



# Momentive Specialty Chemicals Inc.

**Second Quarter 2014  
Earnings Conference Call**

August 13, 2014

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# Forward-Looking Statements

Momentive Specialty Chemicals Inc. (MSC)

Certain statements in this presentation are forward-looking statements within the meaning of and made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, our management may from time to time make oral forward-looking statements. All statements, other than statements of historical facts, are forward-looking statements. Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “project,” “plan,” “estimate,” “may,” “will,” “could,” “should,” “seek” or “intend” and similar expressions. Forward-looking statements reflect our current expectations and assumptions regarding our business, the economy and other future events and conditions and are based on currently available financial, economic and competitive data and our current business plans. Actual results could vary materially depending on risks and uncertainties that may affect our operations, markets, services, prices and other factors as discussed in the Risk Factors section of our filings with the Securities and Exchange Commission (the “SEC”). While we believe our assumptions are reasonable, we caution you against relying on any forward-looking statements as it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, a weakening of global economic and financial conditions, interruptions in the supply of or increased cost of raw materials, the loss of or difficulties with the further realization of cost savings in connection with our strategic initiatives, including transactions with our affiliate, Momentive Performance Materials Inc., the impact of our substantial indebtedness, our failure to comply with financial covenants under our credit facilities or other debt, pricing actions by our competitors that could affect our operating margins, changes in governmental regulations and related compliance and litigation costs, and the other factors listed in the Risk Factors section of our SEC filings. All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The forward-looking statements made by us speak only as of the date on which they are made. Factors or events that could cause our actual results to differ may emerge from time to time. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

**This presentation contains non-GAAP financial information. Reconciliation to GAAP is included at the end of the presentation.**



# Momentive Specialty Chemicals Inc. (MSC)

Overview of Second Quarter 2014 Results

**Craig O. Morrison**

Chairman, President & Chief Executive Officer

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## Second Quarter 2014 Results

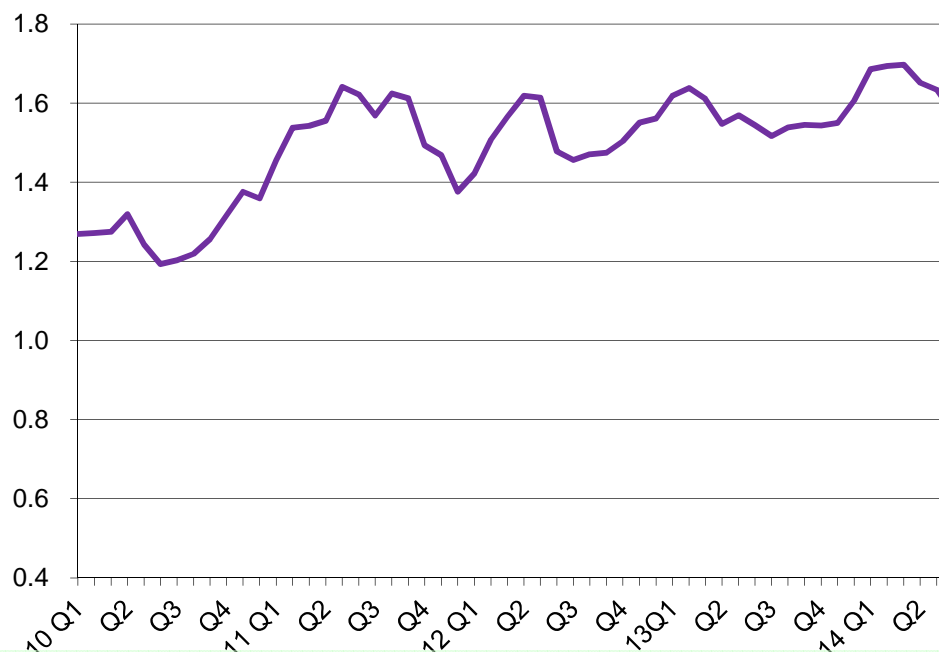
	Quarter Ended June 30		
(\$ in millions)	2014	2013	Δ
<b>Revenue</b>	<b>\$1,337</b>	<b>\$1,250</b>	<b>7%</b>
<b>Segment EBITDA <sup>(1)</sup></b>	<b>120</b>	<b>118</b>	<b>2%</b>

- Total revenues increased 7% to \$1.34 billion in 2Q'14
- Total Segment EBITDA<sup>(1)</sup> increased 2% to \$120 million
  - Forest Products Segment EBITDA increased 10% reflecting year-over-year gains in N. America resins and formaldehyde as well as improved performance in Europe as a result of productivity initiatives
  - Epoxy, Phenolic and Coatings Resins (EPCR) Segment EBITDA declined slightly year-over-year despite the specialty portion of the portfolio performing well
    - Results reflected favorable specialty epoxy resin demand from improving Asian wind energy markets; ongoing momentum in oilfield, and improved Versatic Acids™ and Derivatives results
    - These gains were offset by softer results in MSC's dispersions business in Europe and continued cyclicity in base epoxies

(1) Segment EBITDA is a non-GAAP financial measure. The closest GAAP financial measure is Net Income (Loss). A table that reconciles Segment EBITDA is at the end of this presentation. Segment EBITDA is defined as EBITDA (earnings before interest, income taxes, depreciation and amortization) adjusted for certain non-cash and other income and expenses. Segment EBITDA is the primary performance measure used by the Company's senior management, the chief operating decision-maker and the board of directors to evaluate operating results and allocate capital resources among segments.

# Overview of Raw Materials Environment

Global Raw Materials Cost Index



Source: Includes content supplied by IHS Chemical, Copyright © IHS Chemical 2013; ICIS, Copyright © ICIS 2013. All rights reserved -Also includes Momentive acquisition prices

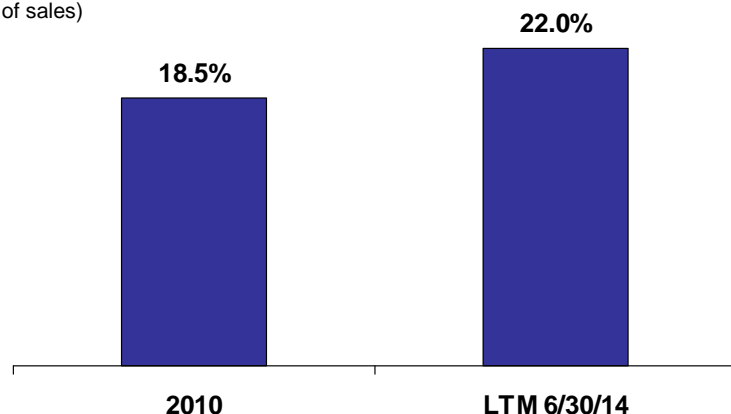
## Summary

- Q2'14 raw material pricing declined modestly from Q1'14
- Key YoY raw material input costs remain individually mixed
  - Phenol ↓ (1%); Methanol ↑ 16% ; Urea ↓ (3)%
- Remain focused on pricing to combat raw material volatility experienced in July '14 for certain key raw materials and continuing to effectively manage input costs

# New Product Development Driving Specialty Products Portfolio

## New Product Development

(% of sales)



### Enhancing our Portfolio through NPD Gains

- MSC continues to focus on driving innovative products
  - New products developed during the last five years total 22% of revenue as of LTM 6/30/14
- NPD growth supported by steady R&D investment and key global innovation centers
  - N. America: Houston, TX and Springfield, OR
  - Europe: Duisberg, Germany; and Pernis, NL
  - Asia Pacific: Shanghai, China

## High Growth Applications

- Investments geared toward high-margin specialty products, such as specialty epoxy resins and oilfield proppants:



### Wind Energy

- Leveraging global leadership position in wind energy to meet growing demand and rebounding Asia Pacific market
- NPD efforts geared toward developing products with faster curing times and light weight composite solutions that provide strength for longer turbine blades



### Oilfield Proppants

- Long-term demand for energy supports growth
- Horizontal drilling and shale boom – exponential volume impact
- Strong NPD track record, such as OilPlus™, a curable resin technology for oil and liquid-rich reservoirs

**STEADY R&D AND INFRASTRUCTURE INVESTMENTS POSITION MSC FOR GROWTH**



# Momentive Specialty Chemicals Inc.

## Financial Review

**William H. Carter**

Executive Vice President & Chief Financial Officer

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# Epoxy, Phenolic and Coating Resins

## Second Quarter 2014 Segment Results

(\$ in millions)	Quarter Ended June 30		
	2013	2014	Δ
Revenue	\$ 799	\$ 862	8%
Segment EBITDA <sup>(1)</sup>	73	72	(1)%
Segment EBITDA Margin	9.1%	8.5%	(60)bps

2Q'14 Sales Comparison YoY			
Volume	Price/Mix	Currency Translation	Total
9%	(3)%	2%	8%

### Summary

- Sales increased across all product lines, except base epoxy resins due to continued cyclicalty
- Portfolio is delivering mixed results:
  - Specialty epoxy resin business increased significantly year-over-year due to strengthening demand in the wind energy market
  - Oilfield proppants continued to deliver strong year-over-year performance driven by new product development and market share gains
  - Shreveport oilfield acquisition continues to perform well
  - Cyclicalty in base epoxy resins and soft results in European dispersions business

(1) Segment EBITDA excludes in-process synergies. Segment EBITDA is defined as EBITDA adjusted to exclude certain non-cash and non-recurring expenses. Segment EBITDA is an important measure used by the Company's senior management and board of directors to evaluate operating results and allocate capital resources among segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation goals. Corporate and Other primarily represents certain corporate, general and administrative expenses that are not allocated to the segments. Segment EBITDA is defined and reconciled to Net Income later in this presentation



# Forest Products Resins Second Quarter 2014 Segment Results



(\$ in millions)	Quarter Ended June 30		
	2013	2014	Δ
Revenue	\$ 451	\$ 475	5%
Segment EBITDA	59	65	10%
Segment EBITDA Margin	13.1%	13.7%	60bps

2Q'14 Sales Comparison YoY			
Volume	Price/Mix	Currency Translation	Total
1%	6%	(2)%	5%

## Summary

- Sales increase primarily reflects strong N. America formaldehyde demand
- Segment EBITDA gains reflect year-over-year gains in N. American resins and formaldehyde, as well as continued positive results from our streamlined European operations
- EBITDA margin continues to improve reflecting positive product mix and ongoing cost control initiatives

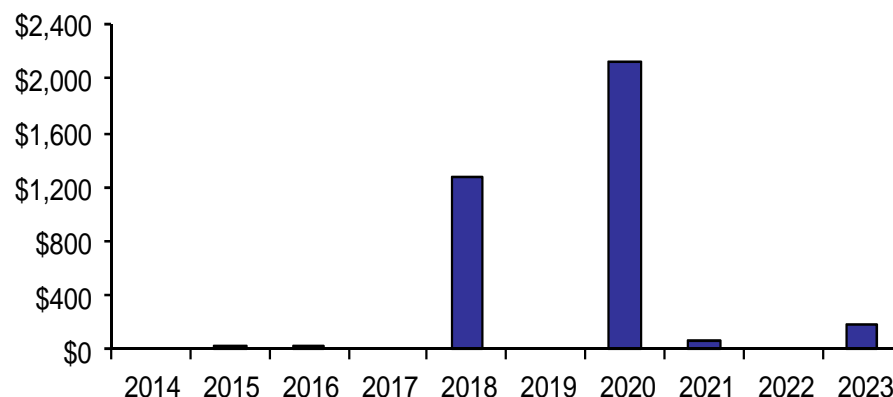
# Balance Sheet Update & Financial Summary

## Summary

- Substantial liquidity: cash plus borrowing availability of \$466 million at June 30, 2014
- YTD'14 capital expenditures of \$78 million
  - Expect capital expenditures of \$185 million to \$210 million in FY'14 to support site expansions <sup>(1)</sup>
- Continued focus on working capital management
  - As anticipated, 2Q'14 increase reflects higher volumes from improving demand and seasonality
  - For FY'14, expect only a modest increase in NWC compared to FY'13

## Debt Maturities (Current)

(\$ in millions)



**Weighted Average Maturity 5.2 yrs.** <sup>(2)</sup>

**No Material Debt Maturities Before 2018**

**NET DEBT: ~ \$3.7 BILLION (6/30/14)** <sup>(3)</sup>

(1) Excludes Jan. 2014 acquisition of oilfield manufacturing site in Shreveport, La. from CRS Proppants LLC.

(2) Excludes foreign local debt and capitalized leases

(3) See details of Momentive Specialty Chemical's total debt in the Appendix of this presentation.

# Closing Remarks

## Second Quarter 2014 Closing Remarks

- Strong Forest Products results due to improved results in North American and European businesses
- Epoxy Phenolic and Coatings Resins results reflected strong oilfield, Versatic™ Acids and specialty epoxy performance, offset by cyclicalities in base epoxy resins and European dispersions
- Strategic growth initiatives remain on track: successfully integrating Shreveport oilfield acquisition; PSR JV in China slated to become operational in Q4'14; and new forest product sites are expected to come online in late 2015
- Disciplined focus on driving ongoing cost control initiatives and liquidity
- Significant cash and available borrowings of \$466 million as of June 30, 2014

**LONG-TERM GROWTH IS SUPPORTED BY GLOBAL FOOTPRINT, OPERATING LEVERAGE AND SPECIALTY PRODUCTS PORTFOLIO**

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# Appendices

# Reconciliation of Non-GAAP Financial Measures

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Segment EBITDA:</b>				
Epoxy, Phenolic and Coating Resins	\$ 72	\$ 73	\$ 148	\$ 141
Forest Products Resins	65	59	125	114
Corporate and Other	(17)	(14)	(36)	(32)
<b>Reconciliation:</b>				
Items not included in Segment EBITDA:				
Asset impairments	—	(7)	—	(7)
Business realignment costs	(12)	(2)	(18)	(11)
Integration costs	(3)	(2)	(5)	(5)
Other	(9)	(15)	(23)	(26)
Total adjustments	(24)	(26)	(46)	(49)
Interest expense, net	(76)	(76)	(153)	(150)
Loss on extinguishment of debt	—	—	—	(6)
Income tax (expense) benefit	(11)	(6)	(21)	26
Depreciation and amortization	(36)	(38)	(71)	(76)
Net loss	\$ (27)	\$ (28)	\$ (54)	\$ (32)

# Debt at June 30, 2014

(\$ in millions)

	June 30, 2014		December 31, 2013	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
ABL Facility	\$ 65	\$ —	\$ —	\$ —
<b>Senior Secured Notes:</b>				
6.625% First-Priority Senior Secured Notes due 2020 (includes \$6 and \$7 of unamortized debt premium at June 30, 2014 and December 31, 2013, respectively)	1,556	—	1,557	—
8.875% Senior Secured Notes due 2018 (includes \$4 of unamortized debt discount at both June 30, 2014 and December 31, 2013)	1,196	—	1,196	—
9.00% Second-Priority Senior Secured Notes due 2020	574	—	574	—
<b>Debentures:</b>				
9.2% debentures due 2021	74	—	74	—
7.875% debentures due 2023	189	—	189	—
8.375% sinking fund debentures due 2016	20	20	40	20
<b>Other Borrowings:</b>				
Australia Facility due 2014	—	36	—	35
Brazilian bank loans	12	55	13	45
Capital Leases	9	1	9	1
Other	14	25	13	8
<b>Total</b>	<b>\$ 3,709</b>	<b>\$ 137</b>	<b>\$ 3,665</b>	<b>\$ 109</b>

A large, centered version of the MOMENTIVE logo. The word 'MOMENTIVE' is in a bold, black, sans-serif font. The letter 'V' is stylized with a blue-to-teal gradient and a white highlight, giving it a 3D appearance. A small 'TM' trademark symbol is located to the right of the 'E'.

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