Hexion Inc. (Q4 2020 Earnings)
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Corporate Speakers:

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

Participants:

- Nathan Schubert; JPMorgan Chase & Co.; Analyst
- Roger Spitz; BofA Securities, Inc.; Analyst
- Richard Kus; Jefferies Group LLC; Analyst
- Brian DiRubbio; Robert W. Baird & Co.; Analyst
- Unidentified Participant;;

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by, and welcome to the Hexion Fourth Quarter and Fiscal Year 2020 Earnings Conference Call.

(Operator Instructions)

And please be advised that today's conference is being recorded.

(Operator Instructions)

I would now like to hand the conference over to John Kompa, the IR for Hexion. Thank you. Please go ahead, sir.

(Technical Difficulty)

John Kompa^ Thank you, Apologies here. Good morning, and welcome to Hexion's Fourth Quarter and Fiscal Year 2020 Conference Call. Leading today's call will be Craig Rogerson, Chairman, President and CEO; George Knight, Executive Vice President and Chief Financial Officer; and Mark Bidstrup, Senior Vice President and Treasurer. As a reminder, this call is also being webcast, and the slides referenced in today's conference call are available through the hexion.com website under the Investor Relations section of Hexion Inc. A replay of this call will be available for 1 week, and the replay dial-in information is contained in our latest earnings release.

Before we start, I'd like to review information about forward-looking statements and the use of non-GAAP information as part of 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 measure and other associated disclosures are contained in our earnings release and on our website. Our release and filings are available on the internet hexion.com.

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

Craig Rogerson^ Thanks, John, and good morning, everyone. While 2020 was a challenging year for all of us, I'm encouraged by our strong fourth quarter results. While we remain cautiously optimistic about the potential impact of the pandemic in the coming year, the pace of recovery clearly accelerated for us in the fourth quarter. Most importantly, we continue to operate our plan safely by taking all necessary precautions as our highest priority remains the health and safety of our associates. Like to acknowledge everything that our global teams have done this year to keep the focus on safety and serving our customers despite such a challenging backdrop. I really proud of our associates who continue to demonstrate the resilience and dedication. Regardless of the pandemic, we remain focused on creating value for our shareholders in the coming year.

Turning to our results and our financial statements reflect our pending transaction, assets and liabilities for the transaction of its segregated balance sheet as assets held for sale. Our results from operations and cash flows have been differentiated between continuing and discontinued operations. Similar to last quarter, all the results presented today and in the future will be prepared on a continuing operations basis.

Fourth quarter sales totaled $655 million, reflecting volumes gained in both segments, partially offset by the pass-through of raw material price declines. Segment EBITDA from continuing operations jumped by 40% to $74 million compared to $53 million in the prior year. Our resilient portfolio continues to steadily recover in several key markets offsetting the impact of the coronavirus pandemic that began in mid-March. In fact, most recently completed was our best fourth quarter in the last 7 years as we continue to maintain a lean cost structure while still making targeted investments in the businesses.

We also saw EBITDA exceed both the prior year and pre-pandemic levels each month in the fourth quarter. Our fourth quarter 2020 segment EBITDA margin from continuing operations also improved by 290 basis points versus the prior year. Strong free cash flow in the fourth quarter strengthened our overall liquidity. Several key end markets, housing and wind energy, in particular, were strong through year-end, we believe we have solid momentum heading into 2021.

Let's turn to Slide 5 and our full 2020 -- full year 2020 results. We clearly finished the year on a high note, but couldn't fully overcome the second quarter 2020 trough due to the negative impact of the pandemic. 2020 sales totaled approximately $2.5 billion, reflecting softer volumes in the pass-through of raw material price declines, while segment EBITDA for continuing operations declined by 14% compared to the prior year. Prior year period also included $18 million of segment EBITDA related to deferred revenue that was accelerated last year as part of fresh start accounting. If excluding the fresh start accounting, fiscal year 2020 segment EBITDA declined by 9% versus '19.

The sale of our Phenolic Specialty Resin hexamine European base for products resins business remains on track. We continue to steadily work through the various governmental reviews and expect the transaction to close by the end of this month as we complete a short list of government reviews at this point. Despite softer overall earnings in 2020, we demonstrated strength through the cycle and generated $92 million of free cash flow in the second half of the year, and positive free cash flow for the full year 2020. Our balance sheet remains strong, and liquidity totaled $560 million in year-end.

Now turning to Slide 6. As I mentioned, we're in the process of completing the sale of our Phenolic Specialty Resin hexamine and European-based Forest Products Resins businesses for approximately $425 million to Black Diamond and Investindustrial. Purchase price includes cash consideration of $305 million. Upon closing, we certainly wish the associates that are part of the transaction continued success.

In addition to improving our financial flexibility and liquidity, we believe the transaction will provide a number of benefits, including a greener portfolio, as we'll have a greater percentage of our revenue now aligned with wind energy and lightweighting and the residential construction mega trend. A geographic balance shifts slightly with greater exposure to North America, which favors our less cyclical adhesive segment and margin improvement through the cycle, as we would expect our EBITDA margins to improve by 40 to 70 basis points in a typical year.

Slide 7. Over the next 2 slides, I've highlighted just a few reasons why I'm extremely optimistic about our business prospects in 2021. Starting with our Adhesives business, the latest housing report showed that starts are finally eclipsing the historical 30-year average, and the building industry appears poised for a strong in 2021. Single-family starts totaled approximately 991,000 homes in 2020, the highest since 2007. Coupled with growth from repair and remodeling demand, our plants ran hard through year-end and continue to operate at a high rate in early 2021.

We're also encouraged by the opportunities for new applications, such as cross-laminated timber and the potential growth in commercial building applications where our resins provide a sustainable benefit compared to the energy used with steel and concrete construction.

While North America accounts for the majority of our volumes and EBITDA in this segment, we're also encouraged by the improving demand we saw in Brazil in the second half of 2020 and the positive outlook as we enter 2021. As previously announced, we've resumed full operations in our Montenegro operations in the first quarter to meet customer demand, and we remain committed to this important market.

To set the stage for future growth, we'll continue to strategically invest in new products in key regions. Our new ArmorBuilt fire resistant wrap, which greatly improves fire protection when applied to a substrate-like utility has been extremely well received by the market. After beginning production, our first automated line is coming online this month, and we expect ArmorBuilt to be a solid contributor to this year's earnings. To meet demand, we've also announced an additional expansion of our Portland site that should begin operations later this year.

We continue our Brimbank, Australia, expansion developed Bio resistant cladding materials which have come online in the first or second quarter of 2022. 2020 also saw us begin extensive conversions with several major customers surrounding our next-generation of phenol formaldehyde technology board surface applications. We expect additional core applications in 2021 as productivity gains, which delivered greater throughput to work producers and further reduction in resin usage positions our products favorably compared to PMDI.

Now let's turn to Slide 8. In our Coatings & Composites segment, shifting customer preferences for products with more sustainable attributes by driving the need for lighter, stronger and higher performance materials. This benefits our wind energy, various coatings and auto composites applications. For example, we continue to see positive demand in our wind energy business and the multiyear outlook for global installations remains very positive. We also continue to see customers shift from Solvent borne products to water board coatings with lower VOC emissions.

Our Epoxy and Phenolic resin systems are designed to meet industry like needs for lightweight composites to deliver benefits such as Class A finish, durability and cost-efficient processor. We also expect the growing trend toward electric vehicles to support demand for a battery box cover solutions, which deliver lightweight material solutions that help with heat management. In addition, we continue to focus on developing additional composite resin systems with low fire, smoke and toxicity properties for a variety of applications.

Finally, with households growing globally due to population growth, our VeoVa technology is used in high-quality, low VOC paints and industrial coatings while enhancing the executor of paints aesthetics and durability.

Turning to Slide 9. This said opening the call, our global teams are committed to driving shareholder value. As we begin the new year, I've outlined our key '21 priorities. First, we hit the ground running in 2021, and the year is off to a solid start. We look to leverage our second half 2020 momentum and drive top line and earnings growth in the coming year. Key to these efforts is our lean cost structure. We continue to keep a close eye on SG&A and expect our recent partnership with Capgemini to yield best-in-class technology and process expertise as well as ongoing cost savings. At year-end, only about $6 million of cost savings remain from the less 2 significant restructuring programs that totaled about $60 million.

We are also focused on continuing to drive significant cash flow from operations. Again, this year, we expect to leverage high targeted growth CapEx, including self-help productivity investments and new product development initiatives to drive margin improvement. We're committed to maintaining our disciplined approach to capital allocation with a priority and net debt reduction, which would include proceeds from the pending sale. We continue to target a net debt-to-EBITDA ratio of less than 3x. Finally, we'll look to maximize long-term shareholder value through a variety of strategic actions, including potential bolt-on and/or more transformational transactions, debt reduction and potential opportunistic open market share repurchases during the coming year.

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

George Knight^ Thank you, Craig. Before turning to our segment results, I wanted to highlight the impact of our pending transactions on our financial statements. As Craig mentioned, all of our results presented today and in the future, continue to be prepared on a continuing operations basis. Please see the addendum for additional financial schedules related to discontinued operations. We also filed a Form 8-K in early December that contained additional historical financial results for our continuing operates.

Turning to the next page. In our Adhesives segment, fourth quarter 2020 revenue totaled $314 million, a 5% decrease from the prior year, reflecting volume gains of 2% offset by negative price/mix of 3% and currency headwinds of 4%. Segment EBITDA improved by 2% compared to the prior year, reflecting positive demand in North American residential construction and repair and remodeling markets, as well as gains in global business.

Turning to the next slide. In our Coatings & Composites segment, fourth quarter 2020 revenue increased by [10%] to $341 million which reflected volume gains of 19%, positive foreign currency translation of 2% and negative price/mix of 7%. Segment EBITDA more than doubled in the fourth quarter, reflecting volume increases broadly across all our business units. We saw strong demand from China wind energy, which supported our Specialty Epoxy business as well as strength in architectural coatings and recovering automotive demand driving higher Versatic Acids and Derivatives volumes. We were also pleased to see improvement in our base epoxy earnings. EBITDA margins also increased sharply and rose by 520 basis points year-over-year.

Turning to the next slide. Our healthy balance sheet at year-end reflected strong liquidity levels of $561 million. Even with the decline in segment EBITDA this year, we continue to demonstrate a strong free cash flow profile. We drove cash from operating activities for our continuing operations of $116 million in full year 2020. Net working capital primarily improved driven by improvement in terms.

We plan to expand our investments in productivity and growth capital expenditures to drive free cash flow and future EBITDA growth in 2021 and longer term. In the coming year, we expect to invest approximately $120 million to $140 million in capital expenditures. We estimate that our annual maintenance and EH&S CapEx remains in the range of $70 million to $80 million per year, with the balance being targeted for growth. We also expect annual interest costs to range between $85 million to $95 million and cash taxes of $20 million to $30 million.

We continue to focus on optimizing working capital, while rebuilding inventory as demand recovers. We also expect to be free cash flow positive in 2021. Finally, we continue to benefit from a long-dated maturity schedule.

I'll now turn the call back to Craig.

Craig Rogerson^ Thanks, George. We continue to align our priority for our long-term strategy. Starting with our associate safety, taking all the appropriate (technical difficulty) that has enabled us to run a manufacturing site without interruption. The same attention to detail to all of our strongest environmental health and safety performance in the company's history for 2020. We continually encourage our global team to adopt a 24/7 approach of safety of work and at home.

Despite the pandemic, we demonstrated our instill managed to generate cash from operations for our continuing operations of $116 million. We're also pleased to announce our sustainability goals in 2020 and to normalize many aspects of our integrated approach to safety, operations and new product development. We expect these metrics to serve as a valuable framework for future growth that is aligned with where our customers are and where society is headed.

Finally, we continue to be good neighbors in the communities where we live and where we work as part of our commitment to responsible chemistry. In closing, with strong momentum heading into 2021 and we remain focused on driving year-over-year earnings growth and generating stakeholder value through opportunistic share repurchases and by reducing debt.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

And your first question comes from the line of Nathan Schubert of JPMorgan.

Nathan Schubert^ So my first question is on the 2021 CapEx budget of $120 million to $140 million. It seems like there's a big chunk of growth CapEx in there. Can you talk about which areas of the business you plan to invest in? And then how much contribution you expect from these investments? And over what time period?

Craig Rogerson^ Let me start that (technical difficulty). There are really 2 basic -- on the growth side, 2 basic focuses relative to expenditures in 2021. it's the Brimbank, Australia plant that I mentioned that could produce the cladding material or the resin basically goes into a planting material player like safety applications in Australia and New Zealand. That's around $20 million of it.

And we're also investing, as I mentioned, in the ArmorBuilt production in our Oregon site. We started one of those automated lines up already in the first quarter. We'll start the second one at least the plan is before the end of the year. That's another chunk of investment. Well, a little well less than $10 million on that.

The other big piece is on these self-help projects that we mentioned, these projects that we can implement at a very little downside risk, not very little commercial risk basically efficiency projects, automation projects, those type of things that will certainly add to our bottom line without gout that commercial impact. The majorities projects, the ArmorBuilt projects have payback periods that are very quick, less than 2 years, certainly, in the 18 months in some cases.

The project in Australia is a little longer, more in the range of the typical per capital projects of 3 to 5 years. But because of the demand we have and the arrangements we have relative to purchase agreements already, the commercial risk is very low. So again, we view that, that project is a very high-return project with IRRs approaching 20%, even though the payback period is more like 5 years relative to very quick projects like the ArmorBuilt that are less than 2. Productivity projects, the self-held projects are usually in the range of 2- to 3-year paybacks as well.

Nathan Schubert^ And then my next question is on the M&A commentary that you offered. I think this is the first time I've heard you guys mention transformational M&A. Can you talk about what your thoughts are there? And which areas of the business or what you would look to do in terms of transformational M&A, something complementary relative to maybe 1 or 2 of the businesses? Why don't you just talk about a little bit about that.

Craig Rogerson^ Yes. I mean I think if you look at the portfolio as it stands post the closing of the sale of the PSR business. It's from a scale perspective. I think -- and from the businesses that we have, I don't think there's a lot of root for the divestiture approach relative to portfolio optimization anymore. I think the fully integrated Epoxy business has got value relative to all the pieces, the base Epoxy resonant and the specialty. And on the adhesive side, the formaldehyde, the merchant Formaldehyde business, even more importantly, the global resins business are critical to our long-term growth in our future plans. So I'd say both of those businesses as we currently sit are key.

When we look at more transformational transactions, I would say we'd probably lend 10 more to the adhesive side and more in adjacent spaces. One of the reasons we redefined the segments as coatings and composites and adhesives, is because it basically opens up the opportunities. It broadens the pool of potential opportunities where we can play and utilize our technology and leverage our market access in, for instance, other areas of adhesives beyond just the force products of building and construction areas. And we're looking at those things.

And if we got bigger, there'll be opportunities, again, to look at the portfolio and rightsize it and look at specific pieces. But until we get bigger, I don't think there's a lot of honor the divestiture piece of the current portfolio. And that's what we're looking at. It could be things like mergers of equals, it could be acquisitions. So we're very careful about the balance sheet because we spent a lot of time in that restructuring process, getting it to where it's a solid balance sheet.

And as I mentioned in my remarks, our goal is to get the debt-to-EBITDA ratio down to 3 or lower. So we'll be very cautious around using our balance sheet for any major acquisition. But we think there are things out there that makes sense, and we've got certainly post PSR a lot of interest in looking at us as a potential partner for some of these more transformational transaction.

Operator^ Your next question comes from the line of Roger Spitz of Bank of America.

Roger Spitz^ Can you discuss the furnish BPA outage, what's driving that? And what is your anticipated Q1 '21 EBITDA impact from both the furnish outage as well as the Deer Park BPA outage? I think we just saw 1 of the consultants suggest that, I think, this morning that you might be up for another 4 weeks before you restart up your part if your information is correct or not?

Craig Rogerson^ The furnish operation was impacted by a turnaround -- lay in the turnaround late last year. And then we were back up and running, and then we had the problem with the very cold weather up in Northern Europe that causes another downturn. We are back up and running, trying to rebuild our safety stocks and our inventory, so that operation is running, again, not back to normal until we get inventory levels where we can meet all of our requirements, but it is up and running.

Deer Park specifically was impacted heavily. Like a lot of the companies down in the Gulf, we were impacted during the winter storms. The storms lasted a week, the impact a lot longer than that. Affected infrastructure on these major sites that we're operating on. And so access to utilities, whether it's water or steam or industrial gases and a number of things were restricted and then getting raw materials, just through the supply chain was also an issue.

The report that you alluded to, that we could be at another 4 weeks, I certainly hope is incorrect. That's not our expectation. We hope we'll be up and running sooner than that.

It's a challenge as we fire fight, use that term, not literally, but figuratively. The issues that came up as things thought out. And as we ran through our checklist, we found some very pleasant surprises and speeded up and some others that slowed us down. And so it changes every day. But yes, from -- as we sit here today, back up and running, again, up and running versus up and running 100% and smoothly.

It's a little bit different thing, but I would expect this to be up and running certainly before 4 weeks from now, presuming what we know now is what we're going to know tomorrow. But it has been a challenge certainly. And had a lot of discussions with a lot of customers and suppliers around this, and it's a difficult time, but we're doing -- certainly doing all we can to start to safely start those facilities back up and are making a lot of good progress, in Deer Park, as I mentioned at -- where knock would have the issues behind us.

Roger Spitz^ Any thoughts about a -- combined?

Craig Rogerson^ Yes, relative to the impact, yes. The impact has been significant. Fortunately, in January and February -- February, would have been the first month affected by the weather. We still had a good month. We were able to ship some inventory and so the volumes weren't off significantly. We'll see some significant effects in March. We do have insurance. We're still having discussions with our insurance. We do have a deductible. So there'll be clearly that we have to cover first. But we -- as we sit here now, we would expect to be well over that deductible level.

So we'd hope and expect that the insurance would cover that difference. But it will have an impact. We still expect to have a very strong first quarter in spite of all of this. But clearly, it will have a significant impact in more so on the minute monetary side, we take pride in the fact that we consistently and reliably supply through our network, all of our customers is one of the strong sets of Hexion having multiple locations, the fact that we had this winter effect both in Northern Europe and then in the Gulf Coast within weeks of each other, really put a strain on that. And that's my bigger concern, even more so relative to the financial impact in the quarter.

Operator^ Your next question comes from the line of Richard Kus of Jefferies.

Richard Kus^ So first one, just to follow-up on Roger's question. In Q4, how much outage cost did you end up taking into the numbers?

George Knight^ $7 million.

Richard Kus^ $7 million. Okay. And then as you guys think and talk about transformational M&A, and certainly, I fully appreciate the comments on the balance sheet and wanting to be careful there and what your free time's target is, but how high might you be willing to take leverage for the right transaction?

Craig Rogerson^ Yes, that's a good question. We've been very, very high. We came out of the restructuring at about 4x, and had gotten that down and then with the effective Q2 on EBITDA last year that went up closer to 4. Again, we expect it to be just naturally down to 3.5 or so by the end of the year. We got much over 4. If you had synergies, then you could see very clearly that would drive you back down below 4 towards 3.5 to 3. I think that would be okay. But to leverage up significantly above that. I think with our recent history would certainly cause me concern. And George and Mark, both on, you guys can comment well so.

George Knight^ No, I think the ranges you set out there, Craig, we're aligned with us.

Richard Kus^ Got it. So 3.5x, including good line of sight to whatever the synergies are?

Craig Rogerson^ Well, I think you can get to 4x a clear line of sight that gets you to 3.5 and then naturally down to 3 in a reasonable period of time would be okay, if it had good strategic an industrial logic to the deal. But I wouldn't want to go up to 4.5 or 5x and then hope that over the next 3 years, we grow enough to get it back down. We've been -- we played that target ready. We don't want to do that again.

Richard Kus^ Got you. Understood. I appreciate that. And then maybe lastly for me. Obviously, it's been a big topic of conversation, all of the input cost inflation that we're seeing and certainly with everything going on down in the Gulf Coast, which you already just talked about, there's problems getting raw materials. So as you look at the input cost inflation and the impact on your business in Q1 and then maybe into Q2, can you talk a little bit about how you expect that to impact margins? And how you think margins, particularly on the epoxy side, end up responding in this environment, those higher raw material costs you're seeing?

Craig Rogerson^ George, do you want to take that one?

George Knight^ Yes. Let me start on that one, Craig. Yes. I think as far as the input cost as you look across our portfolio, about 60% of our volume, we've got contracts where we can contractually pass through a material price changes to our customers. So -- while it will have an initial small impact before we could pass them on, we believe that we'll be able to recover over time, any cost increases related to raw materials.

Specifically related to our Coatings & Composites and Epoxy business, I think one of the things we started to see at the end of the fourth quarter it's reflected in our margins is some of the tightness on some of the base Epoxy market we were able to increase and capture additional margin there, that tightness has continued through the first quarter. And with some of these unfortunate events, related to the weather for Hexion and for some of our competitors, I think, at least in the near term, we're going to see continued tightness in those markets.

Operator^ Your next question comes from the line of Brian DiRubbio of Baird.

Brian DiRubbio^ Maybe just starting with Capgemini. Can you help us get a sense of when we're going to start seeing some of the peak benefits from that work you're doing with them?

Craig Rogerson^ The biggest benefit relative to the tools and the processes that we get from the deal. We certainly looked at this as some of the justification was cost reduction, and we'll see that. We are seeing that this year, and it will be in the range of, I don't know, George, $7 million to $10 million or so. But the big benefit of the tools is, yes. We couldn't afford to implement those tools on our own and keep them updated more specifically. And so the tools around contract management, some tools around procurement, certainly, tools around IT and IT Security.

And then also some of the back office step in the finance group are the tools that are going to really help us and help us to be more efficient and effective as we go forward. So that's the critical part. And I hope we see more of that a little hard to carve-out and isolate to show you specifically. But the way we do business and the way that we variabilize costs when we do things like the PSR sale and be able to ramp those costs down or we get bigger through some kind of an acquisition or merger or something, be able to ramp those up quickly, will having to have them on staff prior is the real benefit.

But it's in the range of $6 million to $10 million this year, and there should be another chunk as we go forward. And some of these things build on themselves. So it will accumulate to a range of more like $15 million, $15 million to $20 million over the next couple of years. But $6 million to $10 million in 2021, as I recall. Again, George, you can correct me on those numbers, that range.

George Knight^ Yes, that's correct.

Brian DiRubbio^ Great. That's helpful. And then as we think about the proceeds you're going to get, have you determined how much you're going to pay down debt and how much you're going to set aside for CapEx or investment assets?

Craig Rogerson^ George?

George Knight^ Yes. Initially, we're looking in the 50% range of the proceeds to pay down debt. And then we'll look at investment back in the business as well as additional paydown of debt as the year progresses.

Brian DiRubbio^ Great, great. And then as we think about cash flow for 2021, were there any benefits that you got from the CARES Act last year that are going to start reversing this year?

George Knight^ Pretty minimal. We were able to defer some taxes like in the $1 million to $2 million range that from a timing standpoint. I think $1 million hits in 2021 and $1 million in 2022.

Brian DiRubbio^ Okay. So that material. And then finally, just a concern that's coming up with a number of calls of mine. Insurance costs, are you getting any indication? Are you seeing your insurance costs increasing already or any indication that could be a headwind at some point in 2021?

George Knight^ Yes. No. We definitely saw that. Our insurance year runs from July 1 to June 30. So when we went through the renewal in July of this year, we saw approximately 30% increase in premiums related to property and business interruption. So yes, I mean that's something we dealt with this year, and we expect that to be challenging, too, going forward.

Operator^ Your next question is from the line of Roger Spitz of Bank of America.

Roger Spitz^ I don't think I saw it. So for both segments, Adhesives and Coatings & Composites, what was the volume percent increase for the full year, of course, on a pro forma basis, you have that ...

George Knight^ I'm sorry, Roger. Can you repeat the question?

Roger Spitz^ Sure. What was the pro forma 2020 volume increase for Adhesives and the 2020 volume increase for Coatings & Composites on a pro forma basis?

Craig Rogerson^ Yes. So for Coatings & Composites, the volume improved by 4% for the full year. And then for Adhesives, the volumes were down 10.8%. And that was really the impact of the second quarter there related to the pandemic. We did see an impact to -- from that and our Coatings & Composites, but it was more than offset by the strong volume year we had in wind energy and our Versatic business.

Roger Spitz^ Got it. And in North America, say, for 2019, i.e., before the later in 2020, shortage in PMDI for What was the North American OSB split in use of phenolic resin versus PMDI, if you have that?

George Knight^ Yes. No, I don't have the exact percentages but I think as you think about PMDI, that was extensively used in the core. And more the Phenolic Resins on the surfaces there. And that hasn't changed substantially in the last couple of years.

Craig Rogerson^ So while we so, Roger, what we've seen and what I was referring to relative to these extended trials and conversions due to the shortfall was -- there was -- there has been some PMDI used in the face sheet as well. And that was the easier conversion back to the Phenolic Resins because a lot of the market had been that way. The big challenge will be to be able to maintain -- has been the main table, the speed of the Board machines and the efficiency of those machines because there's more water involved the drying is tougher using our technology.

The new technology resolves a lot of those issues in the core. So the fact you could use Phenolic Resins in the court and be close to or at the same efficiency that you had with

PMDI is where we're trying to prove in these trials and have proven in these trials. So a real opportunity for us due to the shortfall a shortage of PMDI to get into these and have extended trials and get those proof points. So those basically testimonials that the product works, and we're seeing continued use of that product as we sit here today, in those applications, core applications that had not been in decades. So for us, it's a real potential for us going forward, and we're optimistic about that.

Roger Spitz^ Got it. And to the extent you want to disclose it for 2020 for Coatings & Composites, was there any sense of the 2020 split in either sales or EBITDA now between base Epoxy, Specialty Epoxies or Versatics and derivates, the 3 key businesses. Anything you can tell us about that?

Craig Rogerson^ Versatic business, yes. I would say Versatic will be continue to be strong this year. We had a very good year. There will be some pressure on it because of increases in raw material costs like -- but it will be a strong year. Specialty Epoxy will be, again, a solid year this year. It was very good last year, driven by the member in China primarily as the big driver. The other portion of the business did well, but the wind in China was a big driver.

That won't be quite as strong this year is our expectation because a lot of the incentives came off at the end of the year, especially for onshore wind, there's still some incentives in place for offshore wind that we're involved with in China. But we are seeing continued growth in Europe and Latin America and certainly in North America and wind. So we'll see some growth in specialty Epoxies. Base Epoxy should see the biggest growth in both -- especially in bottom line. We started to see some improvement in margin, from very poor levels.

That business is cyclical, as we talk about, and has been in a down cycle after being at a high point in '18 was down in '19 and because the pandemic stayed relatively flatly most of '20, but starting to pick up on the margin side and the profitability late in the year. And we've seen that continue into the first part of 2021. The question is, how long does that stay, in this business in a cyclical marketplace, it's hard to get visibility much past the middle of the year. So we're pretty optimistic by the first part of the year.

Again, unfortunately, we had these weather issues, which cause uses with volume. But again, we still think we'll have a good first half of the year. And there's a question what second half of the year looks like. But I would say there's an expectation certainly that 2021, the base epoxy of the business will be more profitable than it was in 2020.

Roger Spitz^ Is it fair to say that in Europe, that Base Epoxies benefited from some combination of a rebound in demand, but as well, perhaps less import pressure from China?

Craig Rogerson^ Yes. The China demand has increased. That's exactly right. That's always been the key Asia demand and the flow is depending on the demand there. When we saw the real fall up in automotive and electronics in 2019. In China, a lot of the Asian product that are moving into China, moved to Europe and into the U.S., and you see the whole movement that way. When the demand picked up again in China, and then there's been some supply issues as well. You see more imports into China, and so that drives up some of the demand -- or some of the shipments that go into the West. And so you see margins move. Clearly, both of those things, the improvement in the global demand, but especially in Asia and then some of the tightness in supply has caused what we see now with this uptick in the cycle.

Roger Spitz^ And just last one is prices for all 3 base epoxies have -- I noticed have been spiking in Europe. It's less clear to me in North America. Can you comment on how North American and BPA have been moving? Are they moving as much as they have in Europe or just moving up and ...

Craig Rogerson^ Yes, they're moving up and not as much in Europe and you even see more of the spikes in Asia than you do in Europe, up and down, but the high point of the spikes are even higher in Asia. So yes, I would say you got the order right, Asia, Europe and then the U.S., but all of them are moving up, or have moving up.

Operator^ Your next question comes from the line of (inaudible).

Unidentified Participant^ Sorry, just wanted to clarify the comment about $7 million of outage costs in the fourth quarter. That's what essentially depressed EBITDA, it's not an add-back to get to the $74 million of EBITDA. Is that correct?

Craig Rogerson^ Correct.

George Knight^ That's correct. Depressed the EBITDA.

Operator^ (Operator Instructions)

And your next question comes from the line of Brian DiRubbio of Baird.

Brian DiRubbio^ Just 2 quick follow-ups. Am I seeing this right you guys repurchased $3 million worth of shares last quarter?

Craig Rogerson^ George or Mark?

George Knight^ Can I answer that? No, that's correct.

Brian DiRubbio^ Okay. Got it. Okay. Now I just want to make sure I was correct on reading that. And then just on the OSB business here in North America. Craig, you had in the past some of your customers shutter some of their OSB plants because of lack of demand. Have you seen any of those plants come back online or hear any indication about those plants coming back online given the renewed demand?

Craig Rogerson^ I can't answer specifically, just because I don't know. But yes, we have heard of this -- specifically the answer to your question, have they come up back online. I don't know the answer to that specifically yet, but have they announced or have they given us indications they are going to, yes. Some of them are and there's other new production going to come on as we get into '22. But the lines that are running, as you can imagine, are running very hard. And yes, some of those that were temporarily bought fall or so we should be starting back up. I just don't know if they have yet.

Brian DiRubbio^ Got it. And the restarts, obviously, those would be quicker. That be, what, probably second half '21 event?

Craig Rogerson^ Yes, our second quarter in that quickly. We've been in the peg of the building season in the second quarter. So this start-up, you think they would start-up in the second quarter and then take full advantage of the season. But again, I don't know where they are specific, but you can find that out, but I'd have to answer that.

Operator^ And there are no further questions at this time. I'll now turn the call back over to Mr. Craig Rogerson.

Craig Rogerson^ Yes, I'm going to thank all of you for joining us on the call today. As I said a couple of times during the discussion here in remarks -- in my remarks, 2021, it started off very strong. I think you've heard that on a lot of calls from a lot of chemical companies, and it's nice to have a little bit of a tailwind as we enter the year and saw that momentum developed in the fourth quarter of last year.

So hopefully, that continues. Again, we'll try to offset these issues that we've seen with weather. And again, as I mentioned, this financial impacts are more important from my perspective, kind of reputational impacts as we really stand on our reputation of being -- buyers, and this has caused us some challenges in that area, but we're working through those as best as we can. And we look forward to updating you again on the first quarter and our call in May. So thank you very much.

Operator^ And ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.