



# Hexion Inc.

## First Quarter 2015 Results

May 13, 2015

# Forward-Looking Statements

## Hexion Inc.



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,” “might,” “plan,” “estimate,” “may,” “will,” “could,” “should,” “seek,” “intend” or 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. For a more detailed discussion of these and other risk factors, see the Risk Factors section in our most recent Annual Report on Form 10-K and our other filings made with the SEC. 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.**



# Hexion Inc.

## Overview of First Quarter 2015 Results

**Craig O. Morrison**  
Chairman, President and Chief Executive Officer

# First Quarter 2015 Results



Quarter Ended March 31			
(\$ in millions)	2014	2015	Δ
Revenue	\$1,293	\$1,079	(17)%
Segment EBITDA <sup>(1)</sup>	120	127	6%

- First quarter 2015 revenues decreased 17% to \$1.1 billion reflecting primarily the negative impact of the U.S. dollar strengthening against other currencies and lower selling prices from the decline in oil prices globally
  - On a constant currency basis, net sales would have decreased by 9% for the quarter
- Total Segment EBITDA<sup>(1)</sup> increased 6% to \$127 million; 13% constant currency growth
  - Epoxy, Phenolic and Coatings Resins results increased by 6% primarily reflecting favorable demand for our specialty epoxy products and base epoxy resins offsetting softer results in oilfield proppants and the impact of the U.S. dollar strengthening against most other currencies
  - Forest Products Segment EBITDA reflected year-over-year gains in N. American forest product resins offset by planned customer turnarounds impacting our formaldehyde business

## Q1'15 Results Demonstrate Diversity and Global Reach of Specialty Product Portfolio

(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.

# First Quarter 2015 Results *cont.*



- Continue to execute strategic growth plan highlighted by our three formaldehyde sites currently under construction
- Achieved \$4 million in cost productivity actions from a program expected to generate \$30 million of run-rate savings
- Successfully completed \$315 million First-Priority Senior Secured Notes offering in April and received commitments from lenders for ABL Facility amendment; Total pro forma liquidity of \$763 million at March 31, 2015



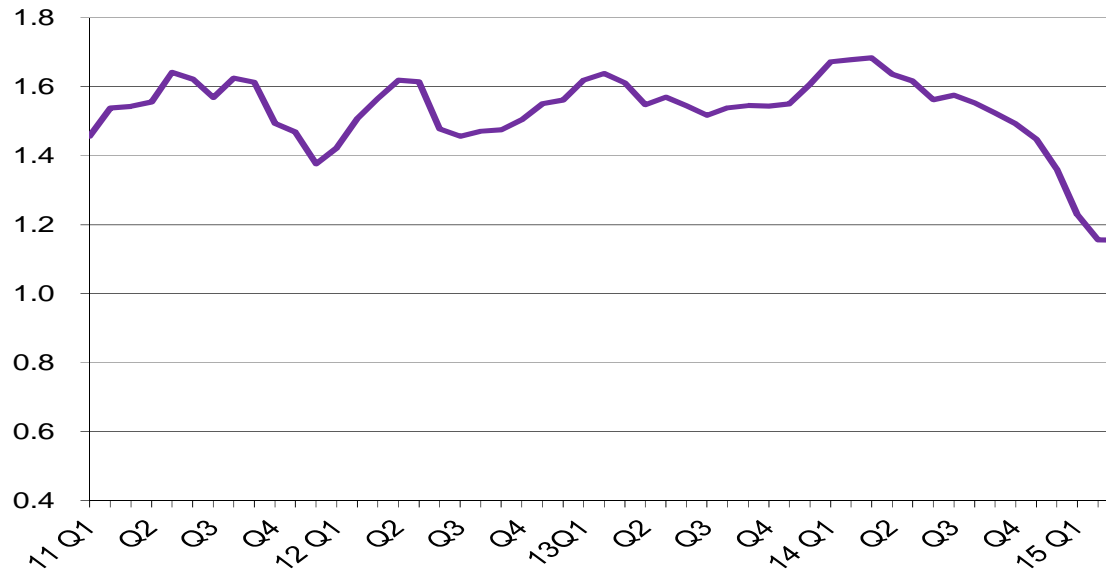
**Significant Pro Forma Liquidity of \$763 million**

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# Overview of Raw Materials Environment



Global Raw Materials Cost Index



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## Summary

- Q1'15 total raw material pricing declined approximately 18 percent globally on a sequential basis from Q4'14 due to decline in key feedstocks
- Q1'15 total raw material pricing declined versus Q1'14:
  - Phenol ↓ (33%); Methanol ↓ (31%) ; Urea ↓ (17)%
- Impact of declining Oilfield BU EBITDA offset by declining raw material prices in other business units

# Leading Supplier of Specialty Epoxies to Wind Energy Market

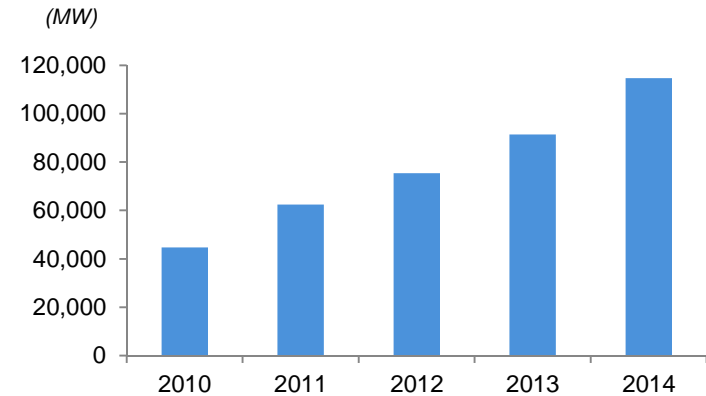


## Specialty Epoxy: Well Positioned in China

- Complete solutions provider for composite systems in wind turbines
  - Rotor blade infusion systems
  - Bonding pastes
- Leading supplier to wind energy customers in China
  - Wind energy installations drive demand
  - China continues to be main driver of growth in global wind markets
  - Cumulative installations reached nearly 115,000 MW,<sup>(1)</sup> up nearly 26% from 2013
- Chinese government continues to be supportive of wind energy expansion
- Hexion's specialty epoxy volumes continue to exceed prior peak in 2011
- Leveraging global footprint and recent strategic infrastructure investments
  - Itatiba, Brazil

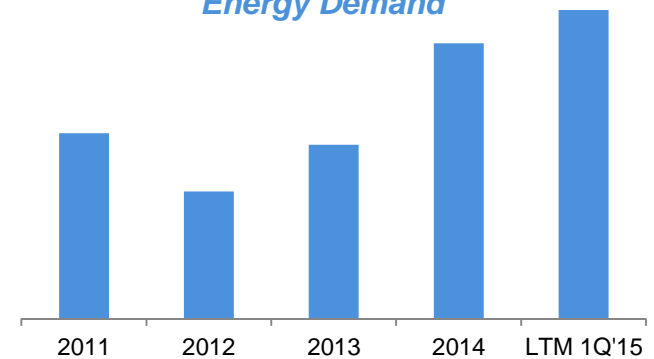


## Total Installed Wind Energy - China <sup>(1)</sup>



## Specialty Epoxy – China

(Volume kMT) **Strong Chinese Wind Energy Demand**



**1Q'15 EPCD PERFORMANCE SUPPORTED BY STRONG SPECIALTY EPOXY GAINS AND IMPROVING BASE EPOXY RESINS**

(1) Source: Global Wind Energy Council: "GWEC – Global Wind 2014 Report"



# Hexion Inc.

## Financial Review

**William H. Carter**  
**Executive Vice President and**  
**Chief Financial Officer**



# Epoxy, Phenolic and Coating Resins First Quarter 2015 Segment Results



(\$ in millions)	Quarter Ended March 31		
	2014	2015	Δ
Revenue	\$ 817	\$ 674	(18)%
Segment <sup>(1)</sup> EBITDA	80	85	6%
Segment EBITDA Margin	9.8%	12.6%	280bps

1Q'15 Sales Comparison YoY			
Volume	Price/Mix	Currency Translation	Total
(5)%	(5)%	(8)%	(18)%

## Summary

- Sales declined primarily due to negative currency translation, lower volumes from softer oilfield proppants demand and negative price/mix
- Key portions of specialty portfolio continued to perform well and drove significant margin improvement
  - Specialty epoxy resin business posted strong year-over-year EBITDA gains due to continued demand in the wind energy market
  - Continued recovery in base epoxy resins
  - Continue to expect Versatics™ supplier outage to be resolved by the end of third quarter 2015

(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

## First Quarter 2015 Segment Results



	Quarter Ended March 31		
(\$ in millions)	2014	2015	Δ
Revenue	\$ 476	\$ 405	(15)%
Segment EBITDA	62	61	(2)%
Segment EBITDA Margin	13.0%	15.1%	210bps

1Q'15 Sales Comparison YoY			
Volume	Price/Mix	Currency Translation	Total
(2)%	(7)%	(6)%	(15)%

### Summary

- Sales decreased primarily due to raw material price decreases passed through to customers and negative foreign currency translation
- EBITDA margin continues to improve reflecting favorable lead lag and strong performance in North American business
- Global formaldehyde expansion projects remain on track for 2H'15/1Q'16 completion

Location	Comments	Initial Production
Curitiba, Brazil	• Direct pipeline to customer site	3Q'15
Geismar, La. (BASF)	• Contracted volumes	4Q'15
Luling, La. (Monsanto)	• Investment Grade Customers	1Q'16

# Balance Sheet Update & Financial Summary



## Q1 2015 Summary

- Substantial liquidity: cash plus borrowing availability of \$462 million at March 31, 2015
- Generated strong cash flow from operations
  - \$35 million in 1Q'15 versus use of cash of \$102 million in prior year
- 1Q'15 capital expenditures of \$40 million
- Aggressively managing working capital
  - Favorable net working capital trends versus 1Q'14 primarily reflected foreign currency translation driven by strengthening U.S. dollar, lower raw material input costs and improvements in working capital efficiency
  - Net working capital remained a modest 11% of total revenue
  - For FY'15, anticipate a slight decrease in net working capital as compared to FY'14

## April 2015 Refinancing

- Hexion completed a \$315m 1st lien bond deal in April and upon closing of ABL amendment has pro forma liquidity of \$763 million
- Proceeds from the bond deal used to fund Hexion's growth program, increase liquidity and repay \$40 million of near-term maturities
  - Following the offering, Hexion has no material maturities until 2018
- Upon closing, ABL amendment increases borrowing base collateral to mitigate intra-year availability impacts from working capital fluctuations

**Net Debt: ~ \$3.7 Billion <sup>1</sup>**

(1) PF for April 2015 refinancing. See details of Hexion's total debt in the Appendix of this presentation.



# Hexion Inc. Closing Remarks

## First Quarter 2015 Closing Remarks

- Reported Segment EBITDA increased 6% to \$127 million; 13% constant currency growth
- Supplier outage impacting our Versatic™ Acids and Derivatives business is expected to be resolved by Q3 2015
  - Hexion is covered for losses under its insurance program and is in the process of pursuing additional recoveries. First insurance payment of \$9 million nearly offsets 1Q outage
- Negative FX impact of \$9 million is partially offset by cost savings initiatives of \$4 million
- Successfully executing strategic growth capital investments
  - Formaldehyde expansion projects remain on pace to come online in late 2015 and early 2016 to meet existing customer demand and support future growth
- Successfully completed \$315 million First-Priority Senior Secured Notes offering in April and received commitments from lenders for ABL Facility amendment
  - Total pro forma liquidity of \$763 million as of March 31, 2015
  - Proceeds from the bond deal used to fund Hexion's growth program, increase liquidity and repay \$40 million of near-term maturities

**Leveraging Strengthened Balance Sheet to Strategically Invest in our Global Infrastructure**

# Appendices

# Reconciliation of Non-GAAP Financial Measures



(In millions)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Segment EBITDA:</b>		
Epoxy, Phenolic and Coating Resins	\$ 85	\$ 80
Forest Products Resins	61	62
Corporate and Other	(19)	(22)
<b>Total</b>	<b>\$ 127</b>	<b>\$ 120</b>
<b>Reconciliation:</b>		
Items not included in Segment EBITDA:		
Business realignment costs	\$ (3)	\$ (6)
Integration costs	—	(2)
Realized and unrealized foreign currency losses	(3)	(3)
Other	(18)	(9)
Total adjustments	(24)	(20)
Interest expense, net	(77)	(77)
Income tax expense	(26)	(6)
Depreciation and amortization	(34)	(35)
Net loss	<b>\$ (34)</b>	<b>\$ (18)</b>

# Debt at March 31, 2015



(\$ in millions)

	March 31, 2015		December 31, 2014	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
ABL Facility	\$ 60	\$ —	\$ 60	\$ —
<b>Senior Secured Notes:</b>				
6.625% First-Priority Senior Secured Notes due 2020 (includes \$5 and \$6 of unamortized debt premium at March 31, 2015 and December 31, 2014, respectively)	1,555	—	1,556	—
8.875% Senior Secured Notes due 2018 (includes \$3 of unamortized debt discount)	1,197	—	1,197	—
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	20	20
<b>Other Borrowings:</b>				
Australia Facility due 2014	33	4	36	4
Brazilian bank loans	14	46	9	47
Capital Leases	8	1	8	1
Other	11	22	12	27
<b>Total</b>	<b>\$ 3,735</b>	<b>\$ 93</b>	<b>\$ 3,735</b>	<b>\$ 99</b>



