



# Momentive Specialty Chemicals Inc.

## Fourth Quarter and Fiscal Year 2013 Earnings Conference Call

March 31, 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 Fourth Quarter and Fiscal Year 2013 Results

**Craig O. Morrison**

Chairman, President & Chief Executive Officer

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# Fourth Quarter 2013 Results

	Quarter Ended December 31		
(\$ in millions)	2012	2013	Δ
<b>Revenue</b>	<b>\$1,084</b>	<b>\$1,199</b>	<b>11%</b>
<b>Segment EBITDA <sup>(1)</sup></b>	<b>84</b>	<b>79</b>	<b>(6)%</b>

- Total revenues increased 11% to \$1.20 billion in 4Q'13
- Total Segment EBITDA<sup>(1)</sup> decreased 6% to \$79 million
  - Forest Products Segment EBITDA increased 18% on improvements in the N. American housing market, emerging market growth and impact of productivity projects
  - Epoxy, Phenolic and Coatings Resins (EPCR) Segment EBITDA declined as strong oilfield growth was more than offset by cyclicalities in base epoxies and Versatic™ Acids
  - \$8 million increase in corporate and other expenses driven primarily by pension costs
- Continuing to invest in the growth of our specialty product portfolio
  - Strategically expanding our leading oilfield business through the acquisition of a resins coated proppants manufacturing facility in Shreveport, Louisiana, and capacity addition at an existing Diboll, Texas, facility
  - Enhancing forest products footprint in North America with the construction of a new formaldehyde facility in Louisiana

(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.

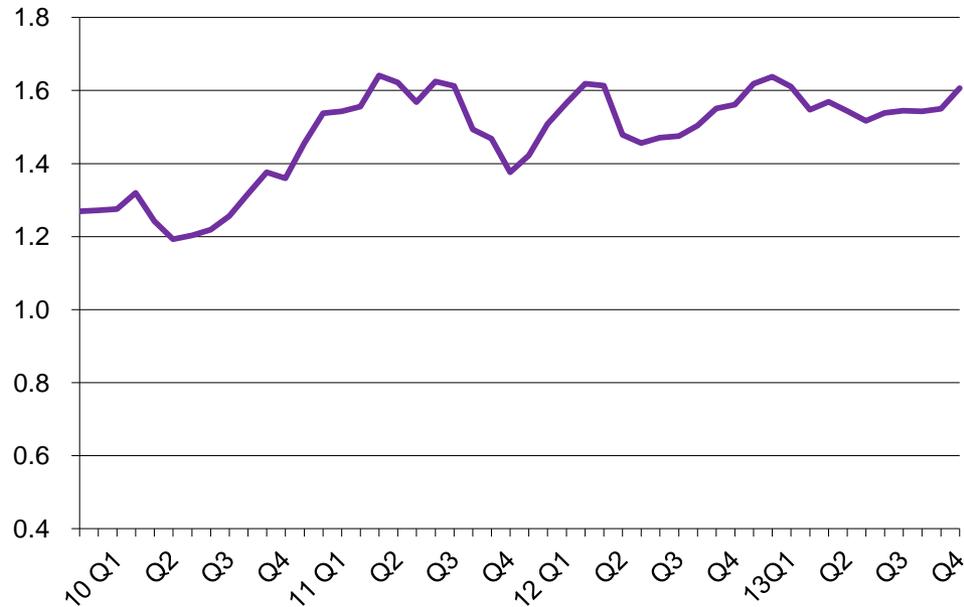
# Fiscal Year 2013 Results

	Year Ended December 31		
(\$ in millions)	2012	2013	Δ
<b>Revenue</b>	<b>\$4,756</b>	<b>\$4,890</b>	<b>3%</b>
<b>Segment EBITDA</b>	<b>490</b>	<b>422</b>	<b>(14)%</b>

- Total revenues increased 3% to \$4.89 billion in FY'13
- Total Segment EBITDA decreased 14% to \$422 million
  - Forest Products Segment EBITDA increased 15% in 2013 on improvements in the North American housing market and impact of productivity initiatives
  - EPCR Segment EBITDA declined as gains in oilfield and phenolic specialty resins were more than offset by cyclicalities in base epoxy resins and Versatic™ Acids
- Remain focused on further enhancing our cost structure and maintaining a strong balance sheet with significant liquidity
  - \$60 million of cumulative savings achieved under the Shared Services Agreement; \$8 million of in-process savings from Shared Services Agreement and other programs as of 12/31/13
  - Total liquidity of \$773 million as of December 31, 2013

# 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

- Q4'13 raw material pricing rose sequentially from Q3'13
- Key raw material input costs were individually mixed, but showed lower overall volatility vs. 2012
  - Phenol ↑ 5%; Methanol ↑ 18% ; Urea ↓ (26)%
- Remain focused on pricing and continuing to effectively manage input costs

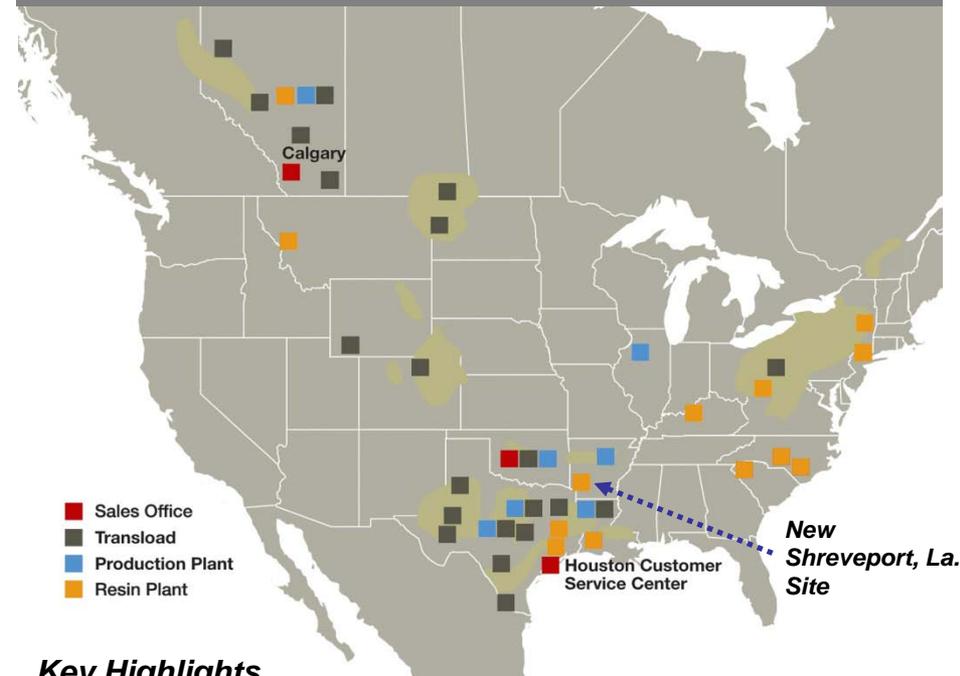
# Oilfield Technology Group Acquisition Supports Specialty Product Portfolio Growth

## Strategic Acquisition

- MSC recently completed the acquisition of a resin coated proppants manufacturing facility located in Shreveport, Louisiana from CRS Proppants LLC
  - The Shreveport facility has annual capacity of approximately 450 million pounds
- Strengthens MSC's position as one of the world's largest suppliers of resin coated proppants
- Acquisition provides immediate capacity for MSC to meet the growing demand for our oilfield products
- Acquired site's Haynesville shale region location and dedicated rail facilities complement our existing footprint



## Oilfield Technology Group Network



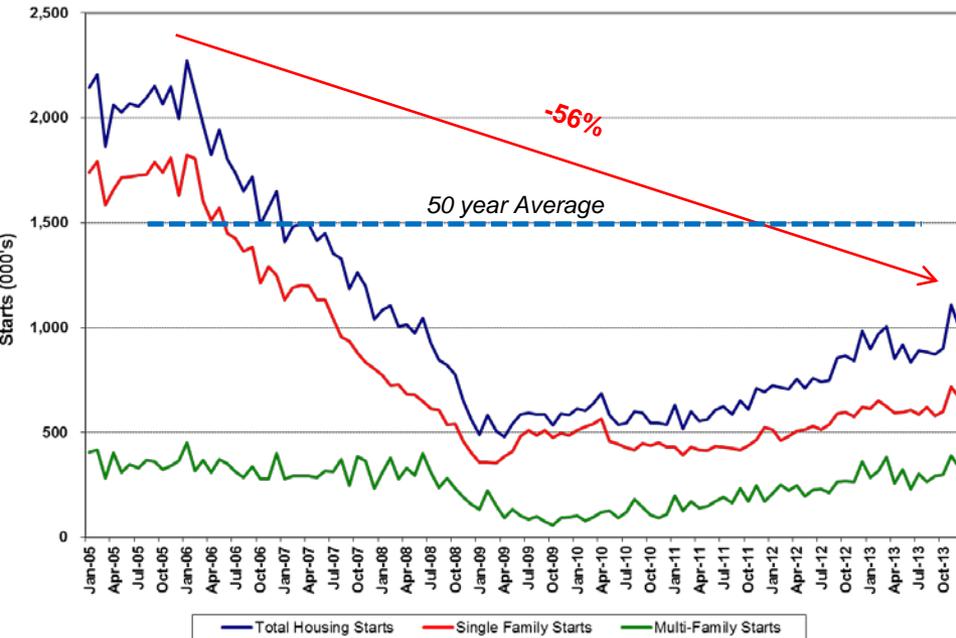
### Key Highlights

- Long-term demand for energy supports growth
- Horizontal drilling and shale boom – exponential volume impact
- New product development and reformulations delivering leading edge technology
- Cross-selling opportunities with silicone fluids

**LEADING TECHNOLOGIES COMPLIMENTED BY INTEGRATED NETWORK**

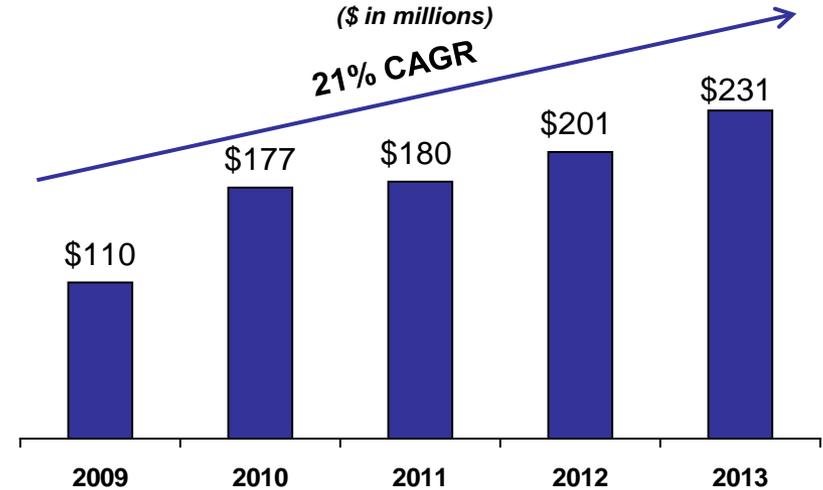
# Forest Products: Strong FY'13 Results

2005 –2013 U.S. Housing Starts



U.S. Housing Starts Declined Over 56%  
From Jan. 2006 to Dec. 2013

Annual Segment EBITDA



**Summary**

- Managing multi-site network is critical to maintaining low cost position
- 2013 growth reflects strong North American (housing) and Latin America (furniture) demand
- Differentiated Technical Service Model and New Product Development (Hexamine, Triazine) drive growth
- Significant operating leverage created by productivity initiatives and growth from the continued gradual recovery in N. American housing

**LEADING N. AMERICAN BUSINESS WITH SIGNIFICANT OPERATING LEVERAGE  
STRATEGICALLY INVESTED IN EMERGING MARKETS**



# Momentive Specialty Chemicals Inc.

## Financial Review

**William H. Carter**

Executive Vice President & Chief Financial Officer

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# Epoxy, Phenolic and Coating Resins

## Fourth Quarter 2013 Segment Results

### Quarter Ended December 31

(\$ in millions)

	2012	2013	Δ
Revenue	\$ 681	\$ 756	11%
Segment EBITDA <sup>(1)</sup>	46	40	(13)%
Segment EBITDA Margin	6.8%	5.3%	(150)bps

### 4Q'13 Sales Comparison YoY

Volume	Price/Mix	Currency Translation	Total
13%	(4)%	2%	11%

### Summary

- Sales increase primarily reflects volume growth within our oilfield, specialty epoxy and phenolic specialty resins businesses
- Despite strong gains in oilfield, Segment EBITDA declined by \$6 million year-over-year reflecting primarily cyclical in base epoxy resins and Versatic™ Acids

(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

## Fourth Quarter 2013 Segment Results

### Summary

- Sales increase primarily reflects volume growth in N. America and L. America
- Segment EBITDA gains were primarily driven by the aforementioned increase in volumes and operating leverage

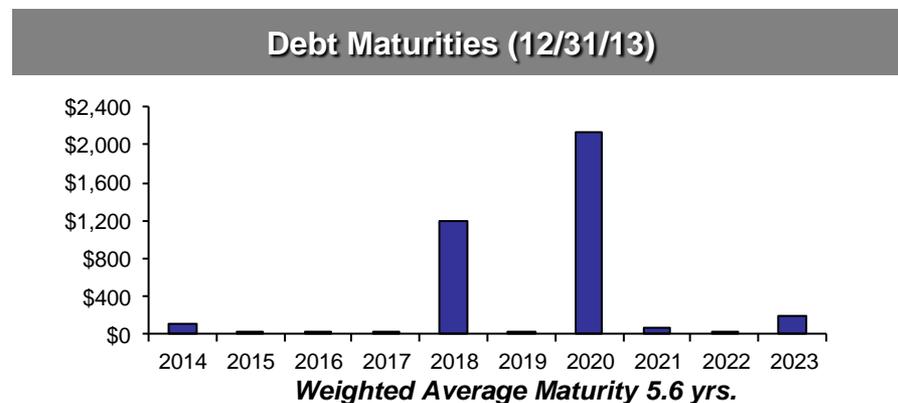
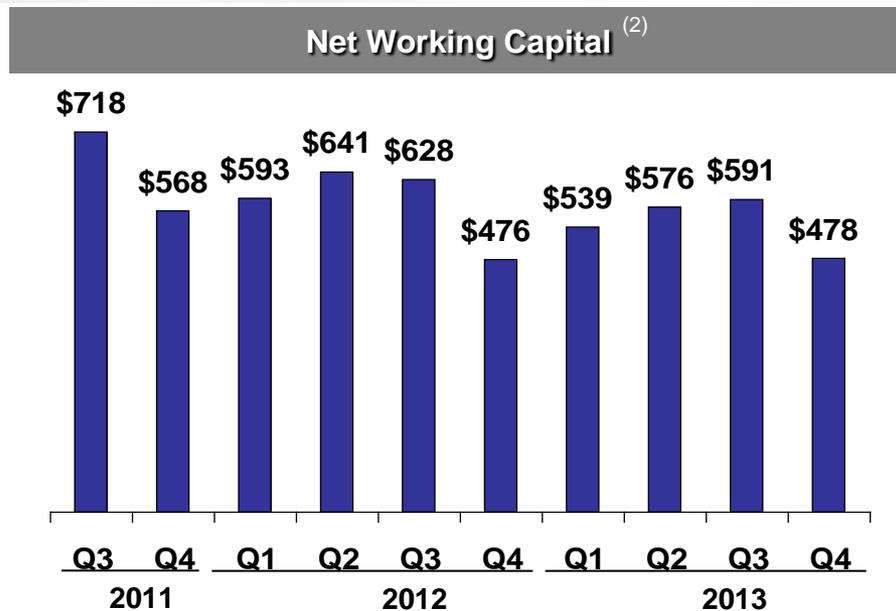
	Quarter Ended December 31		
	2012	2013	Δ
(\$ in millions)			
Revenue	\$ 403	\$ 443	10%
Segment EBITDA	50	59	18%
Segment EBITDA Margin	12.4%	13.3%	90 bps

4Q'13 Sales Comparison YoY				
Volume	Price/Mix	Currency Translation	Scope Change	Total
9%	5%	(3)%	(1)%	10%

# Balance Sheet Update & Financial Summary

## Summary

- Substantial liquidity: cash plus borrowing availability of \$773 million at December 31, 2013
- FY'13 capital expenditures of \$145 million
  - Expect capital expenditures of \$185 million to \$210 million in FY'14 to support site expansions
- Continued focus on working capital management
  - Net working capital remained a modest 10% of total revenue in 2013
- Following a \$1.1 billion refinancing in January 2013, the Company has:
  - No material debt maturities before 2018
  - No financial maintenance covenants currently in effect <sup>(1)</sup>



**NET DEBT: ~ \$3.4 BILLION (12/31/13)** <sup>(3)</sup>

(1) No financial maintenance covenants in MSC's capital structure except for ABL upon minimum availability trigger.  
 (2) Net working capital defined as accounts receivable and inventories less accounts and drafts payable. Recasted for discontinued operations.  
 (3) See details of Momentive Specialty Chemical's total debt in the Appendix of this presentation.

# Closing Remarks

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## Fourth Quarter and Fiscal Year 2013 Closing Remarks

- Strong Q4/FY'13 Forest Products results due to strategic investments in BRIC regions, the continued gradual recovery of the North American housing market and operating leverage
- Epoxy Phenolic and Coatings Resins results reflected strong oilfield performance offset primarily by cyclicalities in base epoxy resins and Versatic™ Acids businesses
- Executing against strategic growth initiatives
  - Most recent investments focused on oilfield and forest products businesses
- Remain focused on driving further cost structure enhancements and realization of shared services agreement savings
  - \$60 million of cumulative savings achieved under the Shared Services Agreement
- Strong balance sheet with significant cash and available borrowings of \$773 million as of December 31, 2013

**STRATEGICALLY INVESTING FOR GROWTH  
STRONG LIQUIDITY AND LONG-DATED CAPITALSTRUCTURE**

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# Appendices

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# Reconciliation of Non-GAAP Financial Measures

(In millions)

## Reconciliation of Segment EBITDA to Net (Loss) Income (Unaudited) (In millions)

(In millions)	Three Months Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
<b>Segment EBITDA:</b>				
Epoxy, Phenolic and Coating Resins	\$ 40	\$ 46	\$ 258	\$ 337
Forest Products Resins	59	50	231	201
Corporate and Other	(20)	(12)	(67)	(48)
<b>Reconciliation:</b>				
<b>Items not included in Segment EBITDA</b>				
Asset impairments	(174)	—	(181)	(23)
Business realignment costs	(6)	(6)	(21)	(35)
Integration costs	(1)	(4)	(10)	(12)
Other	6	(17)	(37)	(42)
Total adjustments	(175)	(27)	(249)	(112)
Interest expense, net	(76)	(65)	(303)	(263)
Loss on extinguishment of debt	—	—	(6)	—
Income tax (expense) benefit	(318)	35	(349)	384
Depreciation and amortization	(35)	(38)	(148)	(153)
Net (loss) income attributable to Momentive Specialty Chemicals Inc.	(525)	(11)	(633)	346
Net loss attributable to noncontrolling interest	(1)	—	(1)	\$ —
Net (loss) income	\$ (526)	\$ (11)	\$ (634)	\$ 346

- (1) This presentation contains non-GAAP financial information. Adjusted EBITDA is a non-GAAP financial measure as defined by SEC rules. Adjusted EBITDA is not intended to represent any measure of earnings or cash flow in accordance with US GAAP and the calculation and use of this measure may differ from other companies. Adjusted EBITDA should not be used in isolation or as a substitute for measures of performance or liquidity. Adjusted EBITDA should not be considered an alternative to operating income or net income (loss) under US GAAP to evaluate results of operations or as an alternative to cash flows as a measure of liquidity.
- (2) Momentive Performance Materials Holdings LLC (“Holdco”) is the ultimate parent company of MPM and MSC. **The MSC debt is not issued or guaranteed by HoldCo, Momentive Performance Materials Holdings Inc. (“MPM Holdings”), MPM or any of MPM’s subsidiaries, and is also not secured by any assets of such entities. None of HoldCo, MPM Holdings, MPM, or any of MPM’s subsidiaries is obligated with respect to any of MSC’s indebtedness or other liabilities. The MPM debt is not issued or guaranteed by HoldCo, Momentive Specialty Holdings Inc. (“MSC Holdings”), MSC or any of MSC’s subsidiaries, and is also not secured by any assets of such entities. None of HoldCo, MSC Holdings, MSC, or any of MSC’s subsidiaries is obligated with respect to any of MPM’s indebtedness or other liabilities.**

# Debt at December 31, 2013

(\$ in millions)

## Outstanding Debt

Following is a summary of our cash and cash equivalents and outstanding debt at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 393	\$ 419
Short-term investments	\$ 7	\$ 5
<b>Debt:</b>		
ABL Facility	\$ —	\$ —
<b>Senior Secured Credit Facilities:</b>		
Floating rate term loans due 2015	—	910
<b>Senior Secured Notes:</b>		
6.625% First-Priority Senior Secured Notes due 2020 (includes \$7 of unamortized debt premium at December 31, 2013)	1,557	450
8.875% Senior Secured Notes due 2018 (includes \$4 and \$6 of unamortized debt discount at December 31, 2013 and 2012, respectively)	1,196	994
Floating Rate Second-Priority Senior Secured Notes due 2014	—	120
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	60	62
<b>Other Borrowings:</b>		
Australia Term Loan Facility due 2014	35	36
Brazilian bank loans	58	59
Capital Leases	10	11
Other	21	16
<b>Total</b>	<u>\$ 3,774</u>	<u>\$ 3,495</u>

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