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- Q3 2014 Momentive Specialty Chemicals Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2014 Momentive Specialty Chemicals earnings conference call. My name is Lacy, and I'll be your coordinator for today. At this time, all participants are in a listen-only mode. (Operator Instructions).

I would now like to turn the presentation over to one of your hosts for today, John Kompa with Momentive Specialty Chemicals. Please proceed.

John Kompa

Thank you, Lacy. Good morning, and welcome to Momentive Specialty Chemicals third quarter 2014 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, 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 website under the Investor Relations section of Momentive Specialty Chemicals. A replay of this call will be available for one week, and the replay dial-in information is contained in our latest earnings release.

Before we start, I'd like to review 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 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 measure 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.

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

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

Thanks, John.

Turning to page four, our third quarter revenues were $1.35 billion, an 8% increase, while segment EBITDA totaled $125 million, an increase of $5 million. Segment EBITDA rose 4% year over year despite a $6 million negative lead lag impact driven by phenol pricing.

Our global Forest Products EBITDA increased 9%, reflecting year-over-year gains in North American formaldehyde, Latin America, and our Asia Pacific regions, as well as our continued productivity initiatives. Our epoxy, phenolic and coatings EBITDA improved slightly due to favorable specialty epoxy resin results from Asian wind energy demand, higher North American oilfield proppants volume, and Versatic Acids and derivatives pricing actions.

These gains were partially offset by softer results in phenolic specialty resins, European dispersions, and continued margin compression in base epoxy resin.

As part of our ongoing cost reduction initiatives, we're targeting $25 million to $30 million in additional cost reductions beginning in Q4 '14 and going through 2015. As we turn to fourth quarter and year end, we continue to focus on maintaining liquidity levels and driving working capital reductions. We expect the normal seasonality impact in Q4 '14, as well, as approximately $13 million to $18 million in negative impact from supplier force majeure issues.

Turning to slide five, and our combined raw material index, you can see that our raw material input costs decreased modestly in the third quarter of 2014 versus the second quarter of 2014, although a phenol spike drove a $6 million negative lead lag impact. Compared to the prior-year period, raw materials remain mixed. We saw increases of 9% and 13% in phenol and urea, while experiencing a 13% decrease in methanol in the third quarter of 2014.

I should caution that raw materials remain volatile. For example, the AM supply challenges are negatively impacting our European dispersions business. We continue to remain vigilant on the pricing front to effectively manage raw material volatility.

Turning to slide six, we've outlined a number of key objectives for the fourth quarter of 2014 and fiscal year 2015. First, a preliminary assessment has targeted $25 million to $30 million in additional cost reduction actions taking place in Q4 '14 and primarily in the first half of 2015. We anticipate finalizing and beginning to implement these cost savings during the fourth quarter. We expect to achieve these savings by streamlining our SG&A, reducing outside services, and rationalizing high-cost sites. You can see directionally the breakout of the targeted reductions in the chart on the right.

Additionally, we are focused on maintaining the benefit of shared services agreement with Momentive Performance Materials so that both companies can continue to benefit from those shared services. We were also intensely focused on driving productivity and optimizing our technical portfolio. This will include investing in growth product lines, focusing on improved product formulations for cost productivity and rationalizing projects and IP where applicable.

Turning to slide seven, I'll mention just a few products within our energy portfolio that are performing extremely well. For example, our overall proppants volumes have increased 15% on a compound annual basis since 2005. In addition, our OilPlus proppants, which is primarily focused on oil well applications, has continued to grow rapidly and now is 25% of our overall proppants sales, up from only 5% in 2012. Our overall proppants business has posted seven consecutive quarters of sequential growth in volume, in part due to the strength of OilPlus sales.

In addition, we've seen strong multi-year growth in Triazine volumes with a 26% compound annual growth rate from 2005 to 2013. As a specialty formaldehyde product, Triazine is used as a scavenger in drilling applications. We recently expanded our Edmonton site in support of continued customer demand.

Finally, our specialty epoxy business continues to perform well, as Asian wind energy demand returns. You can see that our volumes are steadily improving as the Chinese government again pursues expansion of wind energy installations.

Turning to slide eight, you can see that strong multi-year growth in our North American formaldehyde business, as segment EBITDA has posted an 18% compound annual growth rate since 2009. Formaldehyde is a versatile key building block chemical used in downstream Forest Products resins or in a variety of chemical intermediates, such as MDI. The recent growth has reflected the recovery in North American housing, growth in downstream intermediates, as well as specialty applications such as Triazine.

We currently have three new formaldehyde plants being constructed in the Americas, with additional sites under consideration. This is a direct result of the shale gas and oil expansion that we are seeing in North America. Our formaldehyde business continues to be well positioned for growth.

Turning to slide nine, I've highlighted a number of recent expansions in our global network, highlighted by the announcement of a second formaldehyde expansion in Louisiana. This new site is expected to come online in the first half of 2016 and joins the two other formaldehyde plant expansions that are currently under construction in Louisiana and Brazil.

We're also bringing online our phenolic resins joint venture in China in the fourth quarter of 2014. Our Thailand dispersion site opening in late 2013 and our wind energy expansion in Itatiba, Brazil, opens in September, marking a total of six plants that have been recently completed or are under construction as we strategically expand our manufacturing footprint for future growth.

Let me now turn the call over to Bill Carter, our CFO, to further discuss our quarterly results.

Bill Carter - *Momentive Specialty Chemicals - Executive Vice President and Chief Financial Officer*

Thank you, Craig.

Turning to our epoxy, phenolic and coating resins segment, revenue totaled $878 million, a 9% increase on volume gains of 10%, offset by price mix declines of 1%. Segment EBITDA increased slightly compared to the prior year. Strong gains in the specialty portion of the portfolio were offset primarily by continued cyclicality in base epoxy resins.

Turning to select product lines, our specialty epoxy resins business continues to reflect strengthening demand in the wind energy market in China. Our oil-filled proppants business also grew year over year due to new product development efforts and our Shreveport acquisition.

These trends were offset by raw materials, base epoxy resins, and our base European dispersions business, which continued to be under significant pressure.

Turning to the next slide, in our Forest Products resin segment, sales totaled $469 million, a 6% increase, with volume gains of 6% and positive currency translation of 1% partially offset by price mix declines of 1%.

Our segment EBITDA gains reflect year-over-year improvements in multiple product lines including North American formaldehyde, reflecting growth in Triazine demand, as Craig mentioned, Latin America, with our Brazil business bouncing back following the World Cup, and our Asia Pacific businesses due to economic recovery in Australia, New Zealand, and Japan.

We're also pleased with our EBITDA margin gain of 30 basis points as positive operating leverage reflects higher volumes and disciplined cost controls. Regarding our balance sheet, we continue to benefit from a significant liquidity position with cash, plus borrowing availability under our credit facilities of $456 million as of September 30th and no near-term debt maturities.

Our capital expenditure investments totaled $133 million in the first nine months of 2014. We now expect to invest approximately $200 million in CAPEX in 2014, which is in the middle of our previous range. Our net working capital totaled $657 million at the end of the third quarter. As anticipated, net working capital increased versus year-end 2013 due to higher volumes from improving demand.

For fiscal year '14, we expect only a modest increase in net working capital compared to '13, with a generation in the fourth quarter. Finally, we expect to repeat our historical pattern over the last several year where we have generated free cash flow defined as operating cash flow less CAPEX less acquisitions in the second half of the year. In addition, we expect second half 2014 cash flow generation to slightly exceed second half of '13 levels.

Let me now turn it back to Craig to wrap up.

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

Thanks, Bill.

Turning to slide 15, our Forest Products results reflected strong performance in North American formaldehyde, as well as our Latin America and Asia Pacific regional businesses. Our epoxy segment EBITDA increased slightly on the strength of our specialty businesses offset by cyclicality and base epoxy resins and European dispersions.

Our strategic growth initiatives remain on track as we've successfully integrated the Shreveport oilfield acquisition. And our phenolic specialty resins joint venture in China is slated to become operational in Q4 '14. Two Forest Products sites are also expected to come online in late 2015, and we've recently announced a third Forest Products expansion to be built in Luling, Louisiana.

As I discussed earlier, we continue to focus on driving our cost control initiatives and have targeted $25 million to $30 million in additional actions beginning in the fourth quarter and ongoing throughout 2015, as well as leveraging the shared services agreement with MPM. We were also prudently managing our balance sheet, which includes $456 million of available cash and borrowings, and we are projecting that this will increase to more than $300 million in the fourth quarter.

Let me now turn it over to the operator for any questions that you might have. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). And our first question comes from the line of Tarek Hamid with JPMorgan. Please proceed.

Tarek Hamid - *JPMorgan - Analyst*

Good morning.

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

Morning, Tarek.

Bill Carter - *Momentive Specialty Chemicals - Executive Vice President and Chief Financial Officer*

Morning.

Tarek Hamid - *JPMorgan - Analyst*

On the oilfield proppants business, you showed a lot of growth in the LTM period. Can you talk a little bit about kind of the segments volume performance sort of 1Q to 2Q to 3Q and kind of anything you're seeing in 4Q, to just help us to sort of think about it as it develops?

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

Yeah, I mean, as you look at oilfield in general, it's been a very robust, you know, growth period during the course of the year. And, you know, we've seen -- if you look at, for instance, third quarter to second quarter, relative to volumes, very strong double-digit growth and the same thing on a year-over-year basis. And we've seen that -- whether you talk about the liquids segment, which is the Triazines, or you talk about the oilfield proppants themselves, both have shown very strong growth through the first three quarters and on a year-over-year basis. Same can be said on an EBITDA basis.

Moving into the fourth quarter, that's normally from a seasonality standpoint a slightly slower quarter, and we would expect the same to occur in this fourth quarter especially slowing down as you move into December. So that's currently the way the year looks for us, but it's been a very positive year, driven by natural -- the drilling on obviously oil and natural gas in North America, as well as new products we've developed, like OilPlus that we've talked about in the presentation.

Tarek Hamid - *JPMorgan - Analyst*

And I guess as you think about that business, how it stands now, you know, is the proppant portion of it or the Triazine and other products portion of it bigger, i.e., is proppant 50%-plus of the energy exposure now? Or has it come down with sort of the growth in China?

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

You can think of it almost on a 75 to 25 ratio, proppant to Triazine, proppant being the much larger.

Tarek Hamid - *JPMorgan - Analyst*

Got it. And then just last one from me and I'll turn it over. On the cost savings program, you know, is that primarily going to be targeted on some of your base epoxy assets? Or is it sort of broader-based across the organization?

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

It's broader-based than just epoxy.

Tarek Hamid - *JPMorgan - Analyst*

OK. And sorry, one last one for me. Just on a CAPEX, for 2015, any initial thoughts about what the budget should look like relative to this year?

Bill Carter - *Momentive Specialty Chemicals - Executive Vice President and Chief Financial Officer*

Yeah, we will still have an elevated level of spend next year, because when you think about the plans we've announced we're building, we have started them all in '14, but the construction basically continues through '15, so you should think of a similar level of spend.

Tarek Hamid - *JPMorgan - Analyst*

Great. Thank you guys very much.

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

Thank you.

Operator

And our next question will come from the line of Adam Goodwin with Goldman Sachs. Please proceed.

Adam Goodwin - *Goldman Sachs - Analyst*

Hi, thank you for taking my questions.

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

Hey, Adam.

Adam Goodwin - *Goldman Sachs - Analyst*

The $13 million to $18 million hit from a supplier force majeure in the fourth quarter, could you just walk us through what exactly happened there? Has that been resolved at this point? And then when we think about the year-over-year comparison for fourth quarter, I think last year you had about $24 million of one-time charges that hit results. When you think about the year-over-year comparison, in light of the force majeure for this year, how should we be thinking about this year's total charges relative to last year?

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

Well, let me start with the force majeures. There's really two drivers there. The first is [AXO] at the Pernis site has had a strike that has limited our LER production and has affected our capability getting chlorine directly from there, and therefore there's a cost impact related to that.

The second is the Shell Moerdijk cracker issue that has brought that cracker down. When you think about the relative size of the impact, the [AXO] is about one-third of the projected impact, maybe slightly less than that, and the shell cracker is two-thirds to maybe slightly higher than that, up to 70% of that impact.

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The [AXO] we fully expect will be fully resolved in the fourth quarter, because that is something that we control. But the Moerdijk, as Shell has announced, could likely go as far as being out right through the second quarter of next year. And, again, that's not for certain. They might be able to bring it back up in the first quarter or can extend into the second quarter. We don't know. But that's the relative size of impact on those two.

[AXO], like I said, we would expect to be limited to a fourth quarter of this year. The cracker issue at Moerdijk could certainly extend into the first, second quarter next year.

Adam Goodwin - *Goldman Sachs - Analyst*

And in terms of the fourth quarter charges, that $13 million to $18 million, I think last year the number was $24 million. I mean, above and beyond the $13 million to $18 million, would there be any other manufacturing-related charges that you guys to -- would expect to incur in this fourth quarter?

Bill Carter - *Momentive Specialty Chemicals - Executive Vice President and Chief Financial Officer*

Yeah, I don't think any significant manufacturing charges. As you know, we have an ongoing program of turnarounds. And so we certainly have fourth quarter turnarounds planned, but not dramatically different than prior years.

As well, as you know, in terms of some of the restructuring charges we've had, we would expect to, you know, continue to have -- especially as Craig has talked about -- the new program, some charges in the fourth quarter related to that.

Adam Goodwin - *Goldman Sachs - Analyst*

OK. And then on your free cash flow guidance, I think that you note that second half free cash flow should slightly exceed last year, but you also note that net working capital should be up only modestly for the full year. So what I'm trying to reconcile is since working capital is a use of cash, I think it was almost $200 million over the first three quarters of the year, your working capital guidance would imply a pretty significant inflow for the fourth quarter and much better free cash flow for the entire second half of the year. I mean, is there anything that I'm missing here with that analysis?

Unidentified Company Representative

No. I think you were generally spot-on. We do expect to see a significant inflow from working capital. We saw some inflow in the third quarter. We expect to see a much more significant inflow on the fourth quarter, you know, very much similar to what we have seen in our fourth quarter. So that's the primary driver in terms of improved cash flow in the second half.

Adam Goodwin - *Goldman Sachs - Analyst*

OK. And then for the reconciliation for your LTM EBITDA, you changed to add back for acquisitions to acquisitions and plant expansions. And I think that the add back is $45 million. Does that include all three of the Forest Product expansion projects? And if so, would you be able to quantify how much of that would be attributable to the proppant plant which you guys bought versus these three plant expansion projects?

Unidentified Company Representative

Yeah, one way you might think about it is the new plants versus the acquisition is about a two-thirds, one-third. So when you think of the $45 million, about two-thirds of that is the construction of the new plants, one-third is the acquisition.

Adam Goodwin - *Goldman Sachs - Analyst*

Got it. And then just my last question, in the base epoxies segment, from a strategic or operational perspective, can you just talk about the rationale for continuing to sell base epoxies onto the merchant market? I mean, one of your biggest competitors here has basically said that base epoxies has been an EBITDA negative business for two to three years now.

And given all this excess supply over in China, they don't really see those dynamics improving. So from your own vantage point, I mean, why is base epoxies a business that you guys want to or need to be in right now?

Unidentified Company Representative

Yeah, I think when you think of base epoxies, the competitors have different positions relative to size and scale. And therefore, exiting a business, other than strategically exiting through sale, becomes very different implications relative to shutting sites down or other actions that might be taken.

So while for one competitor it might be very feasible to exit that business in a cost-effective, cash-effective manner, for other competitors that are very large in scale or significant scale in base epoxies, there's a different set of challenges around that. So we are looking strategically as we had talked about during the presentation, but we have nothing we'd announce at this time and -- so at a point where there is something to announce, we would, but not at this time.

Adam Goodwin - *Goldman Sachs - Analyst*

OK, great. Thanks a lot, guys.

Operator

And our next question comes from the line of Roger Spitz with Bank of America. Please proceed.

Roger Spitz - *Bank of America - Analyst*

Thanks, good morning. I think -- can you hear me?

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

Yes.

Bill Carter - *Momentive Specialty Chemicals - Executive Vice President and Chief Financial Officer*

Yes.

Roger Spitz - *Bank of America - Analyst*

I think you suggested base epoxy EBITDA was down year-over-year and sequentially, or maybe I just read through the line there. Can you say -- if that was right, can you say whether that was sort of modestly down or materially down? And was that driven by the -- say, the $3 million to $5 million from the [AXO]-Pernis force majeure? Or was that underlying business, as well?

Unidentified Company Representative

It is down -- you know, modestly on a quarter-over-quarter basis, a little more significantly on a year-over-year basis. But as you know, it's been down for a while now. And it certainly was impacted by the force majeure set of issues and the order of magnitude that we talked about. So actually, the order of magnitude on a quarter-over-quarter basis, the force majeure was greater than the total negative impact. So it actually is the total difference on a quarter-over-quarter, but not the full difference on the year-over-year.

Roger Spitz - *Bank of America - Analyst*

OK. And is base epoxy resin EBITDA now, is it -- is it positive, zero, negative? If it's negative, can you size how much negative without giving away, you know (inaudible) which I know you'd prefer not to?

Unidentified Company Representative

I would just say it's slightly negative under current conditions.

Roger Spitz - *Bank of America - Analyst*

Including the force majeure?

Unidentified Company Representative

Yes.

Roger Spitz - *Bank of America - Analyst*

And, you know, if I'm not mistaken, you have four LER plants, the two big ones, and then two smaller ones. When you said you were looking at actions, were you implying those perhaps two smaller LER facilities, if I have that right, strategic alternatives with those two smaller plants? Is that what you were implying?

Unidentified Company Representative

Yeah, I think the actions -- when you say LER plants from an epoxy plant perspective, you know, could affect, I would say, almost any of the plants. As Craig said, we're looking at our network and so, you know, I don't want to talk about specific plants today. But as we look at that network, we're, you know, evaluating the entire network.

Roger Spitz - *Bank of America - Analyst*

OK. And proppants, you know, there's been a lot of news about one main customer moving from ceramic to raw sand. And have you seen -- either your customers or competitors -- customers of competitors who are using phenol-coated sand do any kind of -- are considering shifting from phenol-coated to raw sand?

Unidentified Company Representative

Yeah, I mean, I think when we look at proppants in general, we've seen -- as we've talked about -- very strong double-digit growth in volumes. And so, you know, certainly we've seen -- and we've seen this historically at times, as prices have dropped -- customers have tried to move from resin-coated to raw. And while there's some preliminary cost savings, ultimately the total cost to run the site and the benefits of coated we find historically have proven out.

So certainly, as prices fall, you may see some customers look at applying it or reducing resin-coated, but, you know, even prices now we continue to see very significant growth. So we still think this is an extremely attractive segment going forward. But like any segment, it'll have its ups and downs, as natural gas fluctuates.

The other thing I would say is we continue to push aggressively on new product development to continue to provide benefits for our customers. Hence, you see the development of things like OilPlus, which has grown dramatically as an application, and we have other type of applications in the pipeline. We think that we'll continue to drive nice growth.

Roger Spitz - *Bank of America - Analyst*

I always think of resin-coated sand as (inaudible) happy intermediate between the price performance of raw sand and ceramics. It was interesting that that one -- I think it was [laford] customer decided to go directly from ceramic to raw sand. Do customers in ceramics consider only raw sand? Or would they consider resin-coated sand?

Unidentified Company Representative

No, I mean, there's definitely customers that have moved to resin-coated versus ceramics, which tends to be a more expensive product line. So, no, I mean, you know -- and again, any single customer can move from ceramic to raw or -- instead to resin-coated, but, you know, again, we've shown very significant growth in the last, you know -- actually it's been decade-plus, and we think it continues to be a favorable trend going forward.

Roger Spitz - *Bank of America - Analyst*

OK, last one on formaldehyde, the new facility. Should we think about a merchant formaldehyde as being above that segment's margins at the margins or below? How should we think about that?

Unidentified Company Representative

You mean in terms of the average margins of the segment? I would say you should generally think of them as above.

Roger Spitz - *Bank of America - Analyst*

All right. Thank you very much.

Unidentified Company Representative

Thank you.

Operator

And our next question comes from the line of James Finnerty with Citigroup. Please proceed.

Anisa Shervosiva - *Citigroup - Analyst*

Hi, this is [Anisa Shervosiva] on for James Finnerty. I guess, could you discuss the implications of the recent drop in oil prices and kind of how it impacts your view for raw material costs and the potential for lower demand from the energy market? Could you also tell us what percent of sales and EBITDA come from the energy end market? I think in one of your bond presentations back in 2011, you listed it as 18% of sales.

Unidentified Company Representative

(inaudible)

Unidentified Company Representative

Yeah, I mean, we've previously disclosed 18% in revenue. And I think that is still, you know, generally accurate. We've typically not disclosed earnings.

Unidentified Company Representative

I guess if -- I understood your -- the earlier part of your question, in terms of the impact of falling energy prices, certainly as -- you know, it helps our business from the standpoint of energy as a fuel source for many of our plants, as well as the energy -- the petroleum component of some of our raw materials. I think in our oilfield business, we've continued to see relatively strong demand and don't believe that the price of petroleum has yet affected (inaudible) demand we're seeing from our proppants.

Unidentified Company Representative

But, I mean, there are scenarios that if it declined in -- you know, could it have an impact on reducing drilling? The answer's yes, and we have seen that occasionally in the past. But overall, it's been a very positive and we consider it to be a very positive trend going forward in the longer term.

Anisa Shervosiva - *Citigroup - Analyst*

Great. Also, if I could ask another one, regarding the cash costs for the -- sorry, the incremental $25 million to $30 million cost savings, is that on top of the $30 million you've already added back to LPM adjusted EBITDA, the reconciliation, the business realignment?

Unidentified Company Representative

Yes, that would be on top of that.

Anisa Shervosiva - *Citigroup - Analyst*

OK, and then does -- if it -- does that all drop through to EBITDA? Or does that get reinvested somewhere else? And when would you get to the full run rate of savings?

Unidentified Company Representative

Yeah, we're not -- we haven't -- you know, we haven't finalized all the detailed planning, but as we had stated, we consider the vast majority of that will be a Q4 initiation and Q4 throughout 2015, but we're not giving guidance on exact timing yet as finalize the plans behind the cost savings.

Anisa Shervosiva - *Citigroup - Analyst*

OK, great. And then if I could just squeeze in one last -- one more, can you give us any color on recent demand trends in Europe? Has there been any noticeable decrease in customer activity yet?

Unidentified Company Representative

I'd say, you know, Europe in general I think has started to feel a little softer. You know, it's -- as you've read in the Wall Street Journal and others, some of the forecasts have come down in terms of GDP growth. And, you know, it's projected, I believe, over the next three to four years to be slightly over a percent in general.

Obviously, that varies significantly if you're talking Germany and Northern Europe versus France and Southern Europe. But, you know, it's not like it's declining precipitously, but it's also not showing strong strength. And I think certainly some of the international events around Russia and the uncertainty there probably have also added to that. So I'd almost call it mushy, where it's just kind of moving along, not a particularly strong environment, but also not declining in anything noticeable.

Anisa Shervosiva - *Citigroup - Analyst*

OK, great, those are all our questions. Thank you.

Unidentified Company Representative

Thank you.

Operator

And our next question will come from the line of Bill Hoffman with RBC Capital Markets. Please proceed.

Bill Hoffman - *RBC Capital Markets - Analyst*

Yeah, thanks. Good morning.

Unidentified Company Representative

Hi, Bill.

Bill Hoffman - *RBC Capital Markets - Analyst*

Craig, you got into it a little bit just a minute ago on the proppants, so I just wanted to chat with you a little bit further. You know, it's our understanding that when you get down to sort of call it $70 to $80 a barrel, that the domestic oil fracking reinvestment gets a bit more sketchy. And I'm just wondering if you were hearing from, you know, the downstream customers, any thoughts on incremental development in which we may sort of trim the growth rates going forward?

Unidentified Company Representative

Yeah, I think the fourth quarter will have the normal seasonality. We're not seeing it yet. In the first quarter, if you were to stay in the $70 to $80 range, we're getting some feedback from downstream that you could see a reduction of 5% to 10% in wells.

Obviously, that could vary dramatically on -- as you know better than anybody, you know that pricing on natural gas or oil can move quite erratically, so even a quarter away becomes difficult to forecast. But right now, if things stay as they are and you're in that $70 to $80 range or weaker, you know, down towards the $70 -- what we've heard is you could see a drop of 5% to 10% in wells.

Bill Hoffman - *RBC Capital Markets - Analyst*

OK, thank you. And then just with regards to the shale outage, you indicated that could go through sort of mid-next year. Have you found workarounds or that? Or how do you -- do you think that will continue to impact you at the same level?

Unidentified Company Representative

Yeah, we think it would be a significant impact. We're continuing to look at workarounds. We had opened up a (inaudible) joint venture in China that helps us -- our actual asset supply is not impacted, because that comes out in Pernis. So that's a positive.

But, you know, there -- we won't be able to work around all of it potentially, so we are continuing to look around further workaround sourcing extremely, et cetera, but we haven't fully covered and we would expect that if it goes through the first quarter, you might see a similar impact in the first quarter as we're seeing in the fourth quarter.

Bill Hoffman - *RBC Capital Markets - Analyst*

OK, thanks. And just with regards to the formaldehyde expansions, should we think about that -- that you're effectively running 100% today or, you know, as close as you can, obviously, logistically in that business? And then what -- what percentage incremental capacity is this -- is this adding to your capabilities, these three expansions?

Unidentified Company Representative

Yeah, I think, number one, we are running very full in our network. I don't know 100% would be, you know, that full, but we certainly have some plants that are near 100% and others that are close to that. From an additional capacity, it's probably somewhere in the 20%, 25% range. These plants, as we've I think said publicly, are typically dedicated to customers in terms of base load customers at the primary source of sales as we construct these plans with then some additional product going to the emerging market, you know, more broadly.

Bill Hoffman - *RBC Capital Markets - Analyst*

So the theory is, you've got it pretty well booked out for these expansions?

Unidentified Company Representative

We do, yes.

Unidentified Company Representative

Yeah.

Unidentified Company Representative

Yes.

Bill Hoffman - *RBC Capital Markets - Analyst*

OK. Perfect. And then just last question. On the shared services agreement, I know there were some sort of final amendments to that. I just wonder if you could give us any indication on sort of what the split is at this point in time? Has it changed?

Unidentified Company Representative

Yeah, we don't discuss the -- you know, that publicly. We're continuing to work through an analysis with MPM, but, you know, we continue that both companies will have significant benefits from that.

Bill Hoffman - *RBC Capital Markets - Analyst*

OK, and is the expectation like from a -- from a duration standpoint, what are you thinking about at this point? Just ongoing benefits?

Unidentified Company Representative

Yeah, I mean, it's an ongoing agreement and, you know, we expect it to continue.

Bill Hoffman - *RBC Capital Markets - Analyst*

OK. Thank you.

Unidentified Company Representative

Thank you.

Operator

And our next question comes from the line of Richard Kus with Jefferies. Please proceed.

Richard Kus - *Jefferies - Analyst*

Hey, good morning, guys.

Unidentified Company Representative

Morning.

Richard Kus - *Jefferies - Analyst*

So you had talked a little bit about the negative lag there that you saw as a result of phenol. Is that something you expect to have fully resolved here in the first quarter? And, you know, how confident are you that you will get that back in better price?

Unidentified Company Representative

Yeah, no, I mean, I -- we are definitely seeing phenol fall off towards the end of the third quarter and rolling into the fourth quarter. So we will expect to see that benefit hit specifically our Forest Products business and our specialty phenolics business, both which are significant users of phenol.

Unidentified Company Representative

And as we've talked about before, we have a substantial proportion of the business -- about 60% of it -- that is on long-term contracts that have pass-through provisions that we've had a long history of being able to -- our customers hear those provisions.

Richard Kus - *Jefferies - Analyst*

OK, very good. And then on the cost reduction efforts that you guys have mentioned, what are the anticipated cash costs associated with achieving that? Do you have an estimate circled for that yet?

Unidentified Company Representative

I would say our general guidance has been kind of dollar for dollar, that, you know, in terms of the one-time costs, it's usually in that range of a dollar of cost per dollar of savings.

Richard Kus - *Jefferies - Analyst*

OK, all right. And then last one for me. As you talk about normal seasonality going into the fourth quarter, you know, would you characterize seasonality last year between 3Q and 4Q being pretty normal, excluding those one-time items that you had?

Unidentified Company Representative

We're just taking a look at something for a minute. Just give us a second here. Yeah, last year would have been a fairly normal seasonality, again, adjusting for one-timers.

Richard Kus - *Jefferies - Analyst*

All right, great, thanks very much.

Unidentified Company Representative

Thank you.

Operator

And your next question comes from the line of [Brian Lally] with Barclays. Please proceed.

Brian Lally - *Barclays - Analyst*

Hey, good morning, guys. How are you?

Unidentified Company Representative

Hi, [Brian].

Brian Lally - *Barclays - Analyst*

Most of my questions have been asked, so I'll just ask a couple housekeeping questions at the end here. Just, you know, similar to the questions around oil price movements, how do we model in the recent movements in FX? And if you could maybe lay out some of your sensitivities to that fourth quarter, first half of next year?

Unidentified Company Representative

Yeah, I think as you think about, you know, sensitivities to FX, it is -- you know, around a couple different currencies. Certainly, from a euro perspective, we've got about -- let me start, first. About half of our businesses outside the U.S., as we've talked before, so when you think of our business, about a third of it is Europe and so is -- is certainly subject to movements in the euro. And about, you know, 25% is kind of rest of world. And you should think of Brazil as a big piece of that.

And then for the half that's North American, about 40% is U.S. and the remainder is Canada. So just in terms of giving you a sense of currencies, for us, it's the euro, the Brazilian reais, and the Canadian dollar having the biggest impact.

Brian Lally - *Barclays - Analyst*

Do you feel good about sales and costs being relatively matched up? Or is this something where it didn't really (inaudible)

Unidentified Company Representative

No, I would say generally we're relatively matched up. So we don't tend to see big swings where we have a -- you know, a big cost in one region, but not matched to the revenues. I would say generally we're pretty fairly pretty well matched.

Brian Lally - *Barclays - Analyst*

OK. Obviously, CAPEX is elevated this year, and as you discussed next year. Could you just update us on -- you know, as we can maybe get past some of these plan expansions where we think CAPEX could come back down to? And I'm not -- maybe if you can give us what the maintenance level is? I'm not saying that that's where you'll necessarily be, but what do you think is the right longer-term run rate on CAPEX?

Unidentified Company Representative

Yeah, I think from a maintenance perspective, you know, we're somewhere in that, you know, 120, 125 range. So as you think of -- you know, we're upwards of 200, as I said, is our latest guidance. So we're not going to fall back to a 120 number, but, you know, we're typically running maintenance and then some level of what I'd call normal growth capital, so you're probably going to fall, you know, 25% or so in terms of back to a more normal capital level post of building these plants.

Brian Lally - *Barclays - Analyst*

OK. And then...

Unidentified Company Representative

(inaudible) you know, if we see other good growth opportunities, we'll certainly pursue those.

Brian Lally - *Barclays - Analyst*

Sure, understood. And then the last one from me. Just on the balance sheet front, as you're sitting here, you know, end of this year into next year, thinking about your bonds and where stuff is and where the market is and where you guys are positioned, how do you think about the opportunity to refinance some of your securities? And maybe how do you see the balance sheet playing out longer-term around liquidity leverage? Any comments around that would be great.

Unidentified Company Representative

Yeah, I mean, all I can tell you is we're obviously very focused on maintaining liquidity and ensuring we have more than adequate liquidity. You know, we're also focused on maintaining as an efficient balance sheet as we can. I don't want to comment any further than that in terms of any specific plans.

Brian Lally - *Barclays - Analyst*

Understood. Thanks, guys.

Unidentified Company Representative

Thank you.

Operator

[Operator Instructions] And our next question comes from the line of [Jake Kenny] with Prudential. Please proceed.

Jake Kenny - *Prudential - Analyst*

Hi, good morning. Thanks for taking the question. On the liquidity front, you know, a few weeks ago, S&P wrote a note and downgraded you, and they highlighted their concerns about liquidity. I was wondering if you guys could address their concerns and give us your view on liquidity and how you, you know, view managing liquidity as you, you know, continue to embark upon your growth projects?

Unidentified Company Representative

Yeah, I think -- certainly as I think Craig indicated, we expect liquidity to exceed $500 million by the end of the year, which we think is a -- you know, substantial liquidity for our company. We continue to manage liquidity closely, and certainly throughout '15, you know, we believe we will still be a user of cash in '15, but we think we will still have, you know, adequate liquidity, more than adequate liquidity to run the business.

So I would say that, you know, we're certainly focused on maintaining liquidity. The growth projects we've invested in we think are going to have a, you know, substantial benefit impact on the business. And we'll continue to make sure we're properly balancing staying focused on growth, but also staying very focused on having adequate liquidity.

Jake Kenny - *Prudential - Analyst*

OK. And then on the $45 million of incremental EBITDA, so it sounds like $15 million of that is going to come from Shreveport, which leaves $30 million from these other projects. I just want to be clear exactly which projects were included. Is that Geismar, Luling, and Brazil?

Unidentified Company Representative

Yes.

Unidentified Company Representative

Yeah.

Unidentified Company Representative

Yeah, so those are the three large formaldehyde projects.

Jake Kenny - *Prudential - Analyst*

OK. And what about the China JV?

Unidentified Company Representative

Yeah, I mean, I would say we certainly, you know, expect incremental EBITDA from that JV, as well. So it's not nearly as significant as the other projects we've been talking about, but that will certainly generate additional liquidity and earnings over the next couple of years.

Jake Kenny - *Prudential - Analyst*

OK. And then that $45 million run rate, when do we -- when do we hit all of that? Is that going to be like at some point in 2016 because of the timing...

Unidentified Company Representative

Yeah, it's really the -- I think first half of '16. So each of these projects are in different stages of, you know, groundbreaking/construction, but we'll have -- we believe we'll have it all complete in the first half of '16.

Jake Kenny - *Prudential - Analyst*

OK, so then just to kind of sum up, the -- you've got $30 million of in-process cost savings. You just announced another 25 to 30 and then an incremental $45 million run rate from the plant expansions that you've done. So all else being equal, there could be like $100 million incremental EBITDA, assuming no other, you know, material changes in the business.

Unidentified Company Representative

Yeah, just to clarify, we've got $45 million from the acquisition and the new plant expansions, and then we have the $25 million to $30 million of the new cost savings that we've targeted.

Jake Kenny - *Prudential - Analyst*

What about the other $30 million that's already added back in your pro forma EBITDA?

Unidentified Company Representative

Yeah, so that -- that would be -- in terms of what we're pro form -- what's in the pro forma today...

Unidentified Company Representative

Yeah, I mean, I think we just have $4 million of additional cost savings from the previous things that we've announced that are being added back. The other things are actually in our numbers now.

Jake Kenny - *Prudential - Analyst*

OK.

Unidentified Company Representative

Yeah, because the bulk of that was originally the -- many of the actions we took when we were originally putting in shared services, and I think we've previously stated we've got from the bulk of that, there are a few items we're still pursuing.

Unidentified Company Representative

Yeah, it's $4 million left.

Jake Kenny - *Prudential - Analyst*

OK. Thank you.

Unidentified Company Representative

Thank you.

Operator

And our next question comes from the line of Marianna Kushner with Nomura Asset Management. Please proceed.

Marianna Kushner - *Nomura - Analyst*

Hi, I just wanted to quickly clarify a comment about the outages. I guess when you were given guidance, you mentioned the two outages. And then as you were following up, as you were answering Roger's question -- question about basic epoxy business performance. You suggested that one of the outages started in third quarter. If that's correct, what was the impact of that outage in third quarter?

Unidentified Company Representative

Well, they really started in the fourth quarter. I mean, at the very, very end of the third quarter, so there was no substantial impact in Q3. I think in answering Roger's questions -- and maybe we didn't -- maybe to clarify that, 13 to 18 was an expected fourth quarter impact, given the two -- you know, the [AXO] and the Shell outage.

Marianna Kushner - *Nomura - Analyst*

OK.

Unidentified Company Representative

So it's really a fourth quarter and beyond set of issues.

Unidentified Company Representative

Right.

Unidentified Company Representative

Not a third quarter -- there might have been a de minimis amount, like $1 million, but it was not a driver in the third quarter.

Marianna Kushner - *Nomura - Analyst*

All right. OK, thank you.

Unidentified Company Representative

Thank you.

Operator

Ladies and gentlemen, once again, we have a question from the line of Adam Goodwin with Goldman Sachs. Please proceed.

Adam Goodwin - *Goldman Sachs - Analyst*

Hi, just had a quick follow-up. So when we think about the fourth quarter, I guess in light of the charges, some of what you're seeing on the cost side, and how the demand environment is shaping up, do you guys think that you'll be better, worse or similar than the $79 million of EBITDA that you put up last year?

Unidentified Company Representative

Yeah, we generally don't give that level of specificity on a forecast going forward. I mean, it's -- you know, we expect the normal seasonality and we expect the 13 to 18 at one-timers. But, you know, we don't generally compare versus prior.

Unidentified Company Representative

Right.

Adam Goodwin - *Goldman Sachs - Analyst*

OK. Thanks, guys.

Unidentified Company Representative

Thank you.

Unidentified Company Representative

Thank you.

Operator

Ladies and gentlemen, this concludes the question-and-answer portion of our call. I will now turn the call back to Craig Morrison for any closing comments.

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

Well, we'd like to thank everybody for participating in the call, and we'll look forward to updating you after next quarter and continuing the discussion. Thank you very much.

Operator

Thank you for your participation in today's conference. This concludes your presentation. You may all disconnect. Good day, everyone.
