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Corporate Speakers:

- John Kompa; Hexion Inc.; IR
- Craig Rogerson; Hexion Inc.; Chairman, President & CEO
- George Knight; Hexion Inc.; EVP & CFO

Participants:

- Nathan Schubert; JPMorgan Chase & Co.; Analyst
- Roger Spitz; BofA Merrill Lynch; Analyst
- Richard Kus; Jefferies Group LLC; Analyst
- Brian DiRubbio; Robert W. Baird & Co.; Analyst
- Brian Lalli; Barclays PLC; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by. Welcome to the Hexion Fourth Quarter and Fiscal Year 2019 Earnings Conference Call.

(Operator Instructions)

Please be advised that today's conference is being recorded.

(Operator Instructions)

I would now like to hand the conference over to your speaker, Mr. John Kompa, Investor Relations for Hexion. Please go ahead, sir.

John Kompa^ Thank you, Sherry. Good morning. Welcome to the Hexion Inc. Fourth Quarter and Fiscal Year 2019 Conference Call.

Leading today's call will be Craig Rogerson, Chairman, President and CEO; George Knight, Executive Vice President and Chief Financial Officer; and Mark Bidstrup, Senior Vice President and Treasurer.

As a reminder, this call is also being webcast, and the slides referenced in today's conference call are available through the hexion.com website under the Investor Relations section of Hexion Inc. A replay of this call will be available for 1 week, and the replay dial-in information is contained in our latest earnings release.

Before we start, I'd like to give you information about forward-looking statements and the use of non-GAAP information as part of this call. As you know, some of our comments today may include statements about our expectations for the future. Those expectations are subject to known and unknown risk, uncertainties and other factors that may cause the company's actual results and performance to be materially different from any future results or performance suggested by these expectations.

The slide you now see gives you more information on the assumptions and factors we consider in making those forward-looking statements.

We can't guarantee the accuracy of any forecast or estimates, and we undertake no obligation to update any forward-looking statements during the quarter, except as otherwise required by law. For more information on our risk factors, please see our earnings press release and our SEC filings.

In addition, some of our comments may reference non-GAAP financial measures. A reconciliation of the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and on our website. Our release and our recent SEC filings are also available on the Internet at hexion.com.

With that, I'll now turn the call over to Craig Rogerson.

Craig Rogerson^ Thanks, John. Good morning, everyone. Thank you for joining our call today, and I'm pleased to update you on our new company and our latest financial results.

As I said in our last earnings call, with our new capital structure, leading market positions, strong underlying technologies and a talented global team of associates, I'm confident in our ability to drive long-term growth and create shareholder value.

Turning to the fourth quarter of 2019. Our earnings results were generally what we anticipated as our broad customer base and diversified end markets allowed us to partially offset near-term headwinds in certain businesses. Our fourth quarter 2019 sales totaled $760 million, while segment EBITDA increased by 3% to $68 million.

Fourth quarter '19 earnings reflected improved results in our Epoxy, Phenolic and Coating Resins segment and our ongoing productivity initiatives, partially offset by softer results in base epoxy resins and slightly weaker volumes in our Forest Products business. We are pleased to post a strong quarterly cash flow performance as cash flow from operations totaled $199 million.

Now turn to Slide 5, please. For fiscal year 2019, sales and segment EBITDA totaled $3.4 billion and $400 million, respectively. Our full year earnings were driven by generally the same factors impacting the fourth quarter. These included weaker margins in our base epoxy resins, partially offset by improved year-over-year results in our global formaldehyde and specialty epoxy businesses as well as the benefit of a lower cost structure across the portfolio.

As we discussed in our November call, we're continuing to look critically at our portfolio with an eye towards creating a growth platform that has margins more in line with a specialty chemical company and more stable earnings overall. That work is proceeding as planned and remains a strategic priority for us.

As we look back at 2019, we firmly put the Chapter 11 filing behind the company, and we are pleased to complete our balance sheet restructuring in an accelerated manner. Our talented associates pulled together to maintain a sharp focus on operating our plants safely around the world and serving our customers, and I'd like to again acknowledge their hard work. By shedding more than $2 billion in debt, the outcome dramatically improved our balance sheet, and we appreciated the support of the various stakeholders during the process.

Turning to Slide 6. Two of the reasons for my optimism about our future growth is our diversified end markets and our revenue base. You can see an overview of the wide-ranging end markets that we serve, which positions us well when markets are generally growing and can also dampen volatility when some end markets are softer. From a geographic perspective, while about half of our business is based in North America, we continue to benefit from a global customer base in about 85 countries.

In 2019, our largest customer accounted for approximately 3% of our net sales and our top 10 customers accounted for approximately 20% of our sales, providing a balanced revenue base.

With our Forest Products and Phenolic businesses comprising a broader adhesive focus and our Epoxy and Versatics businesses forming our Coatings and Composites segment as we report in 2020, we have a solid long-term growth platform with a robust pipeline of new products. I've highlighted just a few examples that are in the early stages of growth. In Forest Products, our new slow-release fertilizer application provides additional agricultural exposure and further diversifies that segment.

In our Epoxy and Coatings business, we expect waterborne coating applications to grow in other vertical markets due to their low emissions, while also anticipate growth in our BPA-free can coatings. Our resins and advanced materials are found in building materials that enhance the structure of a home while providing greater fire resistance as well as numerous auto applications supporting lightweighting, structural components and durable coatings.

Turning to the next slide. Last quarter, I outlined a few key elements of our strategy to improve our profitability and EBITDA margins. We continue to make steady progress on each -- under each element of our plan. First, our self-help capital expenditures are underway at a variety of sites.

One, for example, is at our Pernis site in support of our Versatics business and involves moving production from a toller to our own operations. We expect to have this capacity come online in the fourth quarter of 2020. With minimal CapEx, we expect to reduce costs compared to the previous tolling arrangement, minimize inventories and further position our Cardura and VeoVa products for future growth.

Second, despite recent headwinds in some of our end markets, we continue to expect organic growth due to our leading market positions and diversified portfolio over time. We closely monitor our manufacturing network to meet anticipated customer growth such as our Brimbank expansion in Australia that will meet specific regional demand for fire-resistant cladding material for commercial, institutional and residential building applications when it comes online early next year.

Third, revenue from products introduced over the last 5 years, our innovation metric, came in again at 20% in 2019, and we're focused on accelerating new product development and increasing this percentage going forward.

Fourth, as we look to better align our internal processes with our future growth plans, we are creating a business services group within Hexion, which involves a partnership with Capgemini to provide certain administrative functions. This partnership will deliver efficiencies, scalability and process improvements by leveraging automation and state-of-the-art technology for a variety of business services. We expect some modest cost benefits initially and more significant savings over time.

As I mentioned earlier, we continue to actively explore potential portfolio optimization opportunities. Proceeds from any transaction could also accelerate our stated deleveraging goal of having a net -- a debt-to-EBITDA leverage ratio of less than 3x. While we -- finally, we anticipate benefiting from our strong cash flow metrics going forward, which we demonstrated again in the fourth quarter of 2019.

I'll now turn the call over to George Knight to discuss our financial results in more detail.

George Knight^ Thank you, Craig. As a quick reminder, since we emerged from our balance sheet restructuring on July 1, 2019, our financial results for Q3 and Q4 2019 reflect the impact of fresh start accounting. In turn, the 2019 results for the period prior to July 1, 2019, and the results for 2018 represent the predecessor period.

Turning to our Forest Products Resins segment. Fourth quarter 2019 revenue totaled $343 million, a 17% decrease from the prior year, reflecting volume declines of 3%, negative price/mix of 12% and currency headwinds of 2%. Segment EBITDA declined by $3 million, reflecting softer volumes and mix across the portfolio, partially offset by our cost actions.

Turning to the next slide, in our Epoxy, Phenolic and Coating Resins segment. Fourth quarter 2019 revenue declined to $417 million, which reflected a volume decrease of 8%, negative price/mix of 6%, currency headwinds of 1% and overall softer demand in China. Segment EBITDA increased by $6 million primarily due to improved specialty epoxy resin results, cost actions and the absence of major turnaround costs that were experienced in the prior year period, partially offset by volume weakness and pricing headwinds in base epoxy resins.

Turning to the next slide, on Slide 11. We provided an overview of our cost reduction program. We continue to realize the savings as planned and achieved $19 million of cost savings in 2019. As of December 31, we had $14 million of structural cost savings remaining. We expect the remaining savings to be realized over the next 12 months.

Turning to the next slide in our balance sheet. Our balance sheet was strong at year-end with liquidity of $610 million, and our cash flow from operations improved significantly in 2019 versus the prior year. In terms of our capital expenditures, we invested $101 million in capital expenditures in 2019 as planned and expect to invest between $110 million to $130 million in total in 2020.

We continue to focus on managing our working capital, which remains a modest 10% of total sales. We expect continued structural improvements in vendor terms going forward, particularly as it relates to normalizing our contractual terms with our suppliers based on our strengthened balance sheet in 2020. Consistent with historical trends, we expect working capital to increase in the first half of 2020, decrease in the second half of 2020, consistent while serving as a modest source of cash for fiscal year 2020.

Finally, with no material debt maturities before 2026, we benefit from a long-dated maturity schedule.

I'll now turn the call back to Craig.

Craig Rogerson^ Thanks, George. As we stated in our press release, I'd like to acknowledge the efforts of our China-based associates as they manage the challenges associated with the coronavirus outbreak. While 2020 has started well, we'll see an impact in the first quarter, and it's hard to estimate the full year 2020 impact at this time.

Looking ahead, we remain focused on driving year-over-year earnings growth in 2020 through a variety of strategic growth initiatives such as accelerating our new product development efforts, maintaining a disciplined cost structure, strategically expanding our manufacturing footprint and implementing strategic capital expenditures that are considered self-help opportunities.

Operator, that concludes our prepared remarks. We'd now like to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

Our first question comes from Nathan Schubert with JPMorgan.

Nathan Schubert^ This is first on coronavirus. Can you give us a sense as to what you're seeing? I've heard from several issuers that there's difficulty, both within China and then also as it relates to ships being stranded in China, and a sort of second order effect with availability of shipping containers in the west. Can you talk about what you've seen on those fronts?

Craig Rogerson^ Yes. I would say that, that's true. There's certainly direct effects and then indirect effects. From a direct effect perspective, our customers were -- especially the big win customers were down in February. Now again, a lot of that in February we assumed relative to Chinese New Year, but then there was the extension.

The -- most of the manufacturing sites started back up last week, as did our Shanghai office, for instance. But there were still limited production because people were -- manpower is still coming in sporadically. And more importantly, the supply chains were still disrupted. So getting raw materials into some of those facilities was a challenge. So we're starting to see that pick up. March will be significantly impacted, we expect, based on that, in China.

The indirect effect is more around the supply chain. Again, raw -- we have some specific raw materials that come from China and -- either from a production perspective, not being made because the sites were down, or as you said, just because of issues relative to logistics, getting the product shipped. We've seen some disruption, and that goes beyond China.

If you look at January, it was a good month for us. It started a good rebound month from a softer fourth quarter, which we kind of expected. February was going to be muted anyway because of Chinese New Year. We'll see how the effect of that is. It's probably exaggerated a little bit more because of coronavirus. But March and into April is when we expect to see the real significant effects, and we don't know exactly what those are yet.

Again, it depends on these plants start running again that just got operational again last year. But it's an unknown, as I said in my prepared remarks. And depending on how long this goes, if things start to kind of get settled out in April, maybe it's something that we can even make up as the year goes on, in some cases. If it extends much beyond that, it's going to be a challenge because there were some assumptions. Wind is a good example, where they're going to run hard anyway. So it's hard to run harder to make it up if it's more than a couple of months.

So we'll see how it all plays out. But fortunately, none of our associates in China or Italy or Korea at this point have been directly affected, but -- personally, but the business clearly has been.

Nathan Schubert^ Great. And then on base epoxies, specifically in Asia. Can you talk about that region, sort of what the epichlorohydrin supply and demand balance looks like and then what the operations look like sort of coronavirus notwithstanding?

Craig Rogerson^ Well, we had issues relative to liquid epoxy resins and their precursors all the way through the year last year, and they certainly didn't get better as the year went on. BPA is kind of the one that's talked about the most as it's a precursor used in polycarbonate, and polycarbonate was down associated with the continued falloff of automotive in China. That was -- that continued to be the case. We saw some opportunity to try to do something relative to pricing as we got into 2020. We'll see how all that plays out.

The other side of the coin is there's some competitors in China that are impacted by coronavirus in their manufacturing. And what that does to the global supply chain is tighten it up. And we'll see how that affects pricing, right? We'll see what the ramifications of all that are as it flows through the global markets.

But right now, production was low because the end markets are down. And again, as I said, wind is a big end market there. But other markets like the waterborne coatings tied especially to container -- shipping containers is still off because of the trade war now, because the coronavirus is exacerbating that situation. So demand is relatively soft in China.

Epichlorohydrin, specifically, I don't know, George, if you have anything on --

George Knight^ Yes. ECH has been very tight. We've seen production being shut down in China. And so that's tightened the market there as far as availability of ECH.

Operator^ And our next question will come from Roger Spitz with Bank of America.

Roger Spitz^ On proppants, and we kind of ask every quarter, but can you give a sense of where that is in EBITDA in terms of -- is it breakeven? Or is it losing money? Kind of where -- can you give us some sense of it?

Craig Rogerson^ The overall margin of coated -- proppant coated sand is under serious pressure. Some of that is just because of issues in the Permian and the Mid-Continental. And so to answer your question specifically, we're working very hard, and we'll get that to 0 one way or another in 2020. The challenge that we have is either finding ways to make it profitable or reduce costs such that it does no harm. And we're looking at those at this point.

We have some good product lines within our oilfield business that we are still optimistic about. And the question is how can we best go to market to, again, maintain the optionality when things improve, hoping that, that's the case at some point, while not causing a negative EBITDA pressure across the rest of the portfolio in the interim. And we're taking those actions right now.

Roger Spitz^ Got it. I don't know if you've disclosed this before, maybe you don't want to, but I was curious if you could tell us on Q4 '19 volumes year-over-year in sort of base epoxies, especially epoxies and Versatics, sort of -- you've given us the overall for the segment, but I was curious about these 3. Is it possible to give us the volume increase or decrease in that quarter year-over-year? On a percentage basis, of course.

George Knight^ I can talk in general terms, Roger. Our specialty epoxy volumes were up. Wind energy really driving that. And our base epoxies, we continue to see pressure. Volumes were down probably in the high single digits on the base side. And that was kind of a change in Q4 from what we had seen the rest of the year. While we saw margin pressure in the base epoxies in the first 3 quarters, volumes were fairly even from where we were in '18. But in the fourth quarter, we actually started to see some additional volume pressure on the base epoxies.

And Versatics, most of 2019, we did see volume pressure in the fourth quarter. Volumes were actually pretty flat year-on-year for Versatics.

Craig Rogerson^ Versatics is tied a lot to automotive in Europe. You can see the correlation there. So that -- as George said, that was under pressure all year.

Roger Spitz^ Good. And would you -- for base epoxies, would you say it's closer to bottom of cycle? Or where would you put it in terms of where we are in the cycle in base epoxies in Q4? Obviously, Q4 is seasonally weak. But as a general matter, where would you put base epoxies from your perspective?

Craig Rogerson^ Yes, I'd say we're closer to the bottom. Closer to the bottom. Yes.

Roger Spitz^ Got it. And the last bit, with OSB, we've seen OSB prices moving up. I guess we'll see what it goes in the weeks going forward. But is OSB a major area where you could see growth for phenolic resins? Or I guess a related question is phenolic resins have been losing share in OSB to MDI. And I don't know where -- whether that's now reached a steady state in 2019 or there's OSB guys who are still looking to make the switch to MDI, albeit it's more expensive than phenolic resin.

Craig Rogerson^ No, I think we just talked about that at a recent Board meeting. It's -- the view is that it's reached a steady state. And with some new products that we have, that there is an opportunity that we could turn that a little bit and go the other way.

You're right, OSB prices are up. A lot of that is because a lot of good news around housing starts. And with the capacity that was taken out last year when things were very soft and pricing was very low, capacity utilization on the mills that are running are now running very hard.

So again, it's good for us because it puts pressure on operating rates. And typically, with our product and the service model to support it, that's when we differentiate ourselves. And so right now, things are looking better as we look into 2020 relative to the overall market from OSB but also plywood and the other engineered woods. We'll see how all that plays out. But right now, things are tough.

I will say things are tough relative to being able to make as much as the demand warrants. The challenge that we have, though, is when those mills went down, we did lose volume. We're the big player there. So when a mill goes down, it typically involves us.

The volume -- as I talked, capacity utilization is tight, the volume can't be quite as high as it was early last year before those mills went down. So we will continue, on a year-over-year basis, to be challenged relative to volume because, again, some of the mills are down.

Roger Spitz^ Right. Last one for me would be in Q4, as raw materials are coming down across many of your businesses, were you seeing customer destocking or -- more than usual? I mean there's always fixed the balance sheet just before you published December 31 balance sheet. But was it more than usual?

Craig Rogerson^ I don't know that was more than usual. We did see the typical falloff, the seasonality of the fourth quarter being our softest quarter. We saw that again. George made a point around base epoxy. That may be the case where we saw a significant falloff that was different than the prior 3 quarters. But generally, I think it looks like it always looked. And then we saw the rebound in January that I mentioned.

It's just how the quarter ends is going to be more of the issue. February, again, we expect it to be softer because of Chinese New Year anyway. It's March that will really be the telling month in the quarter, and we'll see how that plays out. But right now, the expectations are the significant hit in China and on the supply chain because of coronavirus. We'll see how much that goes into April.

Operator^ Our next question will come from Richard Kus with Jefferies.

Richard Kus^ So on the coronavirus, have you guys seen any disruption to any of your activities in Europe? And then separately on that question, what are you seeing in auto-related end markets over there maybe as a result of the intricate supply chains that they have there?

Craig Rogerson^ It's hard to tell right now relative to Europe. We have a plant in Italy. We have a customer service center in Italy. And so there are certainly operational effects on us. We're running the plant in Solbiate. But that's getting to be more of a challenge as things go on in Italy.

The auto market was soft anyway. This certainly isn't helping anything. But I'm not sure as of right now, and George kind of made a remark, seen any direct effect on our business in China other than this kind of indirect effect I talked about, about raw materials coming from China and the fact that, that's disrupting some of the supply chain into Europe.

George Knight^ Yes. I think the raw material impact. Also, there is a big composite show that was scheduled for last week that they canceled in Europe or postponing because of coronavirus concerns. So I think, definitely, we're starting to see more concerns on the European side, too.

Richard Kus^ Got it. Understood. And then with respect to the outlook for the full year, it sounds to me like there are a few different puts and takes if you put the virus aside. Would you have otherwise expected EBITDA to improve over the course of 2020 relative to 2019 excluding that impact?

Craig Rogerson^ Yes. I mean -- yes. And I would say we still do. Again, unless something -- unless this thing drags out into the -- well into the second quarter, we expect that to be the case.

We do have a budget because of some of the new products we coming -- that we have coming into some of the self-help projects, some of the effects of some of these cost reductions. Where the second half is stronger than the first half, we expected a continuation of the softness we saw throughout '19 to continue into 2020.

So the first quarter comparison in '19 will be a tougher comp. As we get in the second half, we think we'll do better. Some of it because of the things we can control. Some of it because of some expectations. We'll see some improvements in some of the markets.

That gap -- the difference between the first and second half could be even more dramatic because of coronavirus obviously impacting the first half. But all things being equal, we do expect -- we do continue to expect 2020 to be stronger than 2019 from an EBITDA basis, not necessarily top line.

Richard Kus^ Got you. Okay. That's helpful. And then lastly for me, you guys touched on it a little bit in your prepared remarks. But can you update us on the status of the asset sale process? I know there were several things you guys were looking at there.

Craig Rogerson^ Well, we announced the sale of that little business in Colombia, which is not very impactful from a financial perspective, but I think important from our perspective here, it's -- it didn't really fit with the portfolio. And I think it's in a better home for the people that work there. So that little plant in Cali, Colombia, we just signed.

We've got some -- a lot of activity, as I mentioned, going around portfolio optimization. That's not just divestitures. It's also looking at other opportunities to better position our portfolio, as I said, make it more stable, improve the EBITDA margins and position for value creation as we go forward. All that is ongoing. I would say it's kind of on plan. It's a key strategic focus of both the Board but certainly of management. And I'd say we're on track.

Operator^ Our next question comes from Brian DiRubbio with Baird.

Brian DiRubbio^ I want to circle back just on the resin coating proppant business. And a question I get field -- I field a lot from investors is, why is the company holding on to this business after so many years of losing money? Sort of like you to expand on that a bit.

Craig Rogerson^ Sure. We -- we're holding on to it because we think there's some opportunity and some specific product lines within that business for us to make money. We got into it early on because it's basically an end use for our phenolic resins products, and it grew into a stand-alone business.

That's changed over time as the markets change. And so while we still think there are opportunities in specific product lines, we've done what we needed to do to take out costs, to reduce the footprint from a manufacturing perspective where we can minimize the losses and basically breakeven and have only the upside of some of these new products that I mentioned.

So hanging on to the business is probably a little bit of a misnomer. We made the adjustments in that business where we think now we're at appropriate size, and we're going to be able to see some of the benefits of the product lines that we sell into oilfield business -- into oilfield market. It's not -- it's a different stand-alone business mentality than we've had in the past. So it's been absorbed into the rest of the phenolic business portfolio basically.

Brian DiRubbio^ Got it. That's fair. And as we think about 2020 EBITDA vis-a-vis the exit plan that you guys had last year, obviously, $500 million will be a difficult number for you to hit. Is something in the $440 million range more appropriate for you guys as we think about the opportunity this year?

Craig Rogerson^ I think that, that would be -- if we hit $440 million, I'd be very happy. The challenge that we have is -- coronavirus aside, is just the basically -- the effects we've had on margin relative to the soft markets and things like BPA and base epoxy resins.

We've got the growth in the more specialty areas that we've targeted, not significantly different than we put in that plan. But the margin erosion we've seen on BPA and so on with epoxy resins is really the significant difference between the numbers that were in that 5-year plan and what we delivered last year and kind of where we see things in 2020 as we sit here right now.

Coronavirus, again, we're presuming there will be clearly an impact in Q1 and it will leak into Q2. But if I'm -- flesh out full, the second half of the year should be strong enough that we should be able to offset that and still show improvement over 2019.

Brian DiRubbio^ Got it. And just 2 final ones. Further disposition. So are you willing to announce or disclose on this call what you received for that plant in Colombia? I know it's tiny. It was $50 million of revenues. Is it under $10 million of proceeds?

Craig Rogerson^ Under $10 million. But what we avoided was significant liabilities if we decided to shut it down. So this was the best from a personnel perspective of the people in Cali. But also from a financial perspective from Hexion, this was the best outcome we could have expected.

Brian DiRubbio^ Got it. And then just finally, capital deployment plans. I know you put the $50 million repurchase authorization out there. You didn't repurchase any shares in the last quarter. You'd mentioned that was going to be sort of tied to asset dispositions. Can you just give us a sense of how you're thinking about priorities of capital deployment over the next 12 months?

Craig Rogerson^ Yes. Well, first of all, we'll continue to invest in good capital projects, the self-help projects that I mentioned. That's built into the range of CapEx that George talked to in his prepared remarks, the $110 million to $130 million. We'll look at bolt-on acquisitions, but they're going to be -- that's a high hurdle to jump over because the basic premise is we'll use the proceeds to delever to get below 3x. And that's clearly, from our perspective, one of the -- probably the key use of proceeds at this point.

Brian DiRubbio^ Got you. So share repurchase really is on the bottom of that priority?

Craig Rogerson^ Yes. Share repurchases are opportunistic. If we can buy shares at the kind of prices that it trades by appointment over-the-counter and that we've seen recently, if we can get them, we think that's a good deal because we think it's severely undervalued. And a year from now, we'll think, wish we could have bought it. That's why we got the approval to opportunistically be able to buy shares that we think they're out there and we can get them at those kind of prices.

Operator^ (Operator Instructions)

Our next question comes from Brian Lalli with Barclays.

Brian Lalli^ Maybe starting first, a question maybe for George on free cash flow. You spoke to your CapEx target, your thoughts on working capital. We obviously know and can calculate interest expense. But just to level set, could you maybe walk through any of the other kind of key movements expected in 2020 on items, cash taxes, restructuring, pension, et cetera, just to level set?

George Knight^ Yes. On the tax side, we spent about $20 million in 2019. We expect with the new tax reform in the U.S. for our cash taxes to go up going forward, probably more in the $30 million to $40 million range just because of limitations on interest deductions as well as usage of NOLs.

Other areas, the pension and environmental-type costs above what we've got in our EBITDA, probably in the $25 million to $30 million range. Again, that's fairly consistent with what we've seen previously, probably up a little bit in 2019 because we hadn't had to make any pension contributions in the U.S. last couple of years. I think we've got a small one that we expect to make in 2020.

Restructuring costs. Craig mentioned about the Capgemini agreement that we've got there. We've got some onetime costs related to that in 2020, both headcount as well as kind of transition costs with them. And that will probably be -- the restructuring will probably be in the $30 million to $40 million range in 2020.

Brian Lalli^ Got it. Okay. That's really helpful. Is it safe then to say -- and maybe just speak also to the cash balance at year-end, anything positive that comes out of that as well as maybe where your cash balance is now, following up on the previous question. Just wondering what the right way to think about minimum liquidity and when and what cash balance sheet maybe think about as a minimum to start maybe chipping away at some of the term loan should you be generating positive free cash flow given all the items that you just mentioned.

George Knight^ Yes. I mean, as Craig said, our top priority is to continue to delever. The $610 million of liquidity that we had, that's more than adequate to run the business. That's the most liquidity we've had probably in the last 5 years. So I think we definitely have opportunities to delever with our current cash balances as well as use of any proceeds from divestitures and any free cash flow that we generate in 2020.

Brian Lalli^ Is there a minimum cash that you've thought about given the ABL availability and -- I mean the possibility that you'll be now positive cash flow with the new balance sheet that you have in place?

George Knight^ Yes. I mean, I think if you look historically, we've operated at all levels of cash flow, really to be comfortable, I would say, anything over $125 million, $150 million of cash is really all we need given the capital structure going forward.

Brian Lalli^ Got it. Okay. That's helpful.

And maybe just one last one as a follow-up on EBITDA and maybe some of what Richard touched on earlier. Appreciating that at some point, it won't be fair to look back at some of the estimates that were provided at emergence.

But I was just curious, outside of what you've said around 2020 specifically, has anything, maybe for Craig, changed on the pace of expected improvement on the underlying business over the next few years in line with maybe not the number specifically that you laid out but kind of that intended improvement on a year-over-year basis out until 2023? I'm just curious if anything structurally has changed outside of maybe the weaker margins and the coronavirus impact in 2020 that you spoke to earlier? That would be great.

Craig Rogerson^ Yes. That's a good question. No. I don't -- I appreciate it. There's nothing that's fundamentally changed. I mean if you look at the assumption when we put that plan together in the base epoxy and the precursor margins and saw profitability, I think other than that, we're pretty much on track. Clearly, there's some softness in Forest Products. We saw some of the contraction in the mill capacity last year. But I think that happens all the time, and it's marginal. We've offset -- more than offset that with productivity, cost reductions.

But if you look at it just on balance, the surprise as we put that plan together was BPA and liquid epoxy resin margins. We had assumed that no new capacity was going to come on, so the supply-demand dynamic was going to remain tight like it was in '18. What surprised us -- and we are right on the supply side, right? There was no new capacity announced. Still no new capacity announced in BPA or epichlorohydrin.

What was the surprise is the falloff in demand, and it was all around Chinese automotive and polycarbonate demand. That was an all of a sudden surprise. And again, I think there's no view that there's a fundamental shift in Chinese automotive. It will come back. The question is when. It was going to be the first 6 months of 2019 than the full year. And now I just read an expectation that in the second half of 2020, you could see some rebound in automotive in China, now that was before coronavirus.

So we'll see how all that plays out. But I don't think there's a fundamental shift. And we don't have to have BPA margins come back to where they were in 2018, just more towards the top of the cycle. But somewhere through the cycle is what the assumption was, and now we're closer to the bottom. So I don't think anything other than that has fundamentally changed in -- relative to new product introduction, relative to self-help projects.

Certainly, we're ahead of what we expected on productivity or cost reduction. I think, generally, we're where we thought we'd be. And relative to the old portfolio optimization, portfolio management process, as I said in my prepared remarks, we're on track with our expectations for that as well.

Operator^ Ladies and gentlemen, thank you for participating in today's question-and-answer session.

I would now like to turn the call back over to Mr. Craig Rogerson, CEO of Hexion, for any closing remarks.

Craig Rogerson^ I appreciate everybody's time this morning. I know there's a lot going on in the markets, and we look forward to talking to you in May.

So thank you very much.

Operator^ Ladies and gentlemen, this concludes today's conference call.

Thank you for your participation. You may now disconnect.