2014.

After adjusting for key items, net interest expense in the quarter was $42 million and our effective tax rate for the quarter was 25%. This brings our full year effective rate to roughly 25%, in line with our previous guidance. Based on our current view of income mix, we expect our fiscal 2014 tax rate to remain at approximately 25%.

We generated $173 million of free cash flow in the quarter, primarily due to earnings and working capital management. This takes our free cash flow generation for the year to $529 million. Working capital was a source of cash for Ashland in 2013 but planned investments in inventory to improve customer service should lead to a use of cash in 2014. We expect free cash flow of $475 million to $500 million in 2014.

Now I'll turn the presentation over to Jim O'Brien for his closing comments starting on Slide 19.

James J. O'Brien, Chairman & Chief Executive Officer

Thanks, Kevin, and good morning. 2013 has been a challenging year for Ashland. Broadly, Ashland faced a softer global macro environment than we expected entering the year. Guar, intermediates and solvents made for a particularly-challenging headwind with Specialty Ingredients. Performance Materials was negatively affected by price swings in butadiene and a soft replacement tire market. Despite these challenges, Ashland had quite a few accomplishments during the year.

We strengthened our capital structure by restructuring our debt. In doing so, we locked in attractive interest rates, extended our maturities and put in place investment-grade covenants. Last November, we brought in new leadership to run the Water Technologies business. We were losing volume and our cost structure was too high. The new team stabilized the business and executed a cost reduction program that has resulted in a dramatic improvement.

Water Technologies' fourth quarter annualized run rate EBITDA was $204 million, a 55% increase over prior year. Consumer Markets had a strong year. Full-year EBITDA margin was 16.5%, in line with our long-term target of 15% to 17%. This has been the result of an improved base oil market as well as a 330-basis-point increase in premium lubricant sales volumes.

Volume gains in adhesives and composites were a key focus for Performance Materials going into 2013. Combined, volume increased 3%, primarily due to strong gains in China where we have had success in our business diversification efforts. One of our stated goals, we've put the Ashland transformation into place, was to significantly increase free cash flow. As you heard Kevin say, we generated $529 million of free cash in 2013, a 115% increase over 2012.

Returning cash to shareholders was our primary use of this cash. We increased our annual dividend by more than 50% and executed a $150 million accelerated share repurchase program during the year at an average price of $86 per share.Let's go to Slide 20 and I'll give you our outlook. Through October, overall volumes are in line with prior year. For the full quarter, we expect volumes to be flat with the prior year and consistent with normal seasonality.

Regionally, our expectations are mixed. North America and Asia were the strongest markets for us in 2013. We expect growth in North America to remain slow but stable going into next year. Our business in Asia started out slowly in 2013, but improved throughout the year. Each of our businesses posted fourth quarter year-over-year volume gains in this region, and we expect continued volume growth this year.

From a broad perspective, Europe has been weak for us. Going into next year, we will continue to approach this uncertain market with caution. Our business in Latin America has been uneven, and we expect that to continue in 2014. In total, we remain cautiously optimistic as we look out over the next several quarters.

Please turn to Slide 21 for our final thoughts. On the June quarter conference call, we announced our plans to explore strategic alternatives for Ashland Water Technologies. After completing the strategic review with our board and financial advisors, a formal sale process for Water Technologies is underway. At this point we expect to announce an agreement to sell Water Technologies sometime during the first quarter of calendar 2014.

Additionally, our elastomers sales process is continuing, and we hope to announce an agreement to sell this business in the first quarter of calendar 2014. We expect the primary use of the net proceeds from the sale of these two assets will be a return of capital to shareholders in the form of a share repurchase.

With respect to our overall corporate strategy, management and the board will continue to review our portfolio in order to best position the company for long-term value creation for our shareholders.

Another 2014 objective is to execute the global restructuring program Jason described earlier in the presentation. This initiative, led by our CFO, Kevin Willis, is designed to enhance Ashland's competitive position by simplifying the organization, increasing customer and market focus, maximizing operational efficiency and lowering our costs. We expect the full run rate savings of $150 million to $200 million from this program to be in place within 12 to 15 months.

We have made several announcements today regarding our new initiatives. The collective intent of these actions is to position Ashland to be the best specialty chemical company in the world, with sustainable earnings growth and EBITDA margins that rank among the top quartile specialty chemical companies.

With that, we'll open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question is from David Begleiter of Deutsche Bank. Your line is open.

<Q – Ram Sivalingam – Deutsche Bank Securities, Inc.>: Good morning. This is actually Ram Sivalingam sitting in for Dave. Jim, just a quick question, very clear on use of potential proceeds from Water Tech and elastomers. What's your preference in terms of doing a share buyback or are you expecting another, ASRs are getting to the back half of calendar 2014?

<A – Jim O'Brien – Ashland, Inc.>: As we look at buying back shares, we have not made a final decision about how to execute that. So all we're communicating on the call today is our intent to buy back the shares, and at some future time, once we actually have the money, we will make a more definitive statement of how we plan to do the program.

<Q – Ram Sivalingam – Deutsche Bank Securities, Inc.>: Understood. And then just one quick follow-up as you continue to evaluate the overall portfolio. How you guys thinking about MLP options for Valvoline down the line?

<A – Jim O'Brien – Ashland, Inc.>: As we look at that option versus other options of Valvoline, of course, another option is just to keep it, is that the MLP is something that we have studied and continue to study, most other alternatives. And as we look at that particular option today, I think there are probably better options than an MLP at this stand. I don't think Valvoline has the type of structure that really lends itself for the shareholders to benefit greatly from such an option.

<Q – Ram Sivalingam – Deutsche Bank Securities, Inc.>: Understood. Thanks very much.

Operator: Thank you. Our next question in queue is from Mike Sison of KeyBanc. Your line is open.

<Q – Mike Sison – KeyBanc Capital Markets>: Hey. Good morning guys.

<A – Kevin Willis – Ashland, Inc.>: Good morning, Mike.

<A>: Hi, Mike.

<Q – Mike Sison – KeyBanc Capital Markets>: In terms of Specialty Ingredients, given the headwinds that you noted, I mean can you grow earnings next year? Is it – I mean you're sort of starting in a tough hole?

<A – Kevin Willis – Ashland, Inc.>: Yeah, Mike. This is Kevin. We expect in Q1, the intermediates and solvents business to be probably about a $10 million or so headwind primarily due to price but perhaps somewhat due to volume as well. At this point, we're baking around $8 million of higher SG&A primarily due to – and so comp accruals obviously those are fluid and change as the year goes. And there's a couple of million dollars of headwind from foreign exchange as well.

In thinking about full year, we think that, assuming the intermediates and solvents headwind plays out as we expect it to and as we've outlined, we think full year operating income for the business should probably be up in the 3% to 5% range. And as we noted in the prepared remarks, we'll keep you up to date on what's going on with the solvents business each quarter as it plays out.

<Q – Mike Sison – KeyBanc Capital Markets>: Okay. And then maybe, Jim, you can give us some of your thoughts, this is certainly a segment that you will need to get margins back to where they were to sort of achieve that first quartile specialty chemical profitability. I think there was time you thought operating income would be double or what it ended up this year. Can you just sort of walk us through how you envision getting profitably back to where it hopefully should be over time?

<A – Jim O'Brien – Ashland, Inc.>: Yes. As you look at the ASI business, a couple of things impacted it this year. One is the – with raw material costs coming down, we experienced deflation on the top line. Margins weren't affected as a percent of sales but the total earnings that were created because of that deflation impacted it. At the same time, we increased cost to try to advance some projects faster. That, probably in line with the deflation we experienced, exacerbated the performance amongst other things that were described in the call.

So as you look at our cost restructuring program, partly it's to get our cost structure right given the current environment, which is lower growth and in anticipation that things are going to be a little tougher than we'd anticipated a couple years ago. So that's part of the reaction. But at the same time, we have to get our cost structure oriented around how to grow Specialty – Ashland Specialty Ingredients. So the restructuring also it enhances competitiveness. So how could we get things done faster, lower costs, less decision making required to get things done. All those things will be part of the restructuring.

The important point around ASI is; it does have to be a growth business. So as we look at Asia, we're seeing good growth there, so we're participating well. A big part of our business in personal care as well as construction is in Europe. We have to see Europe pick up some. I mean, that's just a fact. I mean, it's a big part of our business. If Europe continues to be flat to declining, that's going to be a very difficult challenge for us to grow. But even despite that, we have some growth in that business of 1% to 2%. So I mean, we're still growing there but not at the rate that we had hoped.

So as we look at ASI, we have to get the new products into the pipeline. We have to replace about 30% of ourselves every year to get the growth. That means new business, new opportunities. That's going to be focused on – continue to be focused on, and get the costs down and push as hard as we can in areas that are growing, which is primarily the U.S. and Asia, and do our best in Europe.

<Q – Mike Sison – KeyBanc Capital Markets>: Okay. Great. Thank you.

Operator: Thank you. Our next question in queue is from Laurence Alexander of Jefferies. Your line is open.

<Q – Rob Walker – Jefferies LLC>: This is Rob Walker on for Laurence.

<A – Kevin Willis – Ashland, Inc.>: Good morning, Rob.**<Q – Rob Walker – Jefferies LLC>:** Good morning. I guess just, first, sort of an accounting question. I'm wondering how the expected stranded costs from the water sale will flow through over the course of the year?

<A – Kevin Willis – Ashland, Inc.>: Well, Rob, this is Kevin. Once we assume we have a water sale, well, obviously, those costs that remain stranded will be recorded where they exist today and part of the point of the restructuring effort is to make sure that we get out ahead of that approximately $75 million of stranded costs.

And then on top of that work toward making the rest of the business more competitive particularly ASI but also Valvoline, frankly, as we move forward. And so those costs will live where they live until we drive them out, and they'll be reported that way.

<A – Jason Thompson – Ashland, Inc.>: Also don't forget, Rob, that it's not uncommon to have TSA to cover a fair amount of those costs for some period of time post the transaction.

<Q – Rob Walker – Jefferies LLC>: Okay. Thanks. And then just on Valvoline, you've ramped OpEx pretty aggressively this year for the international business. How should we think about OpEx growth next year and I guess ultimately Op profit growth for Valvoline next year?

<A – Jim O'Brien – Ashland, Inc.>: When you look at the challenge for Valvoline is to grow that business and it's a very low capital-intensive business but it's a high sales marketing intensive business. So the challenge is always the upfront investment to get into a new market, expand the sales channel, support it with some sort of marketing campaign to create awareness and those expenses have to pay off. So you saw us invest pretty heavily this year on both the marketing side as well as sales expansion.

So what I'm expecting for that business next year is to watch these expenses very carefully and matter of fact, even lower their expenses. At the same time yield some of the investments we made this year in higher sales and profits. So I would expect this business to get a higher yield ratio of sales and profits on a lower expense base.

<Q – Rob Walker – Jefferies LLC>: All right. Thank you.

Operator: Thank you. Our next question in queue is from the line of James Sheehan of SunTrust Robinson. Your line is open.

<Q – James Sheehan – SunTrust Robinson Humphrey>: Good morning. Kevin, question on the restructuring. You mentioned – you referenced some of the stranded costs for Water Technologies. I was just wondering if you could provide a little more detail on how the restructuring savings would be allocated by segment.

<A – Kevin Willis – Ashland, Inc.>: Yeah. The way that tends to work is, so we have SG&A that's built directly into each commercial unit. To the extent that the SG&A within a commercial unit, say Specialty Ingredients or Consumer Markets is reduced, that unit will benefit from that on a dollar-for-dollar basis. We have allocated direct SG&A. These are what you think of as maybe corporate or supply chain resources that are embedded within each of the commercial units to perform specific functions.

To the extent that those numbers go down, obviously that commercial unit will benefit from that also on a dollar-for-dollar basis. And that's probably 75% of our total SG&A, and the company right now made it a little more. And the remaining 20%, 25% is allocated corporate SG&A. Folks like Jim and myself that aren't directly related to a commercial unit but we're here. And so to the extent that those costs go down, those reductions are allocated out to each of the commercial units more or less on a pro-rata basis.

<Q – James Sheehan – SunTrust Robinson Humphrey>: Okay. Another question for Jim, could you comment on your CapEx outlook for 2014, $275 million, it's a bit lower than 2013. What types of projects are you looking at now? Is your HEC project in China going along as expected? Have you restarted that yet and what about your – some of the other projects that you – that were being looked at? What is the status of those? Are they being further delayed?

<A – Jim O'Brien – Ashland, Inc.>: When you look at our CapEx going into next year, we have a base CapEx which is probably about $195 million, $200 million of CapEx that we have to maintain to just keep the plants in good working order. And then beyond that, we have a lot of projects which have already started, which need to be completed and the HEC project is one of those that you just described. They could be restarted within three months. But what we're paying close attention to is the real demand that we're seeing. So we're trying to get better balance around when we bring certain projects up. And so that necessitates probably several months delay and how we would look at putting those into the pipeline for construction.

So I think this CapEx that you see this year reflects our expectation that demand is going to stay fairly flat to 2% to 3% growth; and with that, we have plenty of capacity. So we don't need to add capacity at this time to service our needs and we'll watch that quarter-to-quarter and make decisions accordingly. So we have money set aside within that budget to ramp up certain projects, quickly if we so desire, if we see the need. So I think the expectation shows we're going to spend less on CapEx.

<Q – James Sheehan – SunTrust Robinson Humphrey>: Thank you very much.

Operator: Thank you. Our next question in queue is from the line of Mike Harrison of First Analysis. Your line is open.

<Q – Mike Harrison – First Analysis Securities Corp.>: Hi. Good morning.

<A – Kevin Willis – Ashland, Inc.>: Good morning, Mike.

<Q – Mike Harrison – First Analysis Securities Corp.>: With the ERP system implementation behind you, can you talk about how that improves your capabilities to go to market as a single entity in the Specialty Ingredients business?

<A – Jim O'Brien – Ashland, Inc.>: The ERP is something that we put for a single instance for the whole company. So what it allows you to do now is that everybody that is working through the supply chain, working through sales, marketing, the sales force is on the same system as far as how they manage their customer base. So there's uniformity about how we approach the market from a system standpoint and that just creates simplicity and efficiency from the standpoint of how the company operates. We don't operate several systems.

So from our standpoint, it's something that's required and necessary just to do our business. So I'm pleased that we have this behind us because every other parts of the company we've completed this, they've gotten better. And I would fully expect the ASI through this year will get better using the system, and then one of the areas that we have to continue to improve and we have a module that we'll launch through the year, which is our export system.

Right now, that's still a manual system that has to be put on the ERP and put it on the SAP level so that it's more automated and less touches with the human hands. That will help us become more efficient and better of serving our customers through the exports that we provide out of the United States. So that's the next step in our ERP and that will launch sometime this year and that will help improve that process.

<Q – Mike Harrison – First Analysis Securities Corp.>: All right. And in the solvent and intermediates business, the $50 billion to $60 billion headwind you're talking about, is that a top line impact or a bottom line impact or both? And then you also mentioned you're taking some downtime, how would you expect to benefit from the turnaround activity you mentioned there and does it make sense to simply idle this business for a little while until the underlying supply and demand improves?

<A – Kevin Willis – Ashland, Inc.>: In terms of the first part of your question, effectively, it would be both top and bottom line because it's basically it mostly price, let's put it that way, at least in the top line part or the sales we're not going to have because of the turnarounds. And typically, these plants and we have two of them. There's one in the U.S., there's one in Germany. The turnaround activity is primarily related to the plant in Marl, Germany. These turnarounds have to be done periodically, it's two-and-a-half to three-and-a-half years typically between turnarounds to reinvigorate the catalysts, recover some lost catalysts, et cetera.

And just do general repairs, these plants run hard. They run out full out 24/7, 365 pretty much. And that's really how you get good fixed cost absorption is by running the plants full out. And so turnarounds are absolutely necessary because you will see falloff in production if you don't do it, plus things just break and need to be repaired. So in terms of I guess idling capacity and even though it's going to be a headwind to earnings, it's still positive contribution in terms of margin dollars.And so I don't – the fixed cost would not go away if we idled the plants for a period of time and we also would have a lot of other operating issues. And just as a reminder, we do use a portion of the BDO that we manufacture in polymer production. It's a critical raw for us in the polymer side. And so we need that production or at least a portion of that production to ensure that we have that material for polymers.

<Q – Mike Harrison – First Analysis Securities Corp.>: All right. If I can sneak one more in, you mentioned you're going to be ending the monthly business fundamentals update. You've previously said that, that was a little bit in lieu of providing forward guidance. So does that mean you're going to start providing guidance at some point in the future?

<A – Jason Thompson – Ashland, Inc.>: Our intention is not to provide EPS-specific guidance, Mike. We'll provide kind of our views on where we see top line and margins going on a more consistent, more visible basis, but we don't have any current intentions of providing EPS guidance.

<Q – Mike Harrison – First Analysis Securities Corp.>: All right. Thanks very much.

Operator: Thank you. Our next question in queue is from John McNulty of Credit Suisse. Your line is open.

<Q – Ernie Ortiz – Credit Suisse Securities (USA) LLC (Broker)>: Hi. This is actually Ernie Ortiz filling in for John. What were the surprises regarding free cash flow for the year that came in above expectations? And can you give us a sense of the cash costs for the restructuring program?

<A – Kevin Willis – Ashland, Inc.>: Your first question was...

<A – Jason Thompson – Ashland, Inc.>: Surprise on the free cash.

<A – Kevin Willis – Ashland, Inc.>: Oh, the surprise on the free cash flow. Working capital came in a bit more than we expected. That was really I think the primary driver for that. And as indicated, we do expect working capital to be a use of cash in 2014. So there's some puts and takes in the 2014 numbers and we do expect to be in the $475 to $500 range. And in terms of the cash cost of restructuring, too early to tell. The process that we're undertaking right now is to really plan and design the overall restructuring, we're very much in the throes of that right now. And obviously, the ultimate cost of that program will be determined by the numbers and geographies of people et cetera, as well as other potential costs. So our intent would be to give more overall guidance and an update on where we stand on the January earnings call. So you can expect to hear back from us on the overall restructuring at that point.

<Q – Ernie Ortiz – Credit Suisse Securities (USA) LLC (Broker)>: Okay. That's helpful. And then on the elastomers sale, should we assume a modest tax hit or if any for this asset?

<A – Kevin Willis – Ashland, Inc.>: It shouldn't be material.

<Q – Ernie Ortiz – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Perfect. Thank you.

Operator: Thank you. Our next question in queue is from Dmitry Silversteyn of Longbow Research. Your line is open.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Good morning, guys. A couple of questions, a lot of them have been answered already. First of all, starting with guar, you continued to mention it in this quarter as a headwind. As we get into 2014, how should we think about the straight guar headwinds? Is this going to be all gone, is it going to diminish through the year in terms of comps? Sort of help us frame our thoughts around the ASI business for 2014.

<A – Kevin Willis – Ashland, Inc.>: In terms of the straight guar, the commoditized guar that we were buying and lending and reselling out of India, that business is effectively gone. There's a little activity that occurs there but it's on a small but guaranteed margin basis. As we look at the more derivatized guar business – yeah, derivatized guar demand has been sluggish at best. And we've – so we definitely experienced some headwinds there, margins in that part of the business, that part of the energy business have been quite low. And at this point, we see that continuing into Q1 of 2014, for sure. In terms of the overall outlook for guar and 2014 in general, it'll obviously be a tailwind to 2013 given that we lost money on the guar business on an overall basis in 2013, but I don't' expect guar to be back up to normal profitability levels in 2014 either.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Okay. That's helpful. Switching gears to elastomers, since you are in the process of getting the sale of that business formalized, have you had a chance to take a look at the stranded costs that would left behind, I guess when that business goes?

<A – Kevin Willis – Ashland, Inc.>: We have and it's very small.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Okay. All right. So single millions of dollars probably?

<A – Kevin Willis – Ashland, Inc.>: Yes.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Okay. And then just your comment on the elastomers volumes being down because of the weak tire replacement market, is it particular from higher grade, I don't know how to put it, the reason I'm asking the question is we have another company that supplies into the tire market and they're actually seeing pretty good growth, so I'm just trying to reconcile if it's your market positioning or a particular [ph] stack (54:38) of tires that you're supplying that are experiencing the lower year-over-year volumes?

<A – Jason Thompson – Ashland, Inc.>: Dmitry, it's primarily the customers that we serve. We provide rubber, synthetic rubber to the RMA customers, the Michelin's, the Goodyear's of the world. So it's just the type of customers that we're servicing versus some of the imports that we don't serve.

<Q – Dmitry Silversteyn – Longbow Research LLC>: Okay. All right. That's helpful. Okay. Thank you.

Operator: Thank you. Our next question in queue is from Chris Shaw of Monness, Crespi. Your line is open.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: How are you doing? I know you already addressed the MLP issue with Valvoline. I'm just wondering if you have any updated thoughts or if you're considering a potential spinoff of Valvoline at any time.

<A – Jim O'Brien – Ashland, Inc.>: As we've said in the call, we – the board constantly reviews and looks for the best alternatives to create shareholder value. And at this stage, the intent of the board is to keep Valvoline. And Valvoline provides a very nice contribution to the corporation. It provides a lot of free cash flow, helps service our debt. And at this stage in time, we believe Valvoline creates more value for the corporation within the portfolio, than out at this stage.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Okay. Thanks.

Operator: Thank you.

<A – Jason Thompson – Ashland, Inc.>: Our last question, Pablo.

Operator: Great. So our last question will be from the line of Adam Goodwin of Goldman Sachs. Your line is open.

<Q – Charlotte Robertson – Goldman Sachs>: Hi. This is Charlotte Robertson on for Adam. Thank you for taking my questions. My first is; in the past you've indicated the desire to move towards two times the leverage target and pursuing investment-grade ratings. Can you provide any updated thoughts around that? And does IG continue to be a priority for the company?

<A – Kevin Willis – Ashland, Inc.>: So, two things, I guess. My first – the answer to your first question would be that I believe over time what will happen is you'll see us grow into, if you will, that two times leverage ratio. First quarter of this year, first calendar quarter of this year, we termed out effectively all of our debt into the bond market. And with that placement came investment-grade style covenants in that bond package, which we were very pleased to attain. And I think as you see us go forward, while we don't have, obviously, any control over what the rating agencies do. Our intent would be to continue to improve our overall credit metrics because we do believe that, that provides value to our shareholders. But in terms of trying to attain a specific rating, that's something that just happens over time.

<Q – Charlotte Robertson – Goldman Sachs>: Okay. Great. Thank you. And my other question is; you've indicated that the primary use of cash from a potential Water Technologies sale would be towards shareholder buybacks. Can you talk about what the M&A landscape looks like right now and whether there are any acquisition opportunities that might also make sense for the company?

<A – Jim O'Brien – Ashland, Inc.>: As we look at M&A, we constantly are in the market looking at what we would like to do and we have a long list of assets that we would like to own but obviously it takes somebody that wants to release those assets to negotiate a sale. And the market is, I wouldn't say non-existent, but it's real tough to get the type of assets that you want at the price that you want to pay. So I would say that we're constantly reviewing the things that we would like to own and continue to work a process to try to find a way to make that possible. But I think in the near term, the expectation should be there's probably not a lot of activity right there.

<Q – Charlotte Robertson – Goldman Sachs>: Okay. Great. Thank you very much.

Operator: Thank you. With that, I'll turn it back to Jason Thompson for any final comments.

Jason L. Thompson, Director, Investor Relations

Yeah, thank you for your interest in Ashland. And feel free to give me a call. Thank you.

Operator: Thank you. And once again thank you, ladies and gentlemen for joining today's conference. You may now disconnect. Have a great day.