



# Hexion Inc.

## Second Quarter 2018 Results

August 7, 2018

# Forward-Looking Statements

## Hexion Inc.



Certain statements in this presentation are forward-looking statements within the meaning of and made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, our management may from time to time make oral forward-looking statements. All statements, other than statements of historical facts, are forward-looking statements. Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “project,” “might,” “plan,” “estimate,” “may,” “will,” “could,” “should,” “seek,” “intend” or similar expressions. Forward-looking statements reflect our current expectations and assumptions regarding our business, the economy and other future events and conditions and are based on currently available financial, economic and competitive data and our current business plans. Actual results could vary materially depending on risks and uncertainties that may affect our operations, markets, services, prices and other factors as discussed in the Risk Factors section of our filings with the Securities and Exchange Commission (the “SEC”). While we believe our assumptions are reasonable, we caution you against relying on any forward-looking statements as it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, a weakening of global economic and financial conditions, interruptions in the supply of or increased cost of raw materials, the loss of, or difficulties with the further realization of, cost savings in connection with our strategic initiatives, the impact of our substantial indebtedness, our failure to comply with financial covenants under our credit facilities or other debt, pricing actions by our competitors that could affect our operating margins, changes in governmental regulations and related compliance and litigation costs and the other factors listed in the Risk Factors section of our SEC filings. For a more detailed discussion of these and other risk factors, see the Risk Factors section in our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q and our other filings made with the SEC. All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The forward-looking statements made by us speak only as of the date on which they are made. Factors or events that could cause our actual results to differ may emerge from time to time. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

**This presentation contains non-GAAP financial information. Reconciliation to GAAP is included at the end of the presentation.**



# Hexion Inc.

## Overview of Second Quarter 2018 Results

**Craig Rogerson**  
Chairman, President and Chief Executive Officer

# Overview of Second Quarter 2018 Results



	Quarter Ended June 30				
	(\$ in millions)				
	2017	2017 Adjusted for Divestitures	2018	YoY Δ	YoY Δ Adjusted for Divestitures
<b>Revenue</b>	<b>\$ 912</b>	<b>\$ 908</b>	<b>\$ 995</b>	<b>9%</b>	<b>10%</b>
<b>Segment EBITDA</b>	<b>100</b>	<b>99</b>	<b>128</b>	<b>28%</b>	<b>29%</b>

- Strong revenue growth with increase of 9% year over year
- Net loss of \$21 million compared to net loss of \$34 million in the prior year period
- Second quarter 2018 Segment EBITDA<sup>(1)</sup> increased 28% year-over-year to \$128 million
  - Strong results in our base epoxy resins and forest products businesses drove year over year Segment EBITDA gains, as well as the positive impact of our recent structural cost reduction initiatives
  - Segment EBITDA in the second quarter of 2018 increased by \$29 million, or 29%, when adjusted for divestitures
- Hexion identified \$53 million of structural cost savings that it expects to realize during 2018. Through the first six months of 2018, Hexion realized \$25 million. As of June 30, 2018, Hexion had \$28 million of annualized pro forma cost savings that it expects to realize essentially by year-end 2018
- The Company continues to expect that cost savings, along with continued strength across the product portfolio, will drive significant Segment EBITDA growth in 2018

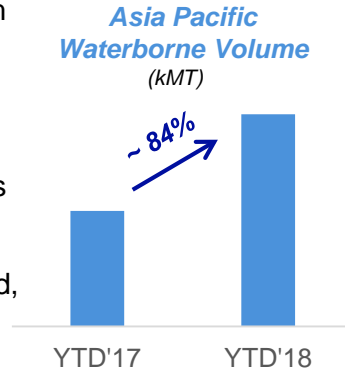
**Diversified Portfolio and Lean Cost Structure Delivered  
Strong Year over Year EBITDA and Sales Growth in Q2'18**

(1) Segment EBITDA is a non-GAAP financial measure. The closest GAAP financial measure is Net Income (Loss). A table that reconciles Segment EBITDA is at the end of this presentation. Segment EBITDA is defined as EBITDA (earnings before interest, income taxes, depreciation and amortization) adjusted for certain non-cash and other income and expenses. Segment EBITDA is the primary performance measure used by the Company's senior management, the chief operating decision-maker and the board of directors to evaluate operating results and allocate capital resources among segments.

# Key Specialty Product Lines and Improved Base Epoxy Resins and Intermediates Fundamentals Driving Year over Year Growth

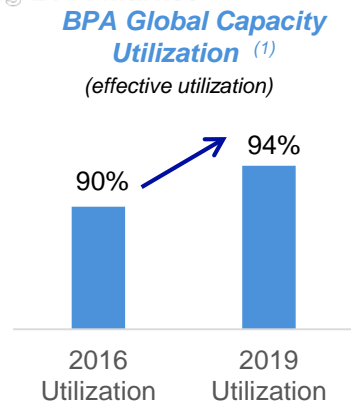
## Strong Growth in Waterborne Coatings

- NextGen Epoxy™ Waterborne system offers coating performance comparable to solvent-borne systems
- Growth driven by Chinese regulations mandating use of waterborne coatings for shipping containers
- To continue to meet customer demand, Hexion expects to add additional NextGen Epoxy™ Waterborne coatings capacity in Q3'18



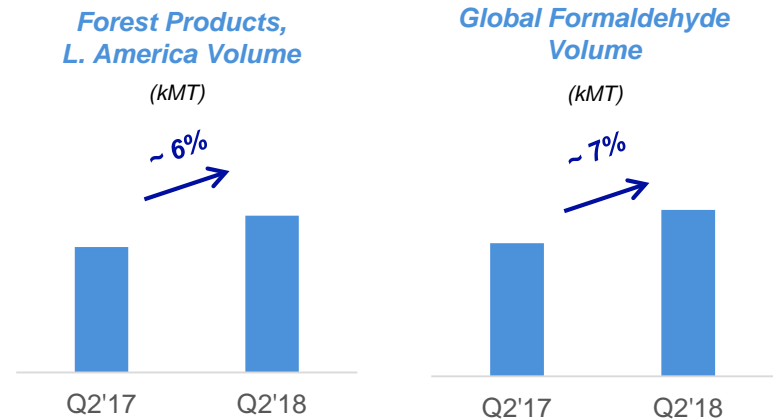
## Strong Growth in Base Epoxies Supported By Tightening BPA Market

- Epoxy resins industry fundamentals expected to remain favorable for the foreseeable future supporting continued profitability
- BPA is a key raw material in liquid epoxy resin production and in polycarbonate

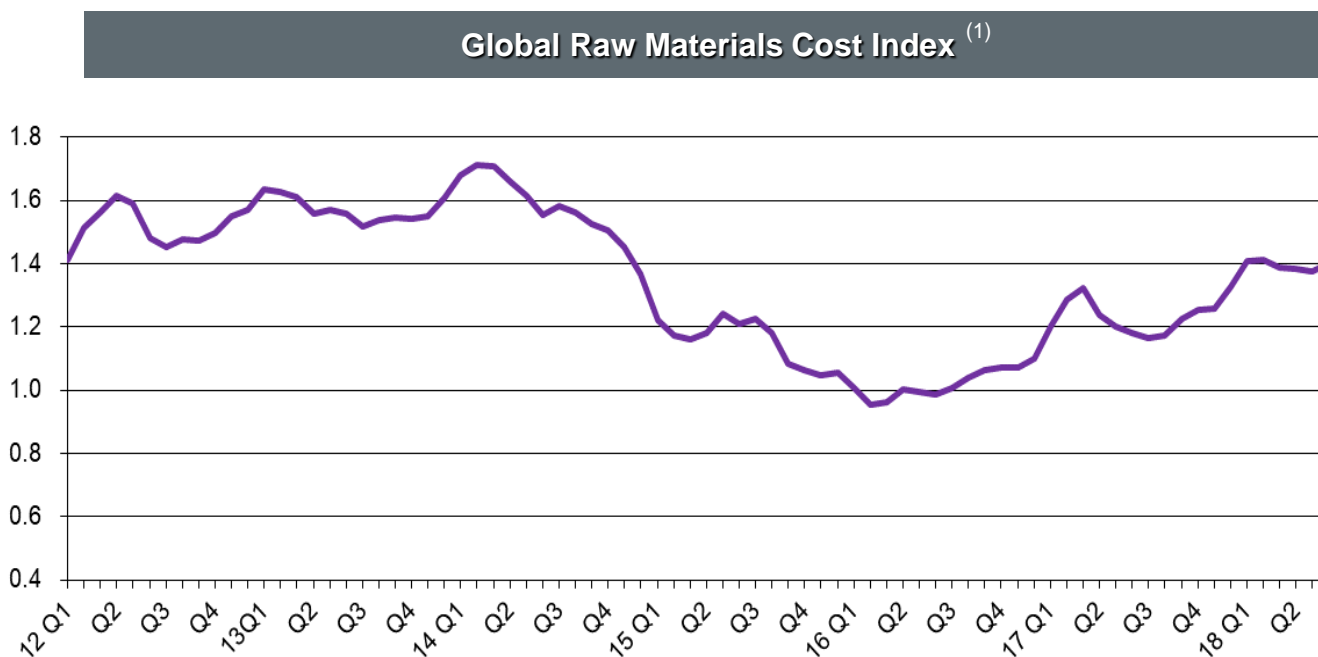


## Continued Forest Products Resins Segment Growth

- Forest Products volumes increased in all regions during Q2'18, including improved results in Latin America
- Solid global demand drove steady increases in formaldehyde volume
- Hexion continues to leverage recently-added formaldehyde capacity



(1) Roland Berger market study. Utilization refers to the percentage of supplied output used. The rate assumes effective capacity as 90% of nameplate capacity.



## Summary

- Q2'18 global raw material pricing essentially flat on a sequential basis from Q1'18
- Total raw material pricing in the first six months of 2018 versus first six months of 2017:
  - Phenol — ; Methanol ↑ 13%; Urea: ↑ 12%



# Hexion Inc.

## Financial Review

**George Knight**  
**Executive Vice President**  
**and Chief Financial Officer**

# Forest Product Resins

## Second Quarter 2018 Segment Results



### Quarter Ended June 30

(\$ in millions)

	2017	2017 Adjusted for Dispositions	2018	YoY Δ	YoY Δ Adj. for Dispositions
Revenue	\$ 395	\$ 391	\$ 431	9%	10%
Segment EBITDA <sup>(1)</sup>	68	67	76	12%	13%
Segment EBITDA Margin	17.2%	17.1%	17.6%	40bps	50bps

### Summary

- Revenue increased across-the-board geographically and reflected improved volumes and the contractual pass through of higher raw material costs
- Segment EBITDA increased by 12% year-over-year reflecting volume gains and cost efficiencies from the new North America formaldehyde facilities

### Q2'18 Revenue Comparison YoY

Volume	Price/Mix	Currency Translation	Impact of Dispositions	Total
2%	7%	1%	(1)%	9%

(1) Segment EBITDA is defined as EBITDA adjusted to exclude certain non-cash and non-recurring expenses. Segment EBITDA is an important measure used by the Company's senior management and board of directors to evaluate operating results and allocate capital resources among segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation goals. Segment EBITDA is defined and reconciled to Net Income (Loss) later in this presentation



# Epoxy, Phenolic and Coating Resins

## Second Quarter 2018 Segment Results



### Quarter Ended June 30

(\$ in millions)

	2017	2018	Δ
Revenue	\$ 517	\$ 564	9%
Segment EBITDA	46	72	57%
Segment EBITDA Margin	8.9%	12.8%	390bps

### Summary

- Revenue increased primarily due to pass through of higher raw material costs and price actions in certain businesses
- Strong Segment EBITDA gains reflected:
  - Significant increase in base epoxy resins driven by strong market fundamentals
  - Improved performance in specialty epoxy resins primarily due to continued growth in waterborne coatings business
  - Ongoing improvement in phenolic specialty resins due improved volumes and recent cost actions

### Q2'18 Revenue Comparison YoY

Volume	Price/Mix	Currency Translation	Total
(6)%	10%	5%	9%

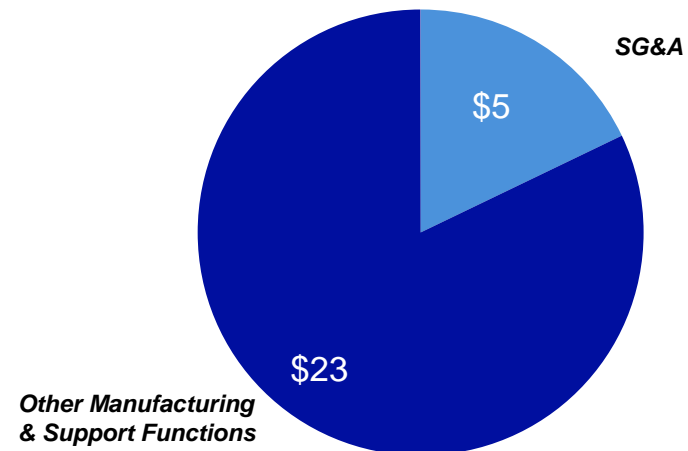
# Structural Cost Savings Support Long Term Earnings Growth

## Structural Cost Savings Program

- In the first six months of 2018, the Company achieved \$25 million of cost savings, including reductions in selling, general and administrative expenses and targeted site rationalizations
- As of 6/30/18, \$28 million of structural cost savings remain
- The majority of the savings are expected to be realized by year-end 2018
- Restructuring actions support Hexion's overall Segment EBITDA margin gains
  - Q2'18 Segment EBITDA margin improved 190bps versus prior year period

### *In-Process Cost Savings*

*(\$ in millions)*

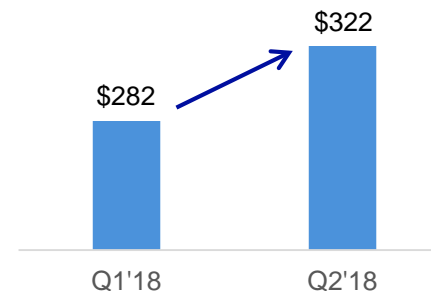


## Summary

- Generated \$41 million in cash flow from operations in Q2'18 driven by improved Segment EBITDA and net working capital reductions
- Cash plus borrowing availability of \$322 million at June 30, 2018, a sequential increase of \$40 million versus the prior quarter
- YTD'18 capital expenditures of \$43 million; continue to expect FY'18 capital expenditures to be \$80 million to \$90 million
- Continued focus on managing net working capital going forward
  - Expect working capital to decrease in 2H'18, consistent with historical trends

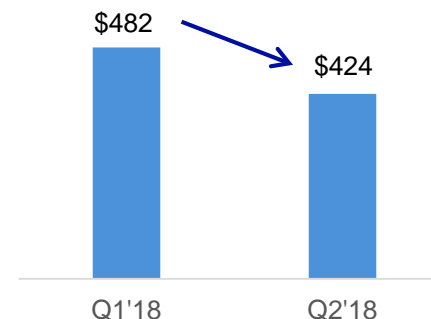
## Liquidity

(\$ in millions)



## Net Working Capital

(\$ in millions)



**Continued Focus on Prudent Management of Balance Sheet**

# Appendices

# Reconciliation of Non-GAAP Financial Measures



	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
(In millions)				
<b>Reconciliation:</b>				
Net loss attributable to Hexion Inc.	\$ (22)	\$ (34)	\$ (35)	\$ (76)
Net income attributable to noncontrolling interest	(1)	—	(1)	—
Net loss	(21)	(34)	(34)	(76)
Income tax expense (benefit)	3	(1)	11	7
Interest expense, net	84	82	167	165
Depreciation and amortization	28	28	58	56
EBITDA	\$ 94	\$ 75	\$ 202	\$ 152
Items not included in Segment EBITDA:				
Asset impairments	\$ —	\$ —	\$ 25	\$ —
Business realignment costs	5	10	14	17
Gain on disposition	—	—	(44)	—
Realized and unrealized foreign currency losses (gains)	15	(1)	22	(2)
Loss on extinguishment of debt	—	—	—	3
Other	14	16	27	25
Total adjustments	34	25	44	43
Segment EBITDA	<u>\$ 128</u>	<u>\$ 100</u>	<u>\$ 246</u>	<u>\$ 195</u>
<b>Segment EBITDA:</b>				
Epoxy, Phenolic and Coating Resins	\$ 72	\$ 46	\$ 142	\$ 98
Forest Products Resins	76	68	143	129
Corporate and Other	(20)	(14)	(39)	(32)
<b>Total</b>	<u>\$ 128</u>	<u>\$ 100</u>	<u>\$ 246</u>	<u>\$ 195</u>

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
(In millions)				
Segment EBITDA	\$ 128	\$ 100	\$ 246	\$ 195
Adjustment for disposition <sup>(1)</sup>	—	(1)	—	(2)
<b>Adjusted Segment EBITDA</b>	<u>\$ 128</u>	<u>\$ 99</u>	<u>\$ 246</u>	<u>\$ 193</u>

(1) Adjustment for disposition impacts the Forest Product Resins segment.

# Debt at June 30, 2018



(\$ in millions)

	June 30, 2018		December 31, 2017	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
ABL Facility	\$ 120	\$ —	\$ 81	\$ —
<b>Senior Secured Notes:</b>				
6.625% First-Priority Senior Secured Notes due 2020 (includes \$2 of unamortized debt premium)	1,552	—	1,552	—
10.00% First-Priority Senior Secured Notes due 2020	315	—	315	—
10.375% First-Priority Senior Secured Notes due 2022	560	—	560	—
13.75% Senior Secured Notes due 2022	225	—	225	—
9.00% Second-Priority Senior Secured Notes due 2020	574	—	574	—
<b>Debentures:</b>				
9.2% debentures due 2021	74	—	74	—
7.875% debentures due 2023	189	—	189	—
<b>Other Borrowings:</b>				
Australia Facility due 2021 <sup>(1)</sup>	33	4	—	50
Brazilian bank loans	10	37	9	34
Lease obligations	57	8	44	5
Other	4	33	2	36
Unamortized debt issuance costs	(35)	—	(41)	—
<b>Total</b>	<b>\$ 3,678</b>	<b>\$ 82</b>	<b>\$ 3,584</b>	<b>\$ 125</b>

