



# Hexion Inc.

## Third Quarter 2018 Results

November 13, 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, including transactions with our affiliate Momentive Performance Materials Inc., 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 Third Quarter 2018 Results

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

# Overview of Third Quarter 2018 Results



	Quarter Ended September 30				
	(\$ in millions)				
	2017	2017 Adjusted for Divestitures	2018	YoY Δ	YoY Δ Adjusted for Divestitures
<b>Revenue</b>	\$ 914	\$ 910	\$ 952	4%	5%
<b>Segment EBITDA</b>	96	95	128	33%	35%

- Ongoing revenue growth with an increase of 4% year over year
- Net loss of \$18 million compared to net loss of \$70 million in the prior year period
- Strong third quarter 2018 Segment EBITDA<sup>(1)</sup> of \$128 million, increasing 33% year-over-year
  - Base epoxy resins, phenolic specialty 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
- Hexion identified \$53 million of structural cost savings that it expects to realize during 2018. Through the first nine months of 2018, Hexion realized \$37 million. As of September 30, 2018, Hexion had ~ \$17 million of annualized pro forma cost savings, the majority of which it expects to realize by year-end 2018
- The Company continues to expect solid demand in its global forest products business and ongoing strength in market fundamentals in base epoxy resins, which are expected to persist for the foreseeable future

**Base Epoxy Resins, Phenolic Specialty Resins, and Forest Products Businesses  
Delivered Strong Year-over-Year EBITDA Growth in Q3'18**

(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.

# Strong Growth in Differentiated Product Lines



## Ongoing 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
- Hexion successfully added NextGen Epoxy™ Waterborne coatings capacity in Q3'18

*Asia Pacific  
Waterborne Volume  
(kMT)*

~ 23%

YTD'17

YTD'18



## Continued Formaldehyde Growth

- Continued growth in global formaldehyde business in Q3'18 supported by improved volumes in the Americas
- Solid global demand continues to drive steady increases in formaldehyde volume
- Hexion continues to leverage recently-added formaldehyde capacity

*Americas  
Formaldehyde Volume  
(kMT)*

~ 6%

Q3'17

Q3'18



# R&D Investments and Strategic Partnership Positions Hexion for Growth



## Focused on Driving New Product Development

- Hexion continues to strategically invest in its R&D infrastructure to position the Company for growth and is building a new Application Development Center (ADC) in Shanghai to strengthen its presence in the Asia Pacific region
  - We expect the ADC to be operational in 2H'19
- Strategic R&D investment expected to support product development and customer responsiveness to drive growth in waterborne coatings and other specialty epoxy applications



## Lightweight Composite Technologies Partnership

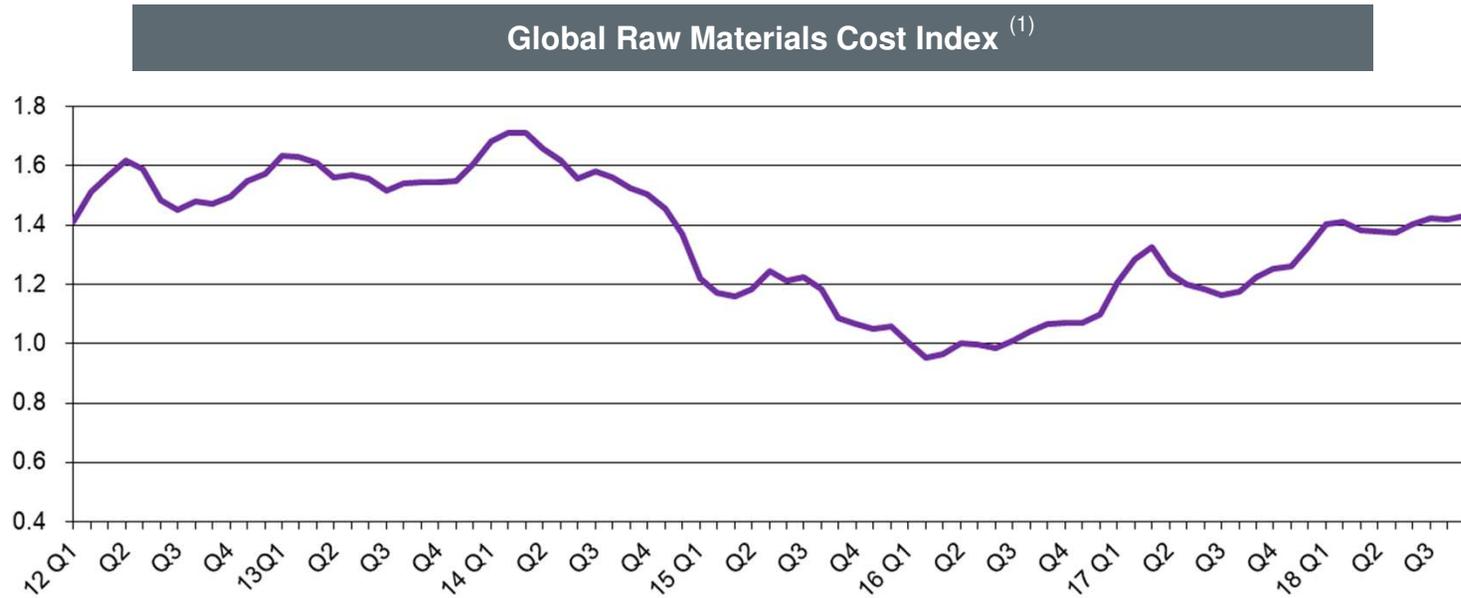
- Hexion recently announced a new three-year contract with the Fraunhofer Project Center to continue their joint efforts to develop lightweight composite technologies
- Hexion and the Fraunhofer Project Center have partnered since 2013 to bring high-performance materials and processing technologies to automotive manufacturers
- These materials and technologies enable automakers to fabricate lighter-weight, higher-strength parts, reducing overall vehicle weight and improving gas mileage and performance



**Hexion Continues to Drive Innovation as New Product Development Averaged ~ 20% of Total Revenue over the Last 5 years<sup>1</sup>**

(1) NPD defined as net sales from products introduced in the preceding 5 years

# Overview of Raw Materials Environment



## Summary

- Q3'18 global raw material pricing increased ~3% on a sequential basis from Q2'18
- Total raw material pricing in the first nine months of 2018 versus first nine months of 2017:
  - Phenol ↑ 3%; Methanol ↑ 19%; Urea: ↑ 19%

(1) Source: Includes content supplied by IHS Chemical, Copyright © IHS Chemical 2013; ICIS, Copyright © ICIS 2013. All rights reserved



# Hexion Inc.

## Financial Review

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

# Forest Product Resins

## Third Quarter 2018 Segment Results



	Quarter Ended September 30		
(\$ in millions)	2017	2018	Δ
Revenue	\$ 386	\$ 431	12%
Segment <sup>(1)</sup> EBITDA	66	76	15%
Segment EBITDA Margin	17.1%	17.6%	50bps

Q3'18 Revenue Comparison YoY				
Volume	Price/Mix	Currency Translation	Impact of Dispositions	Total
1%	16%	(4)%	(1)%	12%

### 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 15% year-over-year reflecting volume gains and cost efficiencies from the new North America formaldehyde facilities

(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 Third Quarter 2018 Segment Results



	Quarter Ended September 30		
(\$ in millions)	2017	2018	Δ
Revenue	\$ 528	\$ 521	(1)%
Segment EBITDA	45	67	49%
Segment EBITDA Margin	8.5%	12.9%	440bps

Q3'18 Revenue Comparison YoY			
Volume	Price/Mix	Currency Translation	Total
(12)%	12%	(1)%	(1)%

## Summary

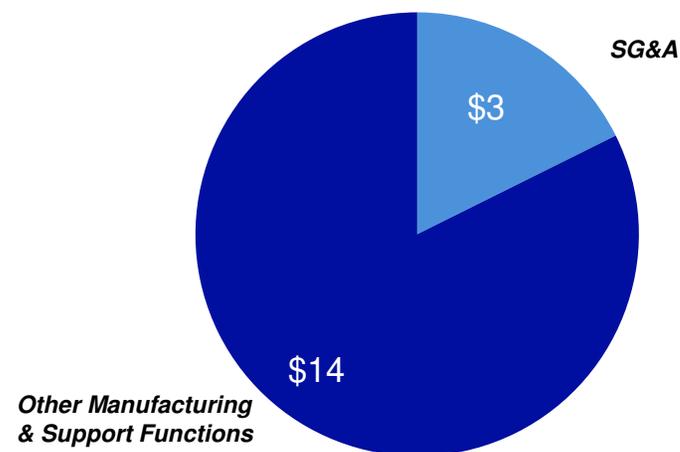
- Revenue declined slightly reflecting lower oilfield proppant volume and softer demand in China, partially offset by price actions in certain businesses
- Strong Segment EBITDA gains reflected:
  - Significant increase in base epoxy resins driven by strong market fundamentals
  - Ongoing improvement in phenolic specialty resins due to recent cost actions

# Structural Cost Savings Support Long Term Earnings Growth

## Structural Cost Savings Program

- In the first nine months of 2018, the Company achieved \$37 million of cost savings, including reductions in selling, general and administrative expenses and targeted site rationalizations
- As of 9/30/18, \$17 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
  - Q3’18 Segment EBITDA margin improved 290bps versus prior year period

*In-Process Cost Savings*  
(\$ in millions)



# Balance Sheet Update & Financial Summary

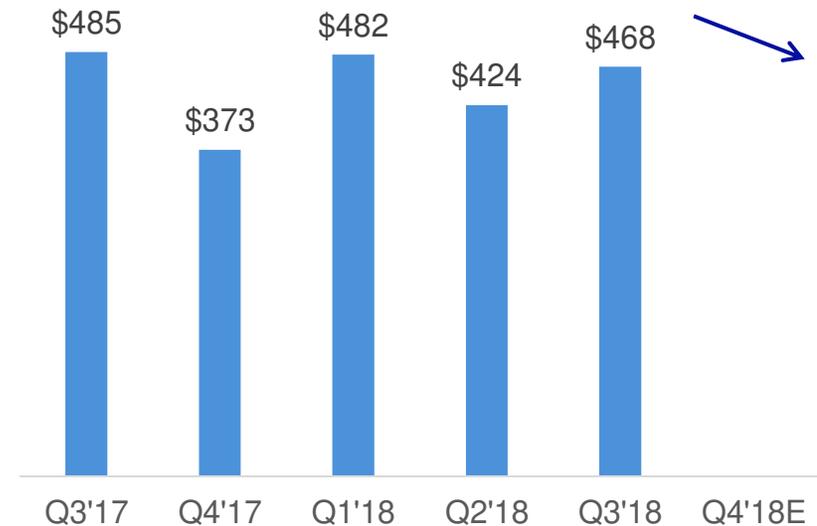


## Summary

- Year-to-date operating cash flow improved by \$156 million compared to the prior year
- Cash plus borrowing availability of \$306 million at September 30, 2018
- 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 Q4'18, consistent with historical trends

## Net Working Capital

(\$ in millions)



*9/30/18 NWC Reflects Inventory Build in Advance of Q4'18 Deer Park Epoxy Planned Maintenance*

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

# Appendices



# Debt at September 30, 2018



	September 30, 2018		December 31, 2017	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
ABL Facility	\$ 150	\$ —	\$ 81	\$ —
<b>Senior Secured Notes:</b>				
6.625% First-Priority Senior Secured Notes due 2020 (includes \$1 and \$2 of unamortized debt premium at September 30, 2018 and December 31, 2017, respectively)	1,551	—	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	12	35	9	34
Lease obligations	56	9	44	5
Other	3	36	2	36
Unamortized debt issuance costs	(32)	—	(41)	—
<b>Total</b>	<b>\$ 3,710</b>	<b>\$ 84</b>	<b>\$ 3,584</b>	<b>\$ 125</b>

(1) In February 2018, the Company extended its Australian Term Loan Facility through January 2021.

