



# Hexion Inc.

## Fourth Quarter and Fiscal Year 2014 Results

March 10, 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 Fourth Quarter and Fiscal Year 2014 Results

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

# Fourth Quarter 2014 Results



Quarter Ended December 31			
(\$ in millions)	2013	2014	Δ
<b>Revenue</b>	<b>\$1,199</b>	<b>\$1,160</b>	<b>(3)%</b>
<b>Segment EBITDA <sup>(1)</sup></b>	<b>79</b>	<b>88</b>	<b>11%</b>

- Fourth quarter 2014 volumes increased by 1% while total revenues decreased 3% to \$1.16 billion as volume gains were more than offset by the negative impact of the U.S. dollar strengthening against other currencies
  - On a constant currency basis, net sales would have increased by 1% for the quarter
- Total Segment EBITDA<sup>(1)</sup> increased 11% to \$88 million
  - Forest Products Segment EBITDA increased 7%, primarily reflecting year-over-year gains in N. American formaldehyde and forest products resins
  - Epoxy, Phenolic and Coatings Resins results increased by 13% primarily reflecting favorable demand for our specialty epoxy products
    - While the base epoxy resins business remains below historical levels of profitability, recent trends have stabilized and Hexion expects improvement in 2015
    - EPCD gains were partially offset by softer results in monomers and dispersions businesses
- Begun implementation of a new cost savings program that will generate \$30 million of savings on a run-rate basis; expect savings of ~ \$23 million of savings in 2015

**Well-positioned To Generate Cash Flow And Drive Long-term Growth**

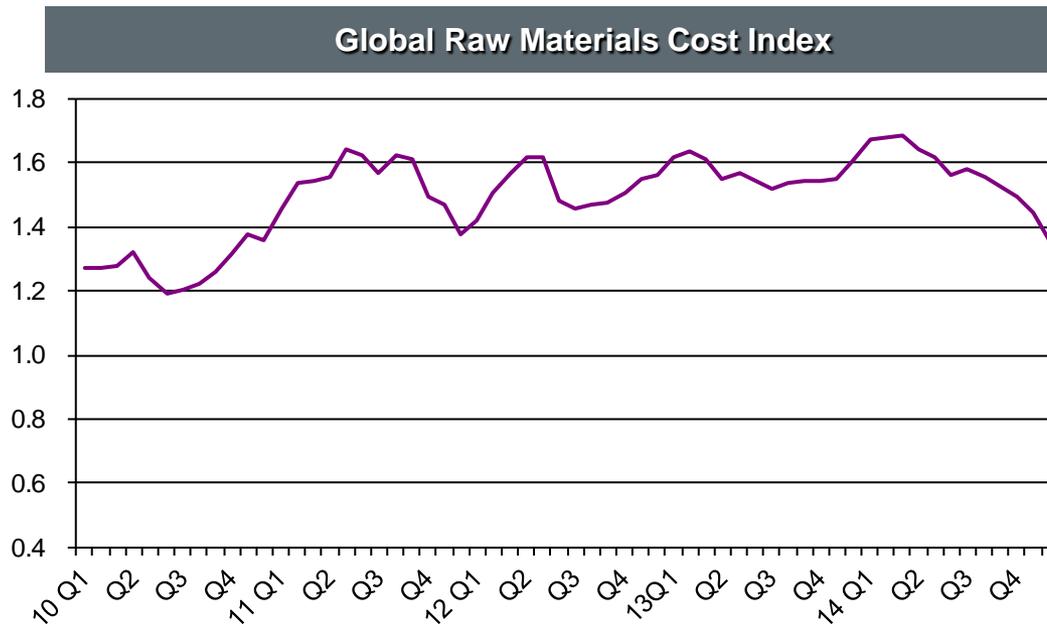
(1) Segment EBITDA is a non-GAAP financial measure. The closest GAAP financial measure is Net Income (Loss). A table that reconciles Segment EBITDA is at the end of this presentation., income taxes, depreciation and amortization) adjusted for certain non-cash and other income and expenses. Segment EBITDA 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 2014 Results



	Year Ended December 31		
(\$ in millions)	2013	2014	Δ
<b>Revenue</b>	<b>\$4,890</b>	<b>\$5,137</b>	<b>5%</b>
<b>Segment EBITDA</b>	<b>422</b>	<b>450</b>	<b>7%</b>

- Total revenues increased 5% to \$5.14 billion in FY'14
  - On a constant currency basis, net sales would have increased by 6 percent for the year
- Total Segment EBITDA<sup>(1)</sup> increased 7% to \$450 million
  - Forest Products Segment EBITDA increased 9% reflecting year-over-year gains in N. American formaldehyde and forest products resins, cost control and productivity initiatives, as well as favorable product mix
  - Epoxy, Phenolic and Coatings Resins results reflected strong oilfield proppants and specialty epoxy resin demand, partially offset by margin compression in base epoxies and cyclicity in the monomers and dispersions businesses
- Leveraging our global network to mitigate a one-time supplier force majeure issue impacting our Versatics™ Acids and Derivatives business, which is now expected to last until the end of the third quarter of 2015
  - Total negative Segment EBITDA impact of \$25 million to \$35 million; substantially offset by new cost savings program
  - Pursuing insurance recoveries
- Fiscal Year End 2014 cash and available borrowings of \$487 million



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

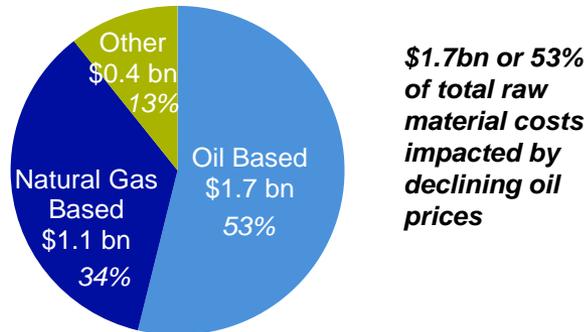
## **Summary**

- Q4'14 total raw material pricing declined approximately 8 percent globally on a sequential basis from Q3'14 due to decline in key feedstocks
  - Phenol ↓ (13%); Methanol ↓ (4%) ; Urea ↓ (8)%
- Key YoY raw material input costs were largely deflationary in 2014
  - Phenol ↓ (25%); Methanol ↓ (8)% ; Urea ↓ (5)%
- Continue to generally see raw material declines in the first quarter of 2015

# Oil Price Decline Is Expected To Have a Neutral Impact on Hexion in 2015

## Decline in Key Feedstocks ...

**\$3.2bn in Total Raw Material Costs**

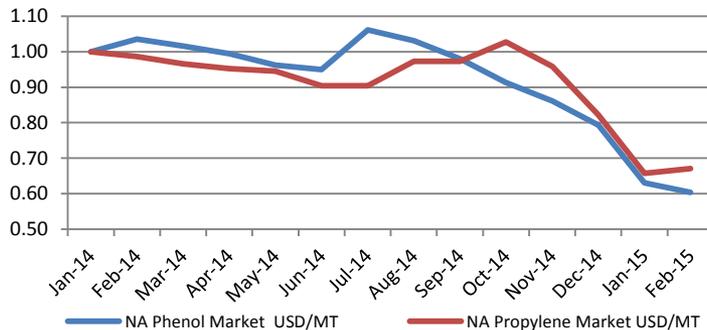


## ...Expected to Offset Impact of Potential OTG Revenue Decline

- Total oil and natural gas related portfolio represents ~12% of total revenue and ~87% of total raw material costs
- Potential revenue declines in FY 2015 from lower activity levels expected to be offset by raw material cost declines
- Oil and natural gas portfolio benefits from both product and geographic diversification as well as partnership with leading customers
- Medium to long-term outlook for North American oil and gas exploration remains positive and Hexion is well positioned to benefit

## Overview of Hexion Raw Material Spend (2014)

*Major Crude Based Materials (Indexed to January 2014)*



**Raw Material Declines Expected To Offset Potential Oilfield Revenue Pressure; Favorable Impact On Working Capital**

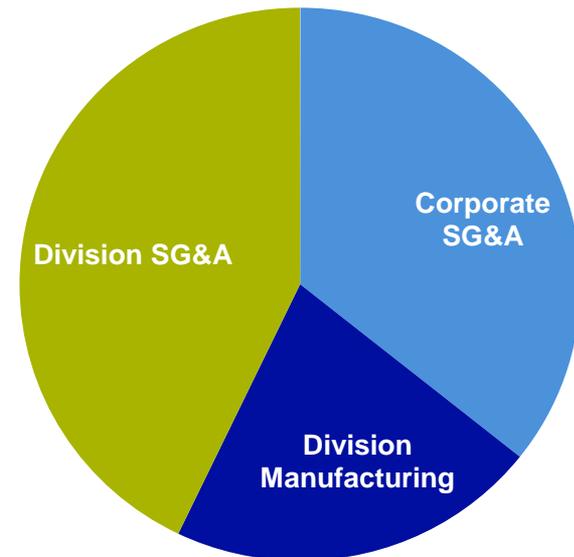
Note: Pie chart based on annual Hexion spend; Price Index Includes content supplied by IHS Chemical, Copyright © IHS Chemical 2015; All rights reserved

# 4Q'14/2015 Key Actions and Productivity Program

## Overview

- Implementing programs totaling ~ \$23 million of savings in 2015 and \$30 million on a run-rate basis once fully implemented
  - Streamline SG&A
  - Optimize high cost sites
- Historical track record of exceeding cost reduction programs
  - 140% of Hexion formation synergies
- Continue to evaluate Hexion's cost structure for incremental efficiency opportunities

## Incremental Productivity Targets



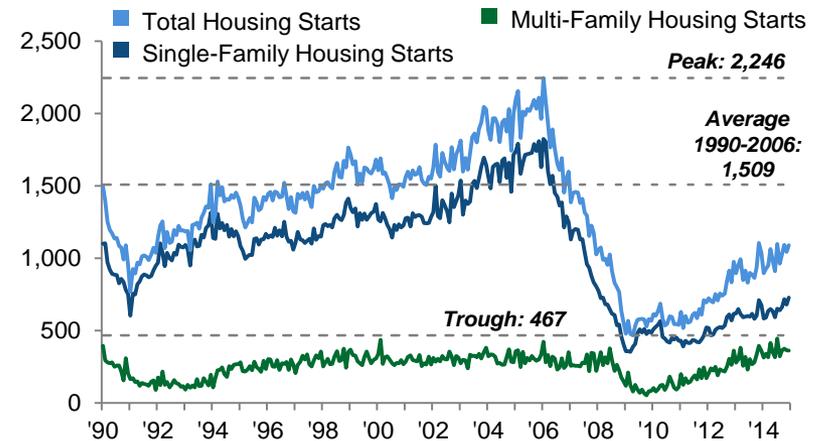
# Strong Forest Products Results Demonstrate Global Scale, Operating Leverage and Specialty Portfolio



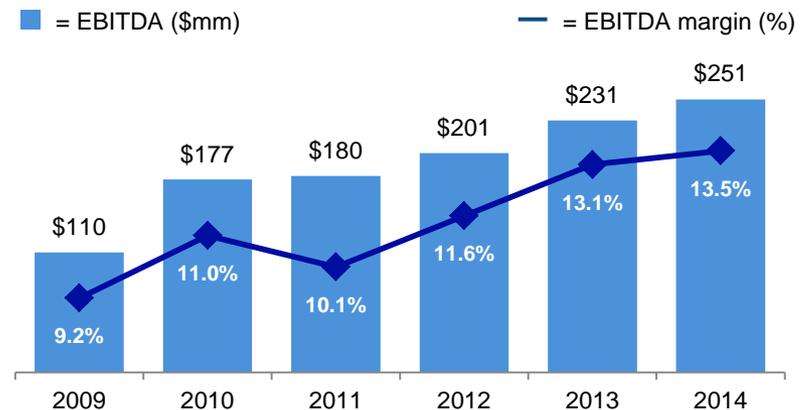
## Summary

- Largest market within Forest Products Segment is North American Resins
  - Demand driven by housing starts currently at 1.0 million and projected by 2017<sup>(2)</sup> to increase to 1.5 million annually
- N. America formaldehyde is driven by resurgent chemical industry in North America; two new plants being built in Gulf Coast region
- Proven track record of driving cost productivity and executing strategic investments in high growth regions (Montenegro, Brazil) and product lines
- Significant upside operating leverage created by productivity initiatives and increased volumes

## 1990 – 2014 North American Housing Starts<sup>(1)</sup>



## Segment EBITDA and EBITDA Margin



(1) Source: U.S. Census

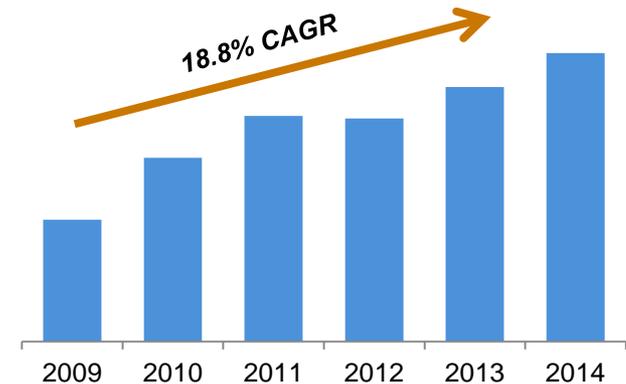
(2) Source: Forest Economic Advisors

# Executing Strategic 2014-2016 Growth through Formaldehyde Business Model

## Business Case

- Business model and plant network are differentiated through high degree of customer integration
- Due to strong demand, Hexion's formaldehyde business is approaching full capacity in North and South America
- Clear need to invest in capacity to meet customer demand. The next three sites provide that incremental capacity for ongoing growth
  - Three new formaldehyde plants are expected to provide ~\$30 to \$35 million incremental run rate EBITDA (based on anticipated volume growth from existing customer contracts)
- Accounts are served with pipeline service directly into customer site

## Formaldehyde EBITDA (\$mm)



## Strategic Investments (New Plants)

Location	End Market(s)	Division / Technology	Comments	Initial Production
Geismar, La. (BASF)	Industrial; MDI	FPD / Formaldehyde	• Direct pipeline to customer site	4Q'15
Luling, La. (Monsanto)	Agricultural	FPD / Formaldehyde	• Contracted volumes	1Q'16
Curitiba, Brazil	Industrial; Furniture	FPD / Formaldehyde	• Investment Grade Customers	3Q'15

## Key Principals

- Invest behind leading specialty technologies
- Enhance global asset footprint
- Partner with leading customers
- Focus on high ROI investments and prudently manage liquidity / balance sheet

**Significant Investments in 2014 and 2015 Are Expected to Continue Strong EBITDA Growth Trend**



# Hexion Inc.

## Financial Review

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

# Epoxy, Phenolic and Coating Resins Fourth Quarter 2014 Segment Results



## Quarter Ended December 31

(\$ in millions)

	2013	2014	Δ
Revenue	\$ 756	\$ 720	(5)%
Segment EBITDA <sup>(1)</sup>	40	45	13%
Segment EBITDA Margin	5.3%	6.3%	100bps

## 4Q'14 Sales Comparison YoY

Volume	Price/Mix	Currency Translation	Total
(1)%	1%	(5)%	(5)%

## Summary

- Sales declined primarily due to negative currency translation
- Key portions of specialty portfolio continued to perform well
  - Specialty epoxy resin business posted strong year-over-year EBITDA gains due to continued demand in the wind energy market
  - Successfully completed construction of our new phenolic specialty resins joint venture manufacturing facility in China in Q4'14
  - Force majeure that began in 4Q'14 is expected to be resolved by 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

## Fourth Quarter 2014 Segment Results



### Summary

- Sales decreased primarily due to negative currency translation which offset strong N. America formaldehyde demand and improved European volumes
- Segment EBITDA gains reflect higher volumes and favorable lead lag
- EBITDA margin continues to improve reflecting steady volume gains and ongoing cost control initiatives
- Continued focus on driving formaldehyde expansion projects to completion

(\$ in millions)	Quarter Ended December 31		
	2013	2014	Δ
Revenue	\$ 443	\$ 440	(1)%
Segment EBITDA	59	63	7%
Segment EBITDA Margin	13.3%	14.3%	100bps

4Q'14 Sales Comparison YoY			
Volume	Price/Mix	Currency Translation	Total
4%	(1)%	(4)%	(1)%

# Balance Sheet Update & Financial Summary

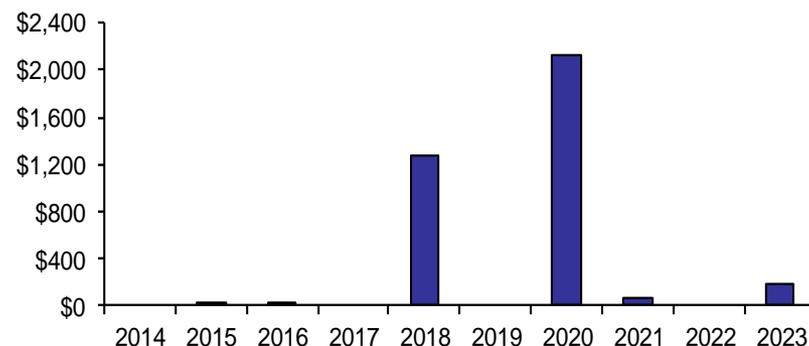


## Summary

- Substantial liquidity: cash plus borrowing availability of \$487 million at December 31, 2014
- FY'14 capital expenditures of \$183 million <sup>(1)</sup>
  - FY'15 capital expenditures expected to be lower than capital spending in 2014
- Aggressively managing working capital
  - As anticipated, 2014 net working capital reflected higher volumes from improving demand, as well as inventory builds at the end of 2014 in anticipation of planned maintenance shutdowns in early 2015
  - 2014 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

## Debt Maturities (Current)

(\$ in millions)



**Weighted Average Maturity 4.74 yrs.<sup>(2)</sup>**  
**No Material Debt Maturities Before 2018**

**NET DEBT: ~ \$3.7 BILLION (12/31/14)** <sup>(3)</sup>

(1) Excludes Jan. 2014 acquisition of oilfield manufacturing site in Shreveport, La. from CRS Proppants LLC.  
 (2) Excludes foreign local debt and capitalized leases  
 (3) See details of Hexion's total debt in the Appendix of this presentation.



# Hexion Inc. Closing Remarks

# Fourth Quarter and Fiscal Year 2014 Closing Remarks



- Continued strong Forest Products results driven by growth in North American formaldehyde and forest products resins in both 4Q'14 and FY'14
  - Despite current N. American housing starts remaining below long-term average, FY'14 marked sixth consecutive year of annual Segment EBITDA increases reflecting strong cost controls and operating leverage
  - Strategic expansion projects remain on pace to come online in late 2015 and early 2016 to meet existing customer demand and support future growth
- Epoxy, Phenolic and Coatings Resins demonstrated full-year improvement in specialty epoxy resins and oilfield proppants, which offset cyclicity in base epoxy resins and European dispersions
- Hexion expects that the recent decline in oil prices will have a neutral impact on overall financial results in 2015 as potential revenue declines from lower drilling activity will be offset by declining raw material costs across our portfolio
- Focused on balancing strategic growth projects with targeted productivity actions
  - Implementing ~ \$23 million of savings in 2015 and \$30 million on a run-rate basis
- Significant cash and available borrowings of \$487 million as of December 31, 2014

**Well-positioned To Generate Cash Flow And Drive Long-term Growth**

# Appendices

# Reconciliation of Non-GAAP Financial Measures



(In millions)

	Three Months Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
<b>Segment EBITDA:</b>				
Epoxy, Phenolic and Coating Resins	\$ 45	\$ 40	\$ 272	\$ 258
Forest Products Resins	63	59	251	231
Corporate and Other	(20)	(20)	(73)	(67)
<b>Total</b>	<b>\$ 88</b>	<b>\$ 79</b>	<b>\$ 450</b>	<b>\$ 422</b>
<b>Reconciliation:</b>				
Items not included in Segment EBITDA:				
Asset impairments	\$ (5)	\$ (174)	\$ (5)	\$ (181)
Business realignment costs	(23)	(6)	(47)	(21)
Integration costs	6	(1)	—	(10)
Realized and unrealized foreign currency losses	(11)	(1)	(32)	(2)
Other	(5)	7	(36)	(35)
Total adjustments	(38)	(175)	(120)	(249)
Loss on extinguishment of debt	—	—	—	(6)
Interest expense, net	(78)	(76)	(308)	(303)
Income tax expense	(3)	(318)	(26)	(349)
Depreciation and amortization	(35)	(35)	(144)	(148)
Net loss attributable to Hexion Inc.	(66)	(525)	(148)	(633)
Net loss attributable to noncontrolling interest	—	(1)	—	(1)
<b>Net loss</b>	<b>\$ (66)</b>	<b>\$ (526)</b>	<b>\$ (148)</b>	<b>\$ (634)</b>

# Debt at December 31, 2014



(\$ in millions)

## Outstanding Debt

Following is a summary of our cash and cash equivalents and outstanding debt at December 31, 2014 and 2013:

	2014	2013
Cash and cash equivalents	\$ 172	\$ 393
Short-term investments	\$ 7	\$ 7
<b>Debt:</b>		
ABL Facility	\$ 60	\$ —
<b>Senior Secured Notes:</b>		
6.625% First-Priority Senior Secured Notes due 2020 (includes \$6 and \$7 of unamortized debt premium at December 31, 2014 and 2013, respectively)	1,556	1,557
8.875% Senior Secured Notes due 2018 (includes \$3 and \$4 of unamortized debt discount at December 31, 2014 and 2013, respectively)	1,197	1,196
9.00% Second-Priority Senior Secured Notes due 2020	574	574
<b>Debentures:</b>		
9.2% debentures due 2021	74	74
7.875% debentures due 2023	189	189
8.375% sinking fund debentures due 2016	40	60
<b>Other Borrowings:</b>		
Australia Term Loan Facility due 2014	40	35
Brazilian bank loans	56	58
Capital Leases	9	10
Other	39	21
<b>Total</b>	<b>\$ 3,834</b>	<b>\$ 3,774</b>

