

FINAL TRANSCRIPT

Thomson StreetEventsSM

HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

Event Date/Time: Nov. 09. 2011 / 2:00PM GMT



Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

CORPORATE PARTICIPANTS

John Kompa

Momentive Specialty Chemicals, Inc. - Director - IR

Craig Morrison

Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

Bill Carter

Momentive Specialty Chemicals, Inc. - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Tarek Hamid

JPMorgan - Analyst

Roger Spitz

Bank of America Merrill Lynch - Analyst

James Stillcock

Jackney Cared Asset Management - Analyst

Michael Marczak

UBS - Analyst

Ryan Clapp

Prudential - Analyst

Dixon Yee

Baxo Capital - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Third Quarter 2011 Momentive Specialty Chemicals, Inc. Earnings Conference Call. My name is Pamela and I'll be your operator for today. At this time, all participants are in listen only mode. Later, we will conduct a Question and Answer session.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to Mr. John Kompa, Director of Investor Relations. Please proceed.

John Kompa - *Momentive Specialty Chemicals, Inc. - Director - IR*

Thank you, Pamela. Good morning and welcome to Momentive Specialty Chemicals Third Quarter 2011 Earnings Conference Call. Leading today's call will be Craig Morrison, Chairman, President and CEO; Bill Carter, Executive Vice President and Chief Financial Officer, and George Knight, Senior Vice President and Financing Treasurer.

As a reminder, this call is also being webcast. And the slides referenced in today's conference call are available through the Momentive.com website under the investor relations section of Momentive Specialty Chemicals. A replay of this call will be available for three weeks. And the replay dial in information is contained in Momentive Specialty Chemicals third quarter 2011 earnings release.

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

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 they cause the company's actual results and performance in future periods to be materially different from any future results or performance suggested by these expectations. We can't guarantee the accuracy of any forecast or estimates. And we undertake no obligation to update anyone forward statements during the quarter, except as otherwise required by law.

If you like more information on the risk involved in forward looking statements, please see our SEC filings, including our most recent annual report on Form 10-K, and the detailed risk factors section. In addition, some of our comments may reference non-GAAP financial measures. A reconciliation of the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and on our website. Our earnings release and a recent SEC filings are also available on the Internet at Momentive.com. And with that, I'll now turn the call over to Craig Morrison, to discuss our quarter results.

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

Thanks, John. Our third quarter 2011 results were impacted by challenging market conditions in several regions, namely China and Europe that negatively impacted buy-ins for certain key product lines. Revenues reached \$1.3 billion versus \$1.2 billion in prior year, due to pricing action, including the contractual pass through of higher raw material costs. Segment EBITDA totaled \$162 million compared to \$193 million in the prior year. While this was a year over year decline, third quarter of 2011 was our second highest third quarter performance in our history with last year's third quarter being the highest. Third quarter 2011 was impacted by recent economic slowdown in Europe and Asia, inventory destocking, and raw material inflation. On a year to date basis, segment EBITDA reached \$529 million, up 14% versus prior year.

Third quarter 2011 operating income totaled \$101 million compared to operating income of \$188 million in the third quarter of 2010 with the prior year period, including \$56 million of income related to insurance recoveries. Year to date operating income of \$349 million increased 16% versus prior year period of \$302 million, excluding \$83 million of income related to insurance recoveries. During the quarter, we continue to make strategic investments in our specialty product lines and the low growth BRIC regions. Two new oil field assets came online to meet the growing demand for [propane] and shale drilling applications. And we currently have six new plants that are operational or under construction in BRIC countries to help drive future growth.

Turning to slide five, we continue to keep focus on our cost control actions as we have realized \$21 million in savings from the shared service agreements with Momentive Performance Materials during the first nine months of 2011 with a run rate savings of approximately \$34 million. The integration between MSC and MPM and the sharing of best practices across the respected businesses continued to progress smoothly and create value.

We're also reviewing opportunities to accelerate the shared service savings, as well as launching comprehensive cost reviews across all aspects of the business in light of the economic volatility we've been experiencing. Regarding our liquidity position, at the end of the quarter, we added \$524 million in cash and available borrowings. Finally, at September 30, 2011, we're in compliance with all financial covenants that govern our senior secured credit facilities and indentures.

Turning to slide six, you can see an overview of our financials. As noted, our third quarter 2011 sales increased 8% to approximately \$1.3 billion. Third quarter segment EBITDA was negatively impacted by a few key product lines, including specialty epoxy resins, which reflected China's aggressive actions to slow down construction in the wind energy industry, a normalizing of base epoxy resin demand versus a record quarter in 2010, and slowing demand in Europe for versatic acid derivatives.

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

The diversity of our portfolio was evident as we saw positive results in our oil field and North American formaldehyde businesses in the third quarter of 2011. We also saw continued strong demand in our specialty phenolics business. Pro forma operating income, which is adjusted for the one time income in the prior year period, related to insurance recovery claims declined 23%.

Turning to slide seven, you can see an overview of our year to date financials. For the first nine months of 2011, we continue to post significant earnings gains on relatively modest volume increases due to our operating leverage pricing actions and our disciplined cost focus. While any one quarter may be volatile, our year to date results reflect our lowered cost basis and steady growth in our earnings. We're pleased with our year to date sales increase of 18% and segment EBITDA gains of 14%.

Pro forma operating income rose 16%, which excludes income related to the recovery of insurance claims in the prior year quarter. Turning to slide eight, and our combined raw material index, with the steady trend of higher [raw] since early 2009, is evident and continued through the first five months of 2011 despite the recent global economic weakness.

On a year over year basis, we saw significant increases in phenol, methanol, urea, and propylene, ranging from 21% to 68%. Ongoing pricing actions generally offset year over year raw material inflation on a quarter basis. However, there are periods of normal lead lag, where our pricing temporarily trails inflation. Looking ahead, we expect raw material cost to develop more favorable trends during the remainder of 2011.

Turning to slide nine, our revenues rose by \$97 million or 8% in the third quarter of 2011 versus the prior year. Pass through of high raw material costs increase sales by \$106 million, while foreign currency translation boosted sales by \$76 million, partially offset by negative volume impact of \$85 million. Epoxy and phenolic resin sales increased by \$43 million or 5%. Volume decreases negatively impacted sales by \$68 million, as volumes generally declined with the exception of our oil field and phenolic specialty resins businesses.

Pass through of raw materials resulted in positive pricing impacts of \$58 million. All foreign exchange translation resulted in \$53 million of incremental sales. Third quarter of 2011 epoxy and phenolic segment EBITDA declined by 25% year over year, due to a slowdown in Chinese wind energy demand, a year over over weakening in base epoxy resin demand, and a year over year decline in European demand for our [versatic] based product lines.

Even with the ongoing softness in North American housing editions, we posted a solid performance in our forest product resins business, as sales rose by \$54 million or 14%. Raw material prices passed through to customers let to pricing increases of \$48 million, while favorable foreign exchange improved sales by \$23 million.

Volume declines, primarily in our European forest products business, negatively impacted sales by \$17 million. Segment EBITDA was flat in our formaldehyde and forest products resins business for the quarter. Our North American resins business continued to feel the effects of a soft housing market. While we experienced decreases in volumes in our European forest products business due to continued competitive pressures. These challenges were offset by continued strong performance in our formaldehyde business.

Turning to slide ten, we continue to balance aggressive cost controls with strategic investments in our high growth businesses, such as oil field resins. This business saw us bring on an additional line at our Brady, Texas site and new plant in Batesville, Arkansas. To take advantage of the explosive growth in natural to cash shale development, the Batesville plant is the second addition to the OTG manufacturing grid in 2011. The business expanded its plant in Clayburn, Texas earlier in the year. It now operates a total of six manufacturing plants with multiple production lines and 14 transload facilities serving the US and Canadian markets.

The combination of our proprietary technology and brick growth has supported our EBITDA growth over the last several years. With six new plants that are operational or under construction in the brick region, we look to build on our track record of dramatic growth. Now let me turn the call over to Bill Carter, our Chief Financial Officer.

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

Thank you, Craig. Turning to our epoxy and phenolic resin segment on slide 12, our third quarter 2011 revenue totaled \$870 million, increasing 5% versus prior year. With price mix improvement of 7% and currency translation benefit of 6%, offsetting volume declines of 8%.

Quarterly segment EBITDA declined by 25% versus the prior year. As Craig mentioned, our results reflected strong performances in our oil field resins business, where we continued to see higher volumes and favorable pricing. We also saw continued strength and volumes in our specialty phenolic business.

However, overall declines in our segment volumes and EBITDA were primarily driven by our specialty epoxy business in Asia, which saw tightness in the Chinese credit markets and reduction of government subsidies negatively impacting our wind energy customers. We also saw our base epoxy resin business reflect a more balanced market. As Craig mentioned, we continue to invest in our oil field business and believe this is a long term growth story for us.

Turning to the next slide, in our formaldehyde and forest products segment, sales increased 14% to \$452 million with price mix gains of 12%, and translation gains of 6%, partially offset by volume declines of 4%. Our North American formaldehyde business posted strong results with continued gains in some of our specialty products, such as triazine and hexamine. Our North American resins business continued to reflect the soft housing market, while our European business had a challenging quarter with continued weak demand. We believe the past cost actions we have taken leave us well positioned for eventual market recovery. In the interim, we continue to aggressively manage our variable costs.

Turning to the next slide and our balance sheet, we continue to strengthen our liquidity position with cash plus borrowing availability under our credit facilities of \$524 million at the end of the third quarter of 2011. Our net working capital rose slightly from June 2011. We are taking a number of actions to drive working capital lower going forward, including potential plant shutdowns in the fourth quarter of 2011 to bring our inventories in line with market demand.

Seasonality and inventory actions should decrease working capital significantly in 4Q2011. Our capital expenditure investments totaled \$38 million in the third quarter of 2011. We continue to anticipate \$120 million to \$130 million in CapEx for the year in support of numerous growth opportunities. Let me return the call to Craig to wrap up.

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

Thanks, Bill. Looking at our third quarter results, 3Q11 was the second highest third quarter in the history of the company, trailing only the prior year period. Segment EBITDA headwinds were the result of recent economic slowdown in Europe and Asia, inventory destocking, raw material inflation, and product mix shift.

We did see continued strong performance in our oil field resins in North America formaldehyde business with year over year segment EBITDA gains of 17% and 5%. Year to date, we were pleased for our segment EBITDA and revenue growth of 14% and 18%, respectively. We continue to focus on maintaining a solid liquidity position and balance sheet, while continuing to invest in the growth of MSC's platform, such as our new oil field assets and our ongoing investment in the BRIC regions.

Our integration with MPM continues to progress smoothly. And the realization of combined synergies continues to create value. During the first nine months of 2011, we have realized approximately \$21 million in savings under the shared service agreement with momentum performance materials, which in addition to actions taken in the fourth quarter of 2011 will generate annual run rate savings of \$34 million.

We expect that the market conditions that impacted MSG in the third quarter will continue through the fourth quarter of 2011. We are anticipating some relief from raw material costs that remain elevated during 3Q11. We are also focused on accelerating

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

the realization of the combined synergies, while driving additional cost savings to offset the economic weakness. Thank you for your continued interest in the company. And I'll now return the call to John.

John Kompa - *Momentive Specialty Chemicals, Inc. - Director - IR*

Thanks, Craig. Pamela, we'd now like to open the line for questions. If you could please provide those instructions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Tarek Hamid of JPMorgan. Please proceed.

Tarek Hamid - *JPMorgan - Analyst*

Good morning.

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

Good morning, Tarek.

Tarek Hamid - *JPMorgan - Analyst*

You know, just wanted to sort of touch on destocking. You know, I just wanted to ask if, you know, destocking, you know, were the trends sort of even during the quarter? Or did the, you know, did the sort of destocking trend accelerate as we sort of headed into the fourth quarter?

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

Yes, I think, you know, much like ourselves and others, people are really focused on bringing working capital in line with demand and accelerating, taking inventories down. So it's not an absolute science in terms of knowing exactly what is market and what is destocking, but the general feedback we're getting from our customers is that that's accelerating as you close out the third quarter and move into the fourth quarter.

I think with a lot of customers concerned about the general economic conditions, some of it you see in Asia with the Chinese policy. Some of it you see with the bond disruption issues and concerns in Europe. And others, you know, concern with the whole environment in the US. So we're seeing an acceleration in that versus a deacceleration.

Tarek Hamid - *JPMorgan - Analyst*

Okay. I guess, you know, maybe could you sort of kind of compare and contrast what you're seeing today versus kind of the stocking experience in 4Q'08?

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

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

Yes, I wouldn't say our conditions mimic, you know, 2008. I think that was a very unique timeframe, where you saw the industry react in a manner that at least I had never seen. And I think most of my peers would agree with that.

The dramatic actions that were taken across the board in virtually every segment of the industry and as well as every geography was really unprecedented. I think it's a little more of a mixed bag right now. We see America, actually North America and South America as still a fairly positive set of market conditions relatively speaking. We still have segments that are doing quite well. Autos is a good example in North America and some other segments around the world. So it's not as universally across the board as we saw in the fourth quarter of 2008, and therefore, not as severe.

Tarek Hamid - *JPMorgan - Analyst*

Great. I guess one last one from me. On the push to accelerate the cost savings on the merger, can you do that under the shared services agreement? Or do you need to combine the capital structures to get a little bit more aggressive on the potential cost savings?

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

No, we think there is still a number of opportunities under the shared services agreement. So we don't see that as a limiting factor in terms of going after additional savings. There are certainly, you know, a few categories of savings that we will get once we merge the entities, but we think the bulk of the savings we can get through the existing agreement.

Tarek Hamid - *JPMorgan - Analyst*

Great. Thank you very much.

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

The other thing I would emphasize is there's a whole another level of savings that you can go after, that are not shared service, but rather, within the particular entity themselves. And we'll also be pursuing those, given the current economic environment.

Operator

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

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

Thanks, good morning.

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

Hi, Roger.

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

Roger Spitz - Bank of America Merrill Lynch - Analyst

How are you doing? Have the [Powell] affiliates already or will they by the end of the year inject \$200 million to purchase those preferred units and warrants with potentially \$100 million to repay that \$100 million in Apollo term loan?

Bill Carter - Momentive Specialty Chemicals, Inc. - EVP, CFO

Yes. They have not yet infused that. We do expect them to do that by the end of the year.

Roger Spitz - Bank of America Merrill Lynch - Analyst

Will that be invested in the Momentive top co or perhaps Momentive Specialty Holdings, LLC or to be determined?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

It would -- the funds would eventually end up in Momentive's Specialty operating company in the registrant.

Roger Spitz - Bank of America Merrill Lynch - Analyst

Okay, and the last thing on this line, the other \$100 million in addition to --of the \$200 million, besides the \$100 million to pay off the call it term loan, what would the extra \$100 million be used to do?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

I think right now, our thoughts will just be to use it for operating purposes.

Roger Spitz - Bank of America Merrill Lynch - Analyst

Got it. Okay. Can you speak to demand changes in Q3 for BPA OER on a year over year or a sequential base in terms of volume changes? Sort of how much -- how fast has bias been moving down in those areas?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

Yes, I think when you look at a year over year basis, it's single digit, you know, less than 5% in both cases for both the BPA and the LER on a third quarter year over year basis, and likewise, on a sequential.

Roger Spitz - Bank of America Merrill Lynch - Analyst

Okay. And in terms of the margins on BPA and LER, would you characterize them as coming down as sort of middle cycle? And there could be some more to go as we move into Q4? Or how would you characterize those cycles where they are, where we are?

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

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

Yes, I think when you look at our base epoxy resin business, which houses those two, we still have very attractive levels of profitability in the third quarter. It's just that prior year, it was, you know, very high levels by historical standards record setting in the prior year.

So is there a potential greater weakness in [berry] -- yes, depending on how the markets play out. Normally, you also need to remember the fourth quarter is usually seasonally a weaker quarter. So we normally see a drop in the berry business anyway. But looking beyond the fourth quarter, it gets rather hazy as to what will occur as you enter 2012.

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

Great, thank you very much.

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

Thank you.

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

Thank you.

Operator

(Operator Instructions)

And our next question comes from the line of [James Stillcock] of [Jackney Cared Asset Management]. Please proceed.

James Stillcock - *Jackney Cared Asset Management - Analyst*

Hi, how are you doing, guys? Thanks for taking my question. Just had a question, was just looking for a little additional clarification on the liquidity number you guys reported. You guys said \$156 million of that represented borrowings available under additional credit facilities at certain international subsidiaries and equity commitment from certain affiliates of Apollo. So how does that \$156 million break down between the credit facilities and the equity commitment?

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

Yes, the equity commitment would be the additional \$100 million.

James Stillcock - *Jackney Cared Asset Management - Analyst*

Okay.

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

So we think we received \$100 million through a loan. And there's an additional \$100 million yet to come. The \$56 million then remaining would be various credit facilities around the world.



Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

James Stillcock - *Jackney Cared Asset Management - Analyst*

Okay, thank you. That's it for me.

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

Thank you.

Operator

And we have a follow up question from Mr. Roger Spitz. Please proceed.

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

Thank you very much. The \$82 million of SG&A in Q311, is that a better run rate going forward with potentially further reduction from additional synergies from the, you know, coming together with momentum performance? This is versus the \$87 million to \$88 million in the last couple of quarters?

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

Yes, you should still expect to see, there are additional synergies we have not yet achieved that will impact that SG&A number. So we believe there are still opportunities there, and there are programs we're still working on related to SG&A.

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

But that's a sustainable, and it's going to probably go down from here as you get more basically?

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

Yes, I think certainly the synergy piece will take it down more. You know, obviously, inflation in future years is, you know, unpredictable, especially given the current economic circumstance, but we would expect synergies will certainly cause it to go down.

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

Great. And in terms of the especially epoxies that are used in the wind energy, is that the vinylesters, the glycidyl esters, or the solid epoxy resins? Which one were hit there?

Bill Carter - *Momentive Specialty Chemicals, Inc. - EVP, CFO*

Yes, this is more solid, you know, this is solid epoxy resins and blends going into wind energy, not vinylesters.

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

Roger Spitz - Bank of America Merrill Lynch - Analyst

Okay. And is it true that you also are selling liquid epoxy resins to carbon fiber composites that are used in wind energy as well? And if that's true, was that also hit?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

No, that's not a big segment for us. That goes more into the coatings industry and other industries. This was, you know, more the composite based materials that are epoxy based, that would largely hit. And the biggest factor by far there was the Chinese downturn, where the government had a very proactive policy to slow that down. And we have a very significant market share there. So on the upside, when it's growing, we feel that in a very positive way. And when they slow it down, we disproportionately feel it as well, and did in the third quarter.

Roger Spitz - Bank of America Merrill Lynch - Analyst

How much does wind energy represent of your specially epoxy resins and versatics party of your business?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

Yes, we don't share that specific information.

Roger Spitz - Bank of America Merrill Lynch - Analyst

Great, thank you very much.

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

Thank you.

Operator

And your next question comes from the line of Michael Marczak of UBS. Please proceed.

Michael Marczak - UBS - Analyst

Hey, guys. Thanks for taking my question. Just a follow up to Roger's question, last year, your SG&A was pretty low. Was there anything one time in that that we should expect to be different in the fourth quarter this year?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

Yes, I don't know of any specific things we're anticipating that would be one time in SG&A in the fourth quarter this year. As we said, we would expect to see additional benefits from synergies. As Craig had also talked about. We're looking very closely at all of our major cost buckets, including SG&A. And as we look at this slowdown in demand, we will certainly be taking actions around cost reductions. We'll also, we believe, cause SG&A to moderate in the fourth quarter.



Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

Michael Marczak - UBS - Analyst

Got it. And then I guess just one last quick one. Could you break down for us revenues by geography for your epoxy and phenolic resins business?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

No, we don't share that level of detail on those various segments.

Michael Marczak - UBS - Analyst

Okay, thanks, guys.

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

Thank you.

Operator

And your last question comes from the line of [Ryan Clapp] of Prudential. Please proceed.

Ryan Clapp - Prudential - Analyst

How are you doing, guys? Craig a question for you. Can you give us a little more color on what's going on in China? In listening to the [Celanese] call, they had seen, you know, similar impact from tightening monetary policy in, it sounded like, in the -- at the beginning of Q3? But they said in their call that that had changed, and that a lot of the smaller or that a lot of -- a lot more Chinese, the smaller Chinese businesses were getting credit again. And they started to see a change in that? Are you guys seeing something similar? Or could you just give us a little color on that whole situation?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

No, we're not seeing that yet. And interestingly enough, I don't know if you saw the article in "The New York Times" yesterday on that specific topic. The article was, I believe, on the front page of the business page, which will give you more color, but it was specifically about the tightening of credit in China and the dramatic impact it's having on small and medium size customers.

One thing I think you always have to be cognizant of in China is unlike most countries, they can have very targeted strategies relative to industries that can impact different product lines in significantly different ways. So it might very well be possible that one company with a product line may not be that significantly impacted or may start to see relief as the Chinese government targets reopening of growth in the specific segment, while in another segment, such as wind energy or others, you see a significant slowdown.

The other thing you have to be aware of is with our silicone space business, and the variety of businesses we have on the MSC, we have a very broad exposure. So it's not like you're just looking at one window. And we're seeing general still a very tight policy by the Chinese. And so, I would not be able to say what they might have said on the Celanese call that we see relief at this point in time.



Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

Ryan Clapp - Prudential - Analyst

Okay. And you mentioned that your versatics segment was particularly weak in Europe. Can you give us a little more color on that?

Craig Morrison - Momentive Specialty Chemicals, Inc. - Chairman, President, CEO

Yes, the biggest area there is in the construction business, where we go into a number of applications, such as adhesives and others. And, you know, we definitely have seen an ongoing challenging set of market conditions there that may have even slowed more as I think companies are somewhat concerned about the general economic environment over there.

Our versatics business has a disproportional amount of its sales in Europe. So it disproportionately feels any impact there. We're rapidly expanding into the Americas and Asia and in fact, are building two new facilities in Asia. One's online already in Korea. The other's a joint venture in China, which will help diversify us, but European construction was the biggest single driver of that in Europe on the versatics products.

Ryan Clapp - Prudential - Analyst

Okay. Thank you very much.

Bill Carter - Momentive Specialty Chemicals, Inc. - EVP, CFO

Just one clarification to an earlier question I think Roger asked on SG&A. One of the reconciling items between prior year and current year is last year, we were exceeding our targets from an incentive perspective. So actually recorded more incentive expense. This year, obviously, with the downturn we're seeing, we actually reduced our incentive accruals in the third quarter. So that is one of the unique things that happens in the third quarter typically as we get more visibility through the end of the year.

Operator

And your next question comes from the line of [Dixon Yee] of [Baxo Capital]. Please proceed.

Dixon Yee - Baxo Capital - Analyst

Hey, good morning. Thanks for taking my call. Just to elaborate a little bit more on the (inaudible) our decline in your corporate and other expense item, how much of that was related to the shared service agreement and how much of that was for the accrual situation that you just mentioned?

Bill Carter - Momentive Specialty Chemicals, Inc. - EVP, CFO

Let us take a look. I think roughly, it was probably half and half. About, you know, half related to shared services in terms of that agreement and about half related to my comment on incentive.

Dixon Yee - Baxo Capital - Analyst

Okay, great, thank you very much.

Nov. 09. 2011 / 2:00PM, HXN - Q3 2011 Momentive Specialty Chemicals Inc Earnings Conference Call

Operator

And with no further questions in queue, I would like to turn the call back over to Mr. Craig Morrison for closing remarks.

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

I'd like to thank everybody for participating this morning. We always appreciate your interest. And we'll look forward to an ongoing conversation in future calls. So thank you very much. Bye bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect and have a great day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.