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# EDITED TRANSCRIPT

- Q4 2013 Momentive Specialty Chemicals Earnings Conference Call

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**Adam Goodwin** *Goldman Sachs - Analyst*

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## PRESENTATION

**John Kompa** - *Momentive Specialty Chemicals - Chairman of IR*

Thank you Denise. Good morning and welcome to Momentive Specialty Chemicals Fourth Quarter in Fiscal Year 2013 Earnings conference call. Leading today's call will be Craig Morrison, chairman, president and CEO; Bill Carter, executive vice president and chief financial officer; and George Knight, senior vice president in finance and treasurer.

As a reminder this call is also being webcast and the slides referenced in today's conference call are available through the [momentive.com](http://momentive.com) website under the Investor Relations section of Momentive Specialty Chemicals. A replay of this call will be available for three weeks and the replay dial-in information is contained in our latest earnings release.

Before we start, I'd like to review the 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 risks, 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 forecasts 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 measures and other associated disclosures are contained in our earnings release and on our website. Our earnings release and our recent SEC filings are also available on the internet at [momentive.com](http://momentive.com).

With that, I'll now turn the call over to Craig Morrison to discuss our quarterly results.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thanks, John. Turning to page four our third quarter revenues were \$1.2 billion, an 11% increase while segment EBITDA decreased by \$5 million. Total segment EBITDA reflected higher volumes overall, productivity gains and strong results in our global forest products in oilfield business, offset by headwinds in our epoxy segment.

In addition to experience, some \$8 million increase in corporate and other expenses driven primarily by higher pension costs. The fourth quarter also saw us continued strategically invest in our specialty portfolio. In January we acquired a resin-coated proppants manufacturing facility in Shreveport, Louisiana to provide additional capacity in this important shale region.

We also recently announced an expansion of our Diboll, Texas oilfield plant to produce triazine. Today we're announcing board approval for a new formaldehyde plant in North America which follows our decision to invest in new forest products plants in Brazil that we discussed in our last call.

Collectively these expansion projects are aimed at leveraging key portions of our specialty portfolio to further accelerate our growth. Turning to slide five, our 2013 revenues increased 3% to \$4.9 billion. Our segment EBITDA decreased 14% to \$420 million.

We're pleased to post strong segment EBITDA results in our forest products business as well as gains in our oilfield business, although our overall results continue to reflect challenges in our base epoxy and Versatics businesses.

Longer term we remained focused on further enhancing our cost structure and maintaining a strong balance sheet with significant liquidity. We continued to carefully manage our balance sheet and benefit from our substantial liquidity position with \$773 million of cash and available borrowings, which provides flexibility for future growth projects.

Turning to slide six, in our combined raw material index. You can see that raw material input cost increased sequentially in the fourth quarter of 2013 versus the third quarter of 2013. For the full year, raw materials are individually mixed which showed lower overall volatility versus 2012. We saw a 5% increase in phenol and an 18% increase in methanol while urea declined 26%.

Going forward, we continue to remain vigilant on the pricing front to effectively manage raw material volatility. Turning to slide seven, we were pleased to announce in early 2014 the acquisition of a resin-coated proppants manufacturing facility located in Shreveport, Louisiana. We believe the transaction further strengthens our position of one of the world's largest suppliers of resin-coated proppants.

The Shreveport site provides an additional 450 million pounds of immediate capacity to meet the growing demand for oilfield products. The acquired site is centrally located in the Haynesville shale region for easy truck access [on its] dedicated rail facilities.

Virtually all of the growth in our oilfield business has been organic rather than through acquisitions. Much of this growth is due to comprehensive coverage of our oilfield network as we have capabilities in every major North American shale region.

The businesses benefited from both horizontal drilling and the shale gas boom which supports volume growth. We anticipate that this will be a strong growth [product line] for the foreseeable future. Also important to our future success in our new product development for oil versus natural gas-based wells and cross-selling opportunities for silicone fluids and triazine-based products.



Turning to slide eight. You can see the positive impact of our multi-year initiatives [to right size] our global infrastructure for our forest products resins business. The actions we took during the last global downturn and the rebound in demand for North American housing and Latin American market drove our strong quarterly and annual results.

North American housing is by far our largest end use market [for] forest products division. Despite housing starts [remitting] well below the 40-year average we're approximately 1.5 million starts and the peak exceeding 2 million starts in 2006.

You can see the positive impact of just small recovery in North American on our overall results. Taking a multi-year view, our forest products business has posted a 21% EBITDA compound in year growth rate since 2009. To drive this growth, we've aggressively managed our multi-site network particularly in Europe and North America, while also pursuing price actions to drive margin improvement despite raw material volatility.

We've also seen continued growth for formaldehyde derivative products of hexamine and triazine. We believe they're a significant operating leverage created by our productivity initiatives and strong growth for the continued recovery in North American housing market.

Let me now turn the call over to Bill Carter, our CFO.

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Thank you, Craig. Turning to our epoxy, phenolic and coating resins segment, fourth quarter 2013 revenue totalled \$756 million, an 11% increase on volume gains of 13% and a currency translation benefit of 3% offset by price mix declines of 4%.

Our quarterly segment EBITDA declined by \$6 million compared to the prior year as strong gains in oilfield were offset primarily by cyclical in base epoxy resins and Versatics acids. Turning to the next slide, in our forest products resins segment, sales totalled \$443 million, a 10% increase with volume gains of 9% and price mix improvement of 5% offset by negative currency translation of 3%.

Segment EBITDA gains reflected our operating leverage for higher volumes in North America and Latin America which supported our 90 basis point margin improvement. Regarding our balance sheet, we continue to benefit from a significant liquidity position with cash plus borrowing availability under our credit facilities of \$773 million as of fourth quarter 2013, which provides flexibility for future growth projects.

Our capital expenditure investments totalled \$145 million in 2013. We expect to invest approximately \$185 million to \$210 million in CapEx in 2014 to support additional manufacturing sites and other growth projects which Craig has mentioned.

Our net working capital totalled \$478 million at the end of the year which remained a modest 10% of sales. Net working capital rose slightly in 2013 versus 2012 reflecting increasing year over year volumes.

Finally, as we've discussed in past calls through our January, 2013 \$1.1 billion offering, we refinanced our credit facility, second lien notes and funded cash to the balance sheet. In March 2013, we also entered into a new \$400 million asset based revolving loan facility which is subject to a borrowing base.

As a result of this activity, we now have no material debt maturities before 2018 and no financial maintenance covenants currently in effect. Lastly, we recorded a non-cash impairment charge of \$174 million in Q4 related to our epoxy business as Craig and I have mentioned which has suffered from declining margins given the current capacity situation.

We've also recorded \$349 million of income tax expense to establish valuation allowances against tax attributes due to uncertainty of future realization. Let me now turn the call over back to Craig to wrap up.

Craig Morrison Thanks, Bill. Turning to slide 14. Our forest products business posted strong quarterly and annual results due to strategic investments in the brick regions, continued gradual recovery in North American housing market and operating leverage.

Our epoxies, phenolics and coating resins segment reflected strength in the oilfield business was offset primarily by cyclical in base epoxy resins and Versatics businesses. We continue to make strategic investments in our specialty portfolio in high growth geographies such as the oilfield acquisition and our Diboll expansion.

We're also pleased to announce board approval for the construction of a new formaldehyde plant in North America. We remain focused on optimizing our cost structures for our productivity initiatives and achieving additional savings from the shared service agreement.

Finally, our balance sheet is healthy and benefits from substantial liquidity position with \$773 million of cash and available borrowings. Thank you for your continued interest in the company and I will now return the call to John.

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**John Kompa** - *Momentive Specialty Chemicals - Chairman of IR*

Thank you, Craig. Operator, if you could please open the lines for questions and remind callers of those instructions.

q-and-a

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**Operator**

(Operator Instructions). Our first question comes from the line of Tariq Hamid with JPMorgan. Please proceed.

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**Tariq Hamid** - *JPMorgan - Analyst*

On the epoxies business, with volumes plus 13% year-over-year, would have assumed a little bit more fixed cost absorption of segment, were there any plant-specific issues or were you guys just running down along as inventory in the quarter towards yearend?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I mean, I think you have two primary drivers there. One is we continue to be impacted on a year-over-year basis negatively when you look at margins from a price mix and specifically Asia continues to be an issue that leads over into Europe.

When you look at plant-specific, we did have increased cost embedded, about \$7 million of it was driven by inventory reductions, about \$3 million by higher turnaround cost, about \$3 million by increased [translated] cost in our oilfield business and then there was a plant-specific issue over in Europe that added about \$6 million in maintenance, some of that was for that particular issue, some of it was increased maintenance for greater reliability, so about \$6 million of the total which was 19 was increased spend due to manufacturing reliability.

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**Tariq Hamid** - *JPMorgan - Analyst*

Great, Craig. That's very helpful. And forest products, you called out North America and Latin that's improving. Any signs of improvement in Europe in forest products yet?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes. We've shown year-over-year improvements in Europe that were double-digit in nature, largely cost-driven and optimization of sales mix. So we exited business that we felt was not advantage to be in, consolidated the site network over the last 12 to 18 months and that drove improved profitability as well in that region, but it still doesn't have EBITDA margins equal to North America and Latin America.



**Tariq Hamid** - *JPMorgan - Analyst*

Then this last one for me. On the slides you mentioned \$60 million of cumulative savings from the shared services agreement. If something were to occur to terminate the agreement, is there so much you can do to offset those costs or should we think about that is a \$50 million negative to EBITDA type of (inaudible)?

William Carter Yeah. I think it is hard to comment on that and that we haven't performed an analysis around that and our expectation is that agreement is going to continue.

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**Tariq Hamid** - *JPMorgan - Analyst*

Thank you. That's very helpful.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

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**Operator**

Our next question comes from Roger Spitz with Bank of America. Please proceed.

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

Thanks and good morning. On the base epoxy resins, I know you don't want to give any specific numbers, but perhaps you can talk about how much EBITDA moves sequentially and or year-over-year without giving actual numbers.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I mean, no significant improvement there from a profitability standpoint. As you have noted, we're not going to give specific numbers there but you follow the business enough to know that it's a very volatile segment and it can swing dramatically from a profit standpoint and certainly this is one of those years on a total year basis and quarter over quarter.

I do think right now I think we're in pretty much rough conditions for that segment and again largely driven by elements within Asia but it's also very, very difficult to forecast exactly when you'll come out and how sharp that will be.

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

And can you comment if Q4 of 2013 base epoxy EBITDA was actually negative and if it was, were there any other periods in the past four or five quarters that it was negative?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

We're not going to give specific guidance about positive, negative for competitive reasons but we just say it's been a significant [fall off].

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

OK. Versatic acids and derivatives, I believe you've said in the past, has a big exposure to European construction. I think it felt like in prior call comments that the business was recovering some, has that turned around and that business is more under pressure having perhaps gone under less pressure over the past couple of quarters?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I think the fourth quarter was still significantly impacted but we have seen some positive improvements since then. And again, it is construction-related. It also shares the same chain with epoxies on some of the production assets and we talked about some of the increased cost earlier that would also impact it with elongated turnarounds as well as the fact that we had some major feed stocks that were totally integrated up in the Rotterdam region.

And those feed stocks were down significantly longer for their turnarounds and that had a very significant impact on us during the year as well. So we are seeing better conditions as we move forward but I would say the fourth quarter was still a difficult quarter.

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

Lastly, SG&A was 362 in 2013 versus 322 in 2012. Can you comment on what drove that increase?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. I think on SG&A, certainly one of the significant factors was pension expense and I think we've talked about that before but that was about \$5 million [of] the quarterly impact year on year and that's driven by mostly our pension programs in Europe and was driven by in 2013 a lower discount rate used in calculating the liabilities.

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

OK. Thank you very much.

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**Operator**

Our next question comes from Adam Goodwin with Goldman Sachs. Please proceed.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Hi. Thank you for taking my questions. My first question, the price increases that you've announced in epoxies for February 1st, can you discuss how successful that those have been?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. We won't comment on that in the current market conditions, again, for competitive reasons so that's not something we'll comment on.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

OK. I mean, do you see pricing showing some improvement throughout the course of the year or do you think that the market has (inaudible) at this point?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I mean, I'll just talk in general terms, like we have spoken before, it's a very difficult market to predict when leverage switches. And again China switching a regulatory environment from an EH&S standpoint or shifting relative to liquidity and the availability of cash can have dramatic impacts very, very quickly.

The last time we saw that shift occur for pricing standpoint was a change in their policy around waste water treatment facilities specifically for ECH and we saw a very, very dramatic price increase rises. Again, that tends to affect all regions due to import capabilities.

So again, we're not going to speak to specifics on pricing right now and as you look forward to the rest of the year trying to gauge exactly when things might tighten up and leverage which is very challenging.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Sure. And do you see more new capacity coming on line in China or do you think that's largely behind us at this point?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

I think most of the capacity additions have come on line. There are some phenol plants which tend to affect this product line, that are still yet to come online. I will say that Chinese government appears and we're seeing very real signs of it, that they are looking in a much more rigorous way on environment health and safety issues and tightening down relative to that as well as we've spoken with Chinese companies over there that liquidity seems to be changing as well in terms of their strategy and more of a focus on return on assets and things of that nature.

So whether that plays out in the near term [or] it takes a little longer, it's always difficult to tell because they do have a fair amount of levers that they can pull that makes them a more effective government than most governments we've seen in terms of either environmental or when they choose to make a change it's quicker than most governments, same with [this]. I wouldn't say we're seeing an exact impact yet, but certainly could in the coming year.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Sure. And I just wanted to clarify a couple of the prior questions. First, you said that there were approximately \$19 million of total manufacturing-related costs that you incurred in the quarter. Is that the [Oman] number?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. I think that the reference was Q4 2013 versus Q4 2012 and higher processing costs.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

OK. And then the \$60 million of cumulative savings related to the shared services, is the right way to think about it embedded in your, I guess, \$422 of EBITDA for this year that on annual basis you're realizing about \$60 million of savings related to that agreement, is that the correct way to frame it?



**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yes.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

OK. All right, great. Thanks a lot.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

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**Operator**

Our next question comes from Brian Lelli with Barclays. Please proceed.

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**Brian Lelli** - *Barclays Capital - Analyst*

Hi. Good morning.

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Good morning, Brian.

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**Brian Lelli** - *Barclays Capital - Analyst*

Just quickly to maybe moving to the oilfield side of the business. You know, as we've seen natural gas price increases, I guess obviously you're expanding in that a bit but how do you think about that versus when we used to talk about natural gas close to \$2 in your outlook? Is there a way to maybe frame that or size that up as an opportunity?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I mean, I think we're definitely seeing a more favorable environment whilst we're shutting down. Drilling was not as active when you're down at \$2, \$2.50, below, \$3, et cetera, was the recovery in the natural gas prices as overall dynamics being favorable I think in terms of plants being built although those take time to happen.

You know, we see it having going forward a favorable impact both from a volume standpoint but also just as important from a margin standpoint.

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**Brian Lelli** - *Barclays Capital - Analyst*

And let me just follow up to that. I guess you've been focused on when dry gas became less profitable shipping more to the west side. Do you feel pretty balanced on that now as we move forward in terms of where new wells end up going at \$4.50 plus MM btu.



Craig Morrison Yeah. I mean we're developing new products for the wet wells and oil-specific applications and are extremely successful in doing that. Our growth is very, very dramatic. The majority of our products sold is still in natural gas but it's becoming much more balanced which I think again both [dwell] for our growth prospects going forward as we see both in attractive opportunities.

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**Brian Lelli** - *Barclays Capital - Analyst*

Got it. And then maybe shifting to the capital spending side obviously you talked about the increased year-over-year in CapEx, would it be possible maybe high level to give a breakdown of the increases year-over-year, again, just thinking about it operating results being a bit weaker how do you guys have the confidence to increase the spending in the products that you're looking at?

Maybe you could direct us via numbers, how much of that, so maybe that new formaldehyde plant, et cetera.

William Carter Yeah. You should think of the bulk of the increase is around the new projects that we've announced, those Craig mentioned, I think on the prior call we had announced the new plant in Brazil and then we've now announced the new plant in the US as well as some of the other small products he announced.

So that represents the bulk of the spending and quite frankly, as we've said, we're seeing significant growth in our formaldehyde business both in the US and Brazil and we think it's a smart place to spend money in terms of the growth we're seeing and at the margins we're seeing [that fill that].

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**Brian Lelli** - *Barclays Capital - Analyst*

Got it. And then one last thing, one for me and I'll pass it along. I guess, just how do you weight on your [1878] notes. There are obviously [callable] currently, how do you think about that refinancing where the market is currently potential future growth, I guess just, maybe Bill, how do you weigh all of those given (inaudible) and obviously that going down overtime and waiting given this market?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

I don't want to give any specific guidance but certainly I think on our last quarter's call I was asked about of what are our chief objectives as we think about gas generation. I think as we see capital projects that we think are very accretive to earnings in a relatively short period of time, I think we certainly consider those very seriously.

We certainly are interested in overtime delivering or changing our capital structure you've indicated, but I think we look to accretive growth projects and then certainly to capital structure changes as well, but probably in second priority.

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**Brian Lelli** - *Barclays Capital - Analyst*

OK. That's great. Thanks for the time.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

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**Operator**

Our next question comes from Brian Chavarria with Credit Suisse. Please proceed.



**Brian Chavarria** - *Credit Suisse - Analyst*

Good morning, gentlemen. Just a few more followups on the oilfield side. I guess you guys are certainly talking about getting to a more balanced portfolio here. You pick up a Haynesville asset. I guess you're adding an incremental EBITDA into your covenant calculation here for full capacity. Just given the activity in the Haynesville certainly seeing a little bit of improvement there, but when do you guys imagine that actually gets to a full capacity and really start seeing contribution there?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Well, we're already viewed as a positive contributor in the sense of we're finding significant synergistic opportunities relative that we're formulating the formulations that are actually applied to the proppants and that we have far more expertise in that area than obviously the company we bought it from as well as being able to load that asset significantly faster than we have originally thought.

So in terms of it being a positive contributor, it's already there how long it takes to fill that's going to depend on other assets brought on as well but you're probably talking in the next 12 to 24 months.

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**Brian Chavarria** - *Credit Suisse - Analyst*

OK, got you. And then also just regionally on the oilfield side can you talk about which specific areas are getting better? Is it [distributing in those liquids] areas up in the [Balkan] or other areas like that?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I mean the liquid stayed relatively strong throughout this because it's still attractive. It's the natural gas areas that are improving the fastest largely due to the pricing.

The other big change that's occurred relative to number of wells drilled is the horizontal applications and the amount of product being used for those applications is significantly more so one well now might be worth five or six times the amount of proppants that were previously used.

The other thing I would note is that some of the drilling companies have moved to pure sand without resin-coated proppants on some of their prior applications trying to save money as natural gas prices had fallen. I think [they're finding that that] is not beneficial and we're seeing move back to resin-coated proppants as well which obviously benefits us, so we see a lot of very positive dynamics across the board, whether you talk dry or wet resin-coated in general and just general in pricing environment on natural gas which has improved.

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**Brian Chavarria** - *Credit Suisse - Analyst*

And then shifting to the forest product segment, obviously the weather in North America has been pretty rough for the first quarter here, any outlook you have there versus last year first quarter, that'd be helpful?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I think it's been obviously a more challenging environment this year in general and that doesn't impact housing starts which impacts the overall environment. [Net-net] for the year we think it will still be a very positive environment.

I will say the other factor that you might be hearing about from a lot of companies is really transportation, everything from shipping lines and ports coming from around the world to trucking and rail with rail being impacted by the amount of oil and stuff being shipped around.

You know, it's been a more challenging environment. I think we're seeing that across multiple segments not just as far as products but it's impacted our customers, it's impacted us and I think in addition to the weather that's another factor that's been a little bit more challenging this year over the last.

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**Brian Chavarria** - *Credit Suisse - Analyst*

And then last one for me just in terms of CapEx. You talked about some of these products here, can we expect an elevated CapEx profile for 2015 as well? I know it's certainly early to talk about that, but [I want to use once to your products] to construct and just how do we think about that going forward?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. You should expect elevated CapEx in 2015 why, because we still haven't put together the detailed plans but as we look at completion of the plans we've started in 2013 and 2014 they will certainly be higher in 2015 compared to 2013.

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**Brian Chavarria** - *Credit Suisse - Analyst*

Thanks a lot.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

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**Operator**

Our next question comes from [Richard Cass] with Jefferies. Please proceed.

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**Richard Cass** - *Jefferies & Company - Analyst*

Hey, good morning, guys. Thanks for taking my questions. Just a quick one - talking about the input cost side of the equation here, you clearly mentioned that there were pressures in 4Q 2013 as it picked up. Has that continued to turn that way early in 2014?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

No. We've seen some relief. You know, it's clearly in the urea market. We have seen an increase uptick. When you look at methanol, it's been a little bit flatter really, not a major uptick or drop off and phenol has been rather flat as well so far but as you know, first of all urea tends to be fairly seasonal but it's not unusual to see an uptick as you head into spring and stuff but as you know these markets can tighten and it can be quite volatile on relatively short notice.

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**Richard Cass** - *Jefferies & Company - Analyst*

OK. Great. Thank you. And then my last one is, on your last call you had mentioned a little bit of improvement with some shutdowns in the phenol market I think in Asia and as you alluded to today that tends to impact some of your markets. Are you continuing to see that? Is there any sense that that environment is improving and could potentially translate to some improvement for you?

**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I don't recall really saying phenol improved in China. We did talk about China phenol correlating. We haven't seen an improvement at that time and still really don't, but you know, again, one thing about that chain is you don't need the entire chain to tighten. You need one [holding] to tighten. That can give you leverage and again I would cite the ECH example I gave earlier that that tightening of that gave us capability to really get an advantage on pricing all the way through LER but we're not really seeing that relief yet in the Asian market.

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**Richard Cass** - *Jefferies & Company - Analyst*

All right. Very good. Thanks a lot.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

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**Operator**

Our next question comes from Bill Hoffmann with RBC Capital Markets. Please proceed.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

Yes. Thanks. Good morning. Craig, I hate to (inaudible) from your own operational standpoint it looks to me like there was quite a bit of inventory reduction in the fourth quarter. I'm assuming a lot of that was (inaudible) business given the fact you had the plant outages. And does that position you to be able to run a bit better coming into 2014?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I mean, generally when you do a draw down and again, it's not just due to plant outages, it's also due to plant inventory reductions, et cetera, but generally you're going to have a period where you can run a little bit harder as you draw down any inventories that you might consider excess or if you do have an outage and you draw down inventory that you need just from a safety stock standpoint, usually it will tend to mean you can run a little bit harder and I think that's a fair assumption.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

OK. Thanks. I think this is really for Bill, just from a cash flow standpoint. I mean, I'm assuming that besides the higher CapEx, you're going to have a working capital build again in 2014 relative to where you ended up in 2013. Any thoughts on where you end up on that?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. We do expect that volumes will be higher in 2014 so we would expect a working capital build due to growth in volumes.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

[It's something that's in the order] of \$10 million to \$20 million ...

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. I think somewhere in that order.

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

OK. And just last question, with the plant expansions [that have been] the acquisition, any thoughts on EBITDA composite impact in 2014 and obviously the plants are probably more in 2014?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. I don't want to give specific comments obviously to Craig's point on the oilfield acquisition. We think, as he said, that is accretive in the relatively short term. Obviously from the plant construction perspective, to your point, that's a little bit of the longer term in terms of bringing those online.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. You won't see any 2014 impact.

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. [It's certainly going to be on 2014].

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**Bill Hoffmann** - *RBC Capital Markets - Analyst*

OK. Thank you.

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**Operator**

Our next question comes from [Frank Longobardi]: with Accenture. Please proceed.

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**Frank Longobardi** - *Accenture - Analyst*

: Actually all my questions were answered. Thank you very much.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

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**Operator**

Our next question comes from James Finnerty with Citi. Please proceed.

James Finnerty Good morning.

Craig Morrison Good morning.

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**James Finnerty** - Citigroup - Analyst

Just a quick question on forest product resins. What% of sales on an annual basis going to the composite wood product in the market, if you can give just some idea, that'd be helpful.

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**William H. Carter** - Momentive Specialty Chemicals - EVP, CFO

Yeah. I don't want to give a specific percent but the largest markets we have for forest products resins are in North America and I would say a large proportion, over 50% of North America is going into the board market, so it's a relatively high percent.

When you look at our revenue by end market which we talked about in total about 7% of our revenue is new home construction and as you think about that, that is largely the board market.

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**Craig Morrison** - Momentive Specialty Chemicals - Chairman, President, CEO

Yeah. I just want to make sure you're using the term because people can interpret that question differently. When you talk composites, are you talking about OSP and things of that nature? Are you talking about true composites that go into [jack] applications and things of that nature?

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**James Finnerty** - Citigroup - Analyst

That's a bigger definition, like always the particle?

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**Craig Morrison** - Momentive Specialty Chemicals - Chairman, President, CEO

The vast majority [would flow] into particle board, OSP, that would be 80, 90%.

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**James Finnerty** - Citigroup - Analyst

OK. And in terms of just competition from other products [MGI player] has been highlighting that they've taken a lot of market share in composite wood products and that they're somewhere near, closing on 50% of market share. Has there been increased competition from your point of view?

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**Craig Morrison** - Momentive Specialty Chemicals - Chairman, President, CEO

No. We saw an initial penetration that we talked about in the past that clearly had some impact, it's not anywhere close to 50%. They are, from a technical standpoint, and again, you got to be careful how people define what market they're in because if you go into OSB and you talk about internal applications other than adhesive, that would be a very applicable market.

As you look at some other markets, they can't go on the surface because it negatively affects the press capability. So you have to be careful when you look at that but -

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**James Finnerty** - Citigroup - Analyst

Yeah. I think they were referring to OSB specifically with regard to that number.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I think when you do look at OSB clearly it was an impact that we've seen that level off where it's not.

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**James Finnerty** - *Citigroup - Analyst*

(inaudible)

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Increased and you know, many of the inputs into our products that levelled off.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

When you look at our growth from a revenue standpoint it's been double digits, so yeah, I think it's been very limited impact [in more recent times].

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**James Finnerty** - *Citigroup - Analyst*

And just raw material question - we've seen the capacity additions announced in methanol, I just want to get your thoughts as to your outlook for raw material press specifically with regard to methanol or could we see some real.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. I mean if you look at the official forecasts that are out there you do see a more favorable trend projected over 2014. Having said that, you know in all candor, if you went back and correlated actual results with forecasts over the past 10 years, you'd see a very important correlation.

So we do anticipate that there will be some relief as plants start to come online and some of those are going to take longer to get in place, others are very close to startup right now, we're in startup, so I think there will be some but of course it's always how much demand comes, how much did the market grow, et cetera, et cetera.

But if you go to the official forecasts, you actually see a fairly steep decline this year compared to what we've seen previously.

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**James Finnerty** - *Citigroup - Analyst*

Great. Thank you very much.

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**Operator**

Our next question comes from Keith Kitagawa with HSBC. Please proceed.

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**Keith Kitagawa** - *HSBC - Financial Professional*

Hi. Could you refresh us on your strategy for the oilfield technologists group? Are you more inclined to emphasize the drilling part of the business or you're more inclined to emphasize the maintenance part and if you could comment on if there are any maybe holes in that portfolio? Thanks.





**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yeah. We're definitely more into drilling and with the proppants which is by far our biggest product line. We then have fluids and other things that once drilled we'll treat product coming out but clearly the drilling is the biggest stand there with the proppants.

We strategically always look for opportunities to expand and won't comment on specifics yet, whether that's portfolio various products that could be sold alongside our current things like triazines (inaudible) et cetera, but you know, right now clearly proppants is the biggest single piece there, very much benefiting from what's going on in current market condition.

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**Keith Kitagawa** - *HSBC - Financial Professional*

Thank you.

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**Operator**

Our next question comes from Jordan Hollander with Deutsche Bank. Please proceed.

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**Jordan Hollander** - *Deutsche Bank - Analyst*

Hey guys [my] questions have been answered. Just a couple of housekeeping on the pension expense, you guys talked about being higher in 2013 versus 2012, any color on that for 2014 and how that is going to impact SG&A?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. We think expense in 2014 will actually go down probably in the \$10 million, I would say between \$5 million and \$10 million. We don't have, obviously, final calculations but we think it will decline and that's really because the change in the discount rate going up so we suspect to see somewhere between \$5 million and \$10 million in 2014.

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**Jordan Hollander** - *Deutsche Bank - Analyst*

OK. Good. And then just on the CapEx projects, the one built out in Louisiana and Brazil, what was the timing in those? Is that going to be up in 2015 or is that more of 2016?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

The Brazil project which we announced last quarter is obviously a little further along. I think we may see a little bit benefit from that at the end of 2015. I think the projects in the US will be more 2016 and probably the bulk of Brazil will be 2016.

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**Jordan Hollander** - *Deutsche Bank - Analyst*

OK. Great. And then just lastly, and I think it's touched on, but just on the base epoxy side, are you guys seeing any kind of capacity shutdowns or takeouts, anywhere along that in North America or outside of Asia to bring [US actually] into mind or has nothing really happened on that front?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

You know, the biggest issue by far is Asia and there've certainly in the chain maybe small capacity changes that have occurred but we've not seen the type of movement that will be required to take market conditions significantly and like I said before that can happen very quickly under certain conditions so you wouldn't necessarily have a tremendous lead time on visibility.

It's a situation where we keep very close tabs on the market and always look for an opportunity but we've not seen those conditions yet.

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**Jordan Hollander** - *Deutsche Bank - Analyst*

OK. Thanks a lot guys.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

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**Operator**

As a reminder, if you currently have a question, please press star-one. We now have a follow up question from Roger Spitz. Please proceed.

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

Thank you. Would you be able to tell us what you paid for the Shreveport resin-coated facility?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

No. We didn't disclose that and I think for competitive reasons would not comment on that today.

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

OK. Can you say what's the cost of the 150,000 metric tons Brazilian formaldehyde plant, what it would cost to build that facility?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Can you just repeat that one more time?

Roger Spitz How much will it cost to build the Brazilian formaldehyde facility?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. We haven't disclosed the specific amount for that but as you will see in CapEx, it's less than \$50 million, somewhere in the \$30 million to \$50 million range.

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

OK. And the US formaldehyde facility, will it be of a similar scale and capacity to the 150,000 metric tons Brazilian formaldehyde facility?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah, I would say generally in the same ballpark size.

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**Roger Spitz** - *Bank of America/Merrill Lynch - Analyst*

Thank you very much.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Thank you.

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**Operator**

We have a followup question from [Frank Longobardi]. Please proceed.

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**Frank Longobardi** - *Accenture - Analyst*

Yeah. I guess this actually will be my first question, but just on the epoxy side, the 13% increase in volume, can you break that down between oilfield and other major component?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

We're just looking at data for a second. I mean, if you look specifically at the epoxies, specialty epoxy, I mean, year over year basis for the fourth quarter had the highest growth. We don't have oilfield really included as it's within the epoxy division but it's not an epoxy business.

In year-over-year basis oilfield had the greatest growth on volume. Specialty epoxy had the second greatest and then the base epoxies was third and all were in double digits.

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**Frank Longobardi** - *Accenture - Analyst*

Double-digit growth?

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Yes, on volumes.

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

On a volume basis.

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**Frank Longobardi** - *Accenture - Analyst*

On a volume basis, right. Understood. And finally, can you just tell me on an annual basis the percent that oilfield represents the total segment sales?



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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. From a competitive perspective we've typically not broken out revenues at that level.

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**Frank Longobardi** - *Accenture - Analyst*

OK. Thank you.

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**Operator**

Our next question comes from [Michael Nance] with IMG. Please proceed.

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**Michael Nance** - *IMG - Analyst*

Good morning.

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Good morning.

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**Craig Morrison** - *Momentive Specialty Chemicals - Chairman, President, CEO*

Good morning.

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**Michael Nance** - *IMG - Analyst*

Just looking at your bridge to adjusted EBITDA, the other costs are \$54 million, are there any particular costs in there that were particularly large or is it just an amount that [makes up] a lot of small ones?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

Yeah. I would say it generally is an amount that [makes up] a lot of smaller items. There was no one item that was dramatically part of that market.

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**Michael Nance** - *IMG - Analyst*

And then given [short term], what percentage of that was cash versus non-cash?

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**William H. Carter** - *Momentive Specialty Chemicals - EVP, CFO*

The bulk of that was cash, just looking through, the bulk of that would have been cash.

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**Michael Nance** - *IMG - Analyst*

OK. Thank you.



**Operator**

Our next question comes from [Jake Kenly with Prudential]. Please proceed.

**Jake Kenly - Prudential - Analyst**

Hi. Good morning. The \$60 million to \$100 million that you put into spend on these two new facilities, what is your targeted return on capital when you guys look at building new facilities? What period of time do you think it takes to hit that return hurdle?

**William H. Carter - Momentive Specialty Chemicals - EVP, CFO**

Yeah. I'm not sure we've ever, you know, specifically given out our target but certainly for these facilities we look at targets that are certainly in the 20% plus.

Our typical return in terms of getting the plant up and running, we'd look at that happening over a 3 to 5-year period.

**Jake Kenly - Prudential - Analyst**

Thank you.

**Operator**

We have no further questions. I would now like to turn the call over to management for closing remarks. Please proceed.

**Craig Morrison - Momentive Specialty Chemicals - Chairman, President, CEO**

Again, I would like to thank everybody for today's participation and we look forward to having further discussions on future calls, so thank you very much for participating.

**Operator**

This concludes today's conference. You may now disconnect. Have a great day.

END

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