Hexion Holdings (Q1 2021 Earnings)
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Corporate Speakers:

- John Kompa; Hexion Inc.; VP of IR
- Craig Rogerson; Hexion Inc.; Chairman, President & CEO
- George Knight; Hexion Inc.; 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
- Oren Shaked; BTIG; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by, and welcome to Hexion's First Quarter 2021 Earnings Results Conference Call.

(Operator Instructions)

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

(Operator Instructions)

Thank you. It is now my pleasure to turn the call over to Mr. John Kompa, Investor Relations of Hexion. Sir, the floor is yours.

John Kompa^ Thank you, Sylvia. Good morning, and welcome to Hexion's First Quarter 2021 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 IR section. 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 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 release and our recent SEC filings are available on the Internet at hexion.com.

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

Craig Rogerson^ Thank you, John, and good morning, everyone. I'm pleased to report an exceptionally strong start to 2021, with top and bottom-line growth that reflects continued momentum in multiple key end markets, our multi-year efforts to control costs and create a lean and nimble organization, and our diversified product portfolio.

Turning to our results. Our financial statements reflect the divestiture that was just completed on April 30. Since the transaction closed after the quarter closed, assets and liabilities for the transaction have been surrogated on the balance sheet as assets held for sale. Similar to last quarter, our results from operations and cash flows continue to be differentiated between continuing and discontinued operations.

First quarter sales totaled $753 million, reflecting the pass-through of raw material costs, pricing actions throughout the portfolio and higher adhesive volumes, partially offset by the impact of the winter storms. Segment EBITDA from continuing operations rose by 56% to $114 million compared to $73 million in the prior year.

Strength across the board of our diverse portfolio drove the significant increases, as well as our talented associates that remained focused on operating our plants safely by following all the proper COVID-19 protocols. Our operations and EH&S teams have done a truly remarkable job of exercising an abundance of caution while remaining focused on serving our valued customers. This same prudent approach is being applied in their R&D labs and offices whenever associates have an occasional in-person meeting.

Several key end markets, housing and wind energy in particular, continue to be strong as our first quarter EBITDA margins exceeded 15% and increased 450 basis points compared to the prior year. In addition, our first quarter results, while very strong, were negatively impacted by the winter storms and do not reflect any insurance recovery proceeds in the period. We also saw EBITDA exceed the prior year each month in the first quarter, and we expect this strong momentum to continue into the second quarter, as well. As previously mentioned, we completed the divestiture last month, which further improves our financial flexibility and liquidity profile while streamlining our specialty portfolio.

Turning to Slide 5. Everything we do at Hexion is geared towards solving a problem for our customers. That's why we've been laser-focused on developing new product to demonstrate sustainable attributes, continue to challenge our thinking along these lines, which resulted in announcing our strategic sustainability goals last year. Broadly, these sustainability commitments are intended to support our associates, our communities, and the environment while also accelerating profitable growth.

As a large global manufacturer, we want to be fully engaged in addressing the larger challenges facing the world. As a result, we've just announced that we are committed to reducing our absolute carbon emissions by 20% by 2030 to help address climate change. This commitment encompasses Scope 1 and Scope 2 emissions, which are direct and indirect greenhouse gas emissions from operations and consumed energy. The reduction target is compared to 2017, the baseline year of operations.

We're also reviewing our Scope 3 emissions, which are those associated with all other aspects of our business, such as raw materials, product use and disposal, waste generation, among other things. This is part of our ongoing commitment to further align our manufacturing operations with our strategic sustainability practices.

We were pleased to recently receive our first ENERGY STAR Partner of the Year Award, one of the highest honors bestowed by the United States Environmental Protection Agency's ENERGY STAR program. We were recognized for our success in waste reduction and energy efficiency achieved since 2014.

Now turning to Slide 6. Our ongoing efforts to combine manufacturing enhancements that that support lower emissions and new product developments are expected to drive our long-term growth. One such example is our work with a variety of customers that are looking for lighter, stronger and higher performance composite materials, particularly automakers, which are increasingly turning to our epoxy solutions.

The most recent example is McLaren's carbon fiber applications, their latest electric-powered vehicle, the Artura Plug-In Hybrid. This is the British company's first carbon lightweight model, and we are proud to say that it leverages our EPIKOTE resin system. We've also secured additional contracts with a major U.S.-based truck customer for lightweight structural suspension applications. New composite auto and truck applications are expected to add approximately $6 million of incremental earnings in '21, with growth ramping up further over the next several years. Our notable lightweight epoxy applications include structural applications for electrical vehicle battery boxes.

As we've highlighted on past calls, our Coating and Composites portfolio, particularly the products listed on the right-hand side of the slide above, should benefit from a number of societal megatrends, going forward, whether that's increasing demand for renewable energy or lower VOC emissions.

Turning to Slide 7 and our adhesive segment. Fueled by strong residential construction and remodeling demand in North America, we saw double-digit increases in sales and segment EBITDA in the first quarter. Both total residential housing starts and single-family starts remain robust, and this is creating strong pull throughout the entire supply chain.

Volumes, EBITDA and margins in Latin America also jumped sharply, reflecting robust market conditions, and this growth was supported by our Montenegro site, which we restarted in February. Our Montenegro plant is strategically located to serve large customer plants in the region and produces resin for the particle board, interior grade plywood and medium-density fiberboard markets. Both of our flagship growth capital investments continue to proceed as planned in the quarter.

After initially beginning production for our ArmorBuilt fire-resistant wrap last year, our first automated line is coming online in June in Portland, and we plan to add a second automated line to the network in the near future. We've made steady progress with our Brimbank expansion in Australia, which should come online in mid-2022.

This new capacity is designed to meet the growing demand for Phenolic Resins that can serve in a variety of applications, including as a component in fire-resistant cladding material for commercial, institutional and residential applications. Finally, we saw a solid lift in our first quarter results for product trials at several major customers surrounding our next-generation of OSB phenol formaldehyde technology for board surface and core applications, which competes against pMDI.

Now turning to Slide 8. You can see that the first quarter is the third consecutive quarter where we posted solid year-over-year gains in segment EBITDA. Our product portfolio is well-positioned to benefit from the improving demand we are seeing from new home construction, remodeling, wind energy and general commercial construction, as well as the general economic recovery from the pandemic. We also expect strong second quarter of 2021 due to this positive underlying demand.

The challenge is to continue to keep this momentum, going forward. We've taken a number of actions in the first quarter aligned with our 2021 priorities to do just that. Our global teams are committed to driving shareholder value through a variety of strategic actions, as we mentioned earlier.

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

George Knight^ Thank you, Craig. In our Adhesives segment, first quarter 2021 revenue totaled $361 million, a 10% increase from the prior year, reflecting volume gains of 2% and contractual raw material price increases and positive price mix of 8%. Segment EBITDA increased sharply compared to the prior year, reflecting positive demand in North American residential construction and repair and remodeling markets, a strong performance in Latin America, as well as gains in our global formaldehyde business.

As Craig mentioned, we've restarted our Montenegro site as a result of improving market conditions and customer demand for wood adhesives in the region. We have a long track record of serving the Brazilian market, and the Montenegro site is a key part of our ongoing strategy to serve our valued Latin America customers. We also drove a sharp increase in our segment EBITDA margins, which increased by 210 basis points versus the prior year.

Turning to the next slide. In our Coatings and Composites segment, first quarter 2021 revenue increased by 9% to $392 million, which reflected positive price mix of 11% and positive foreign currency translation of 3%, partially offset by weather-induced volume declines of 5%. Despite the negative impact of winter storms, segment EBITDA increased more than 67% in the first quarter. We saw strong demand throughout the entire epoxy business, and our Versatic Acid and Derivative business also continued to post healthy results and margins, although raw material inflation was a slight headwind year-over-year. EBITDA margins also increased sharply and rose 570 basis points year-over-year. Turning to the next slide.

Our balance sheet remained strong as liquidity totaled $483 million at quarter-end, which was about 10% higher than the prior year. We remain focused on capital allocation in 2021. We plan to expand our investments in productivity and growth capital expenditures to drive free cash flow and future EBITDA growth in 2021 and beyond.

The first quarter saw us invest $24 million in CapEx. We also now expect to invest approximately $115 million to $125 million in capital expenditures this year. Our other cash needs are anticipated to include annual interest costs of $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.

Following the closing of our recent divestiture, we used a portion of the proceeds to repay EUR125 million of the euro-denominated senior secured term loan in early May. 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 continually align our priorities with our long-term strategy. While the pandemic is clearly still with us, I'm very encouraged by our strong first quarter results. As we said last quarter, we remain cautiously optimistic about the potential impact of the pandemic over the coming year, but the pace of recovery clearly accelerated for us in the first quarter. Most importantly, we continue to operate our plants safely by taking all necessary precautions associated with COVID, and 2021 started positively for us from an overall EH&S perspective.

With the strong start to the year, we expect to generate significant cash from operations in 2021. After announcing our sustainability goals in 2020, we continue to execute on a number of fronts against these metrics. Hexion has now made a commitment to be a constructive part of the solution in addressing greenhouse gas emissions steadily between now and 2030. We formalized many aspects of our integrated approach to save the operations and new product development.

We expect these metrics to serve as a valuable framework for future growth, which ultimately stems from close alignment with our customers' needs. Our commitment to our stakeholders includes being good stewards in the communities where we operate while also remaining focused on driving year-over-year earnings growth as prior to our overall effort to generate value through capital investment and growth, through reducing debt, as George mentioned, and potentially opportunistic share repurchases.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

Your first question comes from the line of Nathan Schubert from JPMorgan.

Nathan Schubert^ So first off, maybe you can help us frame up the impact of the winter storms. I know you said in the press release that it did negatively impact results and that there was no indication as to how much that was, and then the potential for insurance recovery. Can you maybe discuss the impact and then help us understand what potential insurance recovery and what the cadence of that might be?

George Knight^ Sure. Yes. First off, the impact hit us in two spots, really. One was increased expenses related to repairs and non-optimal freight. Now it's about $6 million. And then, we figure the lost revenue impact was about $12 million. As we said, we do have business interruption and property insurance. We expect to recover amounts further in the year. We've been working with our insurance carriers, and we've started the process, but the impact is going to linger. So we want to make sure that, as we start to build inventory again and calculate what the impact of that is as far as costs, that we include that in our claim also.

Nathan Schubert^ And then, next one is just, now that you've closed the asset sale and you've repaid some debt, have you had any conversations with the rating agencies? And if so, which ones and what did they had to say?

George Knight^ You probably saw in the first quarter, our outlook from S&P went from negative to stabilize. We would normally have conversations with the rating agencies after we release earnings, so we're planning on doing that again.

Operator^ Next question comes from Roger Spitz from Bank of America.

Roger Spitz^ Going over to the Pernis BPA, can you speak about what was the EBITDA impact of Q1 '21 and potentially Q2 '21? And where are you on getting a resolution there?

Craig Rogerson^ Maybe let me talk to George to where we are relative to getting a resolution, and then you can talk about any kind of an estimate we have on the impact in the first quarter and in the second quarter, as Roger indicated.

Roger, we're, knock on wood, cautiously optimistic. We're back up and running now on all trains. Some issues still around epichlorohydrin because of chlorine supply and issues we've had with getting chlorine, but that seems to be getting better, as well. So as we sit here right now, we expect to be -- and most trains are running and expect to be running across the board, certainly as we get through the week. It's been quite a journey relative to supply chain, and some of it certainly relative to our reliability, but a lot of it also associated with our ability to get some raw materials and the issues they've had, as well.

So again, cautiously optimistic as we sit here now in the second quarter that we'll be able to catch up and hopefully mitigate some of the issues that we saw in Q2. But clearly, there was an effect in Q1 early in the year because of winter weather there, very severe winter weather there in early February, but then other issues as it's cropped up.

And George, then I'll turn it over to you if you have any estimates of what the impact was

George Knight^ Yes. The overall impact was fairly minimal. We're able to use, as we entered the year, inventory that we had on hand to try to minimize the impact. As Craig said, we're up and running now, and things continue. The impact in Q2 will be minimal also.

Roger Spitz^ In terms of working capital, you were [kind] to provide the inflow/outflow over the rest of the year for the different parts. But for the full year 2021, do you think this is going to be an inflow or outflow, particularly with rising price levels? I'm guessing it's an outflow, but can you give us some sense of what you think for the full 2021, please?

George Knight^ Yes. I mean, it's hard to say, given what we'll see in the fourth quarter there, but we're expecting now that it will be a slight outflow.

Roger Spitz^ And then, you spoke about 2021 free cash flow positive. Beyond EBITDA, CapEx, interest, taxes, working capital and presumably some insurance receipt from the insurers on the winter storm Uri, what kind of other cash items should we be thinking about in terms of cash restructuring, or any other things in terms of cash flow from operations?

George Knight^ Yes. The restructuring piece should be pretty minimal this year. We've got some residual costs related to our transition to business services partnership with Capgemini really related to severance. That'll be in the first half of the year. Then, we had the normal pension funding for primarily our European plan there. That's in the $20 million to $30 million range. And then, we had some miscellaneous environmental costs related to some of the legacy old Borden facilities. And again, that should be fairly minimal.

Roger Spitz^ And then, last one, and I'll hand it back, the insurance. Between the BI deductible and property deductible, what is that combined? So in Q1, you've got the 12 million plus $6 million, or $18 million. How much of that is deductible so we can start thinking about where the number might start of what you might receive back?

George Knight^ As you can imagine, the calculation for the deductibility is pretty complicated, but I would say it's in the range of $12 million I think, above that, we should recover.

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

Richard Kus^ So, first, you've obviously seen a lot of input cost inflation. Some of your contracts are more formulaic than others, I think mostly on the coating side of the business. Obviously, pricing has been very good, but maybe can you talk about it in relation to the inputs that you're seeing in that business and how confident you are that you'll be able to stay ahead of it?

Craig Rogerson^ Most of the contracts that had the pass-through of raw materials are in the adhesive side, actually. And we can effectively do that, and we've been doing that. The Coatings and Composites side, as you said, the ability to get pricing has been determined by the strength of the markets, so the demand has been very strong all the way back through the BPA/LER side through some of the specialty epoxy businesses, Versatics the same way. So with that strength in demand, we've been able to pass through those [imprint] costs effectively.

As we sit here right now, there's growing optimism, growing confidence, I guess I'll still say, a little bit cautionary, that we'll be able to continue to do that with the demand that we're seeing. And so we expect the second quarter to be a strong quarter, both from a volume and margin perspective. In some of those markets that are more cyclical, there's less visibility as you get out towards the end of the year. I think we're starting to feel a little bit better about the third quarter, as well. But as George said, the fourth quarter is always kind of a crapshoot depending on volumes at our customer sites and whether we have turnaround schedule. Those kind of things always affect Q4.

But for right now, we feel pretty good about pricing, and in both of the major reporting segments, and again, saw that in the first quarter and are seeing that in the second quarter, and are cautiously optimistic now as we look a little further out.

Richard Kus^ And then my second question is, and I'm not sure how much you can really comment on this, but one of your competitors is talking about structural changes, particularly it sounds like on the pricing side in the epoxies business. I'm curious if you're seeing more discipline there and think that that business, from an industry standpoint, is seeing more leadership has structurally changed such that you'll maybe do better on pricing on a go-forward basis, more sustainably.

Craig Rogerson^ [They're] hard to comment on that. I think that right now, there's a lot of rationale and reasons for why pricing is moving the way it is in the epoxy side with the supply-demand dynamics, the way they've been. The demand is very, very strong across a lot of the end markets that the epoxy business supplies, and there have been some constraints for a variety of reasons in some of the supply side. So as you'd expect, with that kind of dynamic, the pricing and the margins have gone up.

Whether they stay that way is a good question. I certainly look forward to discipline in the market and that we get value for the products that we deliver and the markets that we deliver, and certainly hope and expect that to be the case, but we'll have to see. As you said, it's hard to tell. And historically, there's been some pretty big spread between the peaks and the troughs in this market. And I think everybody would like to see that dampen some, but we'll have to see how it plays out.

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

Brian DiRubbio^ A couple of questions. As we think about the proceeds, the $304 million, I think you said EUR125 or EUR150 went to the pay down of the euro term loan. What's your thought process on the balance? Is it more debt repayment, M&A, or to fund some of the CapEx for this year?

George Knight^ I think, as we talked about, we're going to look at all those different options and, as the year proceeds, make decisions on where we think we're going to get the best return.

Brian DiRubbio^ Any preference of the three?

Craig Rogerson^ I'll give you a preference. We find some good projects. I think I'd like to invest the money in capital projects, whether it's bolt-on M&A or even more securely in some of the CapEx opportunities that we have. We can typically fund those out of the operating cash flow delivered by the businesses, and it hasn't been a constraint. But if we come up with some great projects, I'd like to spend it on that.

I think that we look at it in the order kind of I gave it. That would be the first. We look at reducing debt. We know where the return there is. And then, lastly, and it doesn't mean these are all mutually exclusive, but also look at, depending on where the stock trades, at some stock repurchase. But I think in that order, probably, for that second half of the proceeds, investing in capital growth, investing in reducing our debt or, again, maybe lastly but certainly not [leastly], if appropriate, buying back some shares.

Brian DiRubbio^ And then, as we think about these potential high-growth projects in the U.S., just given the strength that you're seeing in the U.S. formaldehyde business with the growth in housing again, what's your capacity in that business? And do you see any needs where you're going to have to spend some more money to increase your capacity there?

Craig Rogerson^ Relative to the resins we supply into those markets, no, we're in pretty good shape. The key is, because of a relatively low shelf life and relatively low concentration of these products, it's important to be in the high service level. You need to be close to the wood baskets.

And so we have our facilities strategically located where they need to be, in North America, down in Brazil, as we mentioned, Montenegro, and we have another site, Curitiba, down there, and then Australia, New Zealand, the big wood baskets. And I think we're well-situated from a capacity perspective. Now, these are more batch operations. We can put more ships on if we need to and produce the product. So we're in pretty good shape relative to being able to supply the demand of this, you're right, very strong growth market at this point.

The real consideration is whether the board manufacturers have the capacity to meet the demand. And while there was some shutdown in 2019 into '20, some of those mills now, especially the OSB mills, are looking to restart, and that'll be positive for us relative to our ability to continue to grow in that market as the market grows.

Brian DiRubbio^ And how should we think about your exposure in the U.S. market with wind energy, especially as we're seeing more and more projects, the Vineyard project, which just approved yesterday, off of the coast of Massachusetts? I know you're mostly tied to the Chinese market there, but are you getting any traction in the U.S. side?

Craig Rogerson^ No. We're market leaders in the U.S. and in Europe and basically, globally, you're right. China's been kind of the focus relative to our discussions because that was the fastest-growing, has been the fastest-growing market. There's up to 60% of the new installations over the last few years have been in China.

With the subsidies, at least for onshore wind, slowing down, in some cases going away in 2021 in China, that growth has slowed down, and now you see the growth in the rest of the world relative to that looking even higher.

But we're very, very bullish on wind generally. And yes, we're very involved in the U.S. and see the infrastructure programs that are being talked around in the sustainability and green energy, and all of those things relative to some of the Biden plans that you see across the board are very positive for us in wind in the U.S. And again, we expect to see continued growth in Europe, as well.

And we'll see a kind of a rebound in China as we go into '22 if they get anywhere near their proclaimed targets that they're looking for wind installations over the next 5 years. So we see very, very positives there. And again, even in China this year, the subsidies were off on the onshore, but offshore wind's still getting subsidies. And those are the longer blades, and that's where we really have the [tactical] advantage. And so we have a very good market share as the blades get longer, whether it's in China or the rest of the world, and the offshore certainly is positive for us in that regard.

Brian DiRubbio^ Just final question for me. Outside of raw materials, are you guys seeing much in terms of inflationary pressures in the business?

Craig Rogerson^ Can you just repeat that again, the last part?

Brian DiRubbio^ Sure. Outside of raw materials, are you seeing any other inflationary pressures in the business?

Craig Rogerson^ I think there's inflationary pressures around the logistics, right, around freight, around getting ships, around all of those challenges that we saw, whether it's the Suez Canal or everything else that we've seen, the high demands, the way that some of the flows of shipments are different than they historically have been. So the ships end up in one spot where they would be better served to be somewhere else. All of those things certainly affect pricing, and then our requirement of using a [non-optimized] freight. So in some cases, we have to ship by air instead of by ship, and those costs are high. We've been able to, again, because the market, in most cases, pass that along. But clearly, there's pressure on all logistical costs, as well as the raw material inputs.

Operator^ Our next question comes from Oren Shaked from BTIG.

Oren Shaked^ 2 questions for me. Given some of the comments you made, Craig, around pricing and just around some of the comments you just made around inflationary cost pressure, when we think about the incremental margin performance of the business, going forward, how best to think about that relative to what was clearly a very strong performance in the first quarter? Is there anything that you see that would preclude you from maintaining those levels of incremental margins from here?

Craig Rogerson^ I would say that, for the majority of the business, I feel pretty good about it. For all of it, I feel good in the second quarter. But as we look further out, the one area of the business that clearly has demonstrated some cyclicality, or certainly a wide spread in margin, is the base epoxy resin business, so BPA, the liquid epoxy resin and how that even flow into some of the more specialty resins.

So those numbers are very good because supply-demand dynamics I mentioned were very strong, and I think they will continue into the second quarter, maybe the third. But that's a piece of our business. That's a piece that we continue to work on to try to raise the bottom of these cycles and not give up the top end. And it's through things like looking at our contract structures, through things like, basically, these self-help projects, where we look at ways to improve our costs and efficiency in some of these facilities, basically the 2 big facilities in Deer Park, Texas and Pernis in the Netherlands. And so there's a lot of work going on around that, and it has been for the last 18 months or so.

So I think that we should be able to keep a big part of that improvement that we saw, but there will be a piece of it. And how big a piece of that is, I don't know. George, maybe you can comment, but maybe it's 25% of that portfolio that we still continue to work on that I would expect, to be frank, to see some up and down over time. And we're more at the high end right now on the base epoxy resins segment in 2020; and then, even in 2019, we were more towards the lower end. 2018 was another very good year. So you see that.

But what we're trying to do is -- [I don't think] we'll be able to eliminate that, but we'd like to dampen the spread between the peak and the trough. And we've been working on that, and we continue to work on that.

Oren Shaked^ And then the second question for me. I noticed that you chose not to repeat the comment that you put in the fourth quarter release regarding the potential for transformational transactions. Can you maybe help us think about what is the current framework for how you're thinking about M&A and unlocking value in the business?

Craig Rogerson^ Yes. I would say, certainly, it's no different. We are very much on the offensive, looking at opportunities to create value. So they could be through a number of strategic options. We've got this Listing Committee of the Board that was formed when we came out of the reorganization that's meeting very regularly, much more than a normal Board meeting schedule, to look at those options.

My belief is we have a tailwind behind us now from an overall market perspective, from our performance perspective, both from the profitability growth we're seeing and we will continue to see, and we have seen really since coming out of the pandemic, and free cash flow delivery. So a lot of positive things going on right now, and we continue to look at ways to leverage that to create value for our shareholders.

And all the things that I talked about in the fourth quarter as potential options certainly are on the board, and we're not waiting for people to come and talk to us. That's happening, but we're also out there looking and trying to pursue things that we think may make sense. So yes, I wouldn't read into that. I hadn't stressed at this time that there's any less emphasis on that. In fact, there's more emphasis now than there's ever been.

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

Roger Spitz^ In which product lines in Coatings and Composites did you take the strategic price actions? Was that more in the SER and/or the Versatic Acids and Derivatives?

Craig Rogerson^ All across the board.

George Knight^ Yes, across the boards.

Roger Spitz^ And in Coatings and Composites, can you make any comments about the relative magnitude of the EBITDA moves within each of the subsegments? Just give a sort of guide for where you were making out which moved up more?

George Knight^ Yes. So, I mean, we saw improvements really in all the segments there. Probably the biggest was in our base epoxies, where the tightness in the market really drove margins up. But in our specialty epoxy, we had over 20% improvement. Versatics was probably the one that was closest to prior year because we did have a very good first quarter last year. And as we mentioned in the call, we are seeing some raw material headwinds there. But really across the board in the Coatings and Composites, year-on-year growth on the EBITDA side.

Roger Spitz^ And then in adhesives, I don't know if you'd be willing to comment or give some guide in the EBITDA split between formaldehyde and forest products. From a recent disclosure, it looks like the sale split is 25/75 formaldehyde/forest products. Is that an indicative of the EBITDA split? Or is the margin profile more difference, that the 25/75 sales split is not well indicative of the EBITDA split?

George Knight^ Yes. We haven't disclosed that in the past.

Operator^ And I show no further questions at this time. I will now turn the call back to Mr. Craig Rogerson, President and CEO, for any closing remarks.

Craig Rogerson^ Thank you. And thanks for the good questions today. Thanks for joining our call.

We're pleased that the year is off to such a strong start. We remain committed to delivering sustainable and profitable growth and consistently increasing value for our shareholders. We look forward to update you again in August for the Q2 earnings call, and look forward to being able to talk about another good quarter. So again, thank you very much.

Operator^ Ladies and gentlemen, this does conclude today's conference. Thank you for your participation. You may now all disconnect.