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# EDITED TRANSCRIPT

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

**Adam Goodwin** *Goldman Sachs - Analyst*

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**Lauren Gallagher** *Credit Suisse - Analyst*

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**Tim Ray** *Alcentra - Analyst*

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**Robin Russell** *Ornex - Analyst*

**Steve Ching** - Analyst

## PRESENTATION

### Operator

Good day, ladies and gentlemen. And welcome to the fourth quarter and fiscal year 2014 Hexion Incorporated earnings conference call. My name is Denise, and I'll be the 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 will now turn the conference over to Mr. John Kampa with Hexion. Please proceed, sir.

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### John Kompa - Hexion Inc - IR

Thank you, Denise. Good morning, and welcome to the Hexion Inc fourth quarter and fiscal year 2014 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 Finance 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 investor relations section of Hexion Inc. A replay of this call will be available for one 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 risks, uncertainties and other factors that may cause the Company's actual results in 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 forecast 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. Our 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 our recent SEC filings are also available on the internet at [hexion.com](http://hexion.com).

With that, I'll now turn the call over to Craig Morrison to discuss our quarterly results.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thanks, John. Turning to page 4. Let me first note that on January 15th, our previously announced name change became effective. The Hexion name has significant recognition in the marketplace. And it better aligns with our company's heritage. So we are pleased to bring back part of our legacy.

Turning to our results, fourth quarter 2014 volumes increased by 1% while total revenues decreased by 3%.

Volume gains were 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.

Our segment EBITDA totaled \$88 million, an 11% increase.

Our global forest products EBITDA increased by 7%, reflecting continued strength in year-over-year gains in our North American formaldehyde and forest product resins businesses.

Our forest products businesses continue to perform well and provides a basis for long term growth.

Our epoxy, phenolic and coatings EBITDA improved 13%, primarily reflecting favorable demand for our specialty epoxy products, offsetting softer results in our monomers and dispersions business.

While the base epoxy resin business remains below our historical levels of profitability, recent trends have stabilized. And we expect improvement in 2015.

We've also begun implementation of a new cost savings program that will generate \$30 million of savings on a run-rate basis, with 2015 savings of \$23 million.

Turning to slide 5 and our full year results. Revenues in segment EBITDA grew 5% and 7%, respectively, in 2014, compared to the prior year. On a constant currency basis, net sales would have increased 6% for the year.

Our forest products division segment EBITDA increased 9% due to gains in North American formaldehyde and forest product resins.

Our epoxy, phenolic and coating resins results reflected strong oilfield proppants and specialty epoxy resin demand, partially offset by margin compression in base epoxies and cyclical in our monomers and dispersions businesses.

The one-time negative impacts of the force majeure were offset by the positive impact of a legal settlement and the sale of intellectual properties related to an R&D project.

In this segment we are leveraging our global network to mitigate one time supplier force majeure issues impacting our Versatics Acids and Derivatives business, which is now expected to last until the end of the third quarter of 2015 and have a total negative 2015 EBITDA impact of \$25 million to \$35 million.

We are also pursuing recoveries under our business interruption insurance policies.

We ended 2014 with strong liquidity levels of \$487 million.

Turning to slide 6 and our combined raw material index. You can see that our raw material input costs decreased 8% in total, reflecting the downturn in our key feedstock costs in the fourth quarter of 2014 versus the third quarter of 2014.

Comparing full year 2014 to 2013, raw materials were largely deflationary. We saw decreases of 25% for phenol, 8% in methanol and 5% for urea.

We have also continued to generally see raw material decreases in the first quarter of 2015. Turning to slide 7, we've highlighted the elements that we believe will enable us to successfully navigate the recent volatility in oil prices.

Approximately \$1.7 billion or 53% of total raw material costs are impacted by declining oil prices. We've also highlighted the trajectory of decline in our raw materials.

Despite this volatility, we expect that the recent decline in oil prices will have a neutral impact on our overall financial results in 2015 as potential revenue declines from oil rig activity are balanced with raw material declines.

It's important to note that our oil and natural gas portfolio benefits from both product and geographic diversification, as well as strong partnerships with leading customers. We believe that the medium to long term outlook for North American oil and gas exploration remains positive and that we are well positioned to benefit going forward.

Turning to slide 8, I've summarized the key cost reduction initiatives that are currently planned in 2015. As we've disclosed in our last earnings call, we've identified a range of \$25 million to \$30 million in additional cost reductions.

We are now focused on implementing programs totaling \$23 million of savings in 2015 and \$30 million on a run-rate basis once fully implemented.

The areas remain consistent with those previously identified, such as streamlining our SG&A, manufacturing and improving the efficiency of high cost sites.

You can see directionally the breakout of the targeted reductions in the chart on the right.

Hexion has a strong track record of exceeding its stated cost reduction programs. For example, we've previously achieved 140% of the original Hexion formation synergies, and are confident in our processes to achieve our current targets.

In addition, we continue to evaluate our cost structure for incremental efficiency opportunities going forward.

Turning to slide 9, in our forest products division you can see the benefits of managing our cost structure while also simultaneously driving strategic growth initiatives.



The largest market within this segment is North American resins. Much of the demand for our forest product resins is driven by housing starts, which are currently at about \$1 million, as you can see in the chart in the upper right-hand side of the slide. Starts are projected to increase to about \$1.5 million annually, which should be a significant tailwind for this business.

North American formaldehyde is driven by the resurgent chemical industry in North America. And we have two new plants being built in the Gulf Coast region to meet customer planned expansions which are currently underway.

The combination of cost productivity actions and our ability to bring strategic investments to market, such as our Montenegro site, will support future growth as highlighted by steady EBITDA gains and margin improvements since 2009.

We believe there are significant upside operating leverage as volumes are projected to continue to grow over the five-year planning period.

Turning to slide 10, with two new plants in the Gulf Coast and a third in Brazil under construction, there's a strong business case for these investments.

Our business model and plant network are being differentiated through a high degree of customer integration. Both of the new Gulf Coast plants will serve our customers through adjacent plants and pipeline delivery.

Due to strong demand, our formaldehyde business is approaching full capacity in North and South America.

These next three sites provide that incremental capacity for ongoing growth.

Our three new plants are expected to provide \$30 million to \$35 million of incremental run-rate EBITDA based on the anticipated volume growth from existing customer contracts. These three plants will start up with very high plant loadings due to contracted volumes directly related to known customer expansions.

Again, you can see the steady recovery in this business since 2009 as we posted nearly a 19% EBITDA top-down annual growth rate.

Let me now turn the call over to Bill Carter, our CFO, to further discuss our quarterly results.

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**William Carter** - *Hexion Inc - EVP, CFO*

Thank you, Craig. Turning to our epoxy, phenolic and coating resin segment, revenue totaled \$720 million, a 5% decrease as price mix gains of 1% were offset by currency translation and slightly lower volumes that included the force majeure impact.

Segment EBITDA increased by \$5 million compared to the prior year. We posted strong gains in our specialty epoxy business due to continued demand in the wind energy market.

The fourth quarter also saw successfully completed construction of our new phenolic specialty resins joint venture in China.

As Craig previously mentioned, the force majeure situation is expected to be resolved by the end of the third quarter of 2015.

Turning to the next slide, in our forest products resins segment, sales totaled \$440 million, a 1% decline with negative currency translation of 4% and price mix headwinds of 1%, offsetting volume gains of 4%.

Segment EBITDA improved by 7% due to higher volumes and favorable raw materials trends.

Our EBITDA margin continued to improve based on steady volume gains and ongoing cost discipline.

Finally, as we move into 2015, we're very focused on driving our formaldehyde expansion projects to completion on time and on budget.

Regarding our balance sheet, we continue to carefully manage our liquidity position with cash plus borrowing availability under our credit facilities of \$487 million as of December 31st, and no near term debt maturities. This was an increase of \$31 million from our September 30th liquidity and near our previous year-end estimate of \$500 million, with the difference being the impact of FX on foreign cash.

Our capital expenditure investments totaled \$183 million in 2014, slightly lower than our latest guidance of approximately \$200 million due to timing changes for certain growth projects.

In 2015, we expect our 2015 capital expenditures to be lower than capital spending in 2014.

For our net working capital, our net working capital totaled \$563 million at the end of 2014. 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.

Despite an increase in 2014 compared to 2013, our net working capital remained a modest 11% of total revenue.

In 2015, we anticipate a decrease in net working capital as compared to 2014.

Let me now turn the call back to Craig to wrap up.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thanks, Bill. Turning to slide 16, in summary, our forest products business reflected strong performances in North American formaldehyde and forest product resins for both the quarter and the year.

2014 marked the sixth consecutive year of annual segment EBITDA increases, reflecting our new product development, strong cost productivity and operating leverages the housing market continues to improve.

Our strategic expansion projects will come online in late 2015 and early 2016 to meet existing customer demand and support future growth.

Our epoxy, phenolic and coating resins business demonstrated full year improvement, especially epoxy resins and oil field profits, which offsets cyclicity in base epoxy resins and European dispersions.

We also expect 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.

As always, we are balancing our strategic growth investments with cost control initiatives in other parts of our business.

We are now focused on executing our previously announced cost reduction program, which totals approximately \$23 million of savings in 2015 and \$30 million on a run rate basis once fully implemented.

In closing, we are also prudently managing our balance sheet, which includes \$487 million of cash and available borrowings.

Let me now turn it over to the operator for any questions that you might have.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Tarek Hamid, JP Morgan.

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### Tarek Hamid - JP Morgan - Analyst

Hi, gentlemen.

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### Craig Morrison - Hexion Inc - Chairman, President, CEO

Good morning.

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### William Carter - Hexion Inc - EVP, CFO

Good morning.

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### Tarek Hamid - JP Morgan - Analyst

Backing into that 12% of sales, you were sort of talking about energy business probably being a \$600 million business at the top line in 2014. Any call on how much of that is the wind energy business versus proppants and triazine and some of the other stuff in there?

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### Craig Morrison - Hexion Inc - Chairman, President, CEO

Yes. That 12% is all oil and natural gas. Wind energy is split out separately.

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### Tarek Hamid - JP Morgan - Analyst

OK. If that 12% is all, then that's great. And as you think about proppant demand over the last couple of months, any color on what you're seeing in terms of order patterns? Any changes? Or is that still early to tell?

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### Craig Morrison - Hexion Inc - Chairman, President, CEO

I think that it's well known and discussed in the industry that rig count in oil is coming down significantly. People have projected you'll see as much as a 50% decline by the end of the first half of this year. And you've probably seen somewhere between a 30% and 40% decline already.

So, clearly, we're feeling that, as are most other players in the industry. So there's clearly a significant weakening trend, and we're no exception to that.

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### Tarek Hamid - JP Morgan - Analyst

OK. And just from an inventory standpoint, this is normal? You guys have to de-stock down to normal levels and then you'll get to underlying demand? Or are inventories relatively tight going in?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

You're talking about specifically for that business unit?

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**Tarek Hamid** - *JP Morgan - Analyst*

Yes.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

We don't carry a tremendous amount of inventory. It's a fairly quick turn business for us. So there will, inevitably, be some degree of de-stocking. But it's not a large inventory business versus some of our other businesses where you're transporting material all around the world by ship. That doesn't exist in this business.

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**Tarek Hamid** - *JP Morgan - Analyst*

And then just quickly, on the formaldehyde side, with the startups coming on line end of this year, should we expect any material EBITDA contribution in 2015 from them? Or is that really a 2016 story?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

I think it's more driving into 2016, because it'll be around the middle to end of fourth quarter. So it's really a 2016 story.

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**Tarek Hamid** - *JP Morgan - Analyst*

Got it. That's it for me. Thank you, guys.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thank you.

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**Operator**

Roger Spitz, Bank of America Merrill Lynch.

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

Hi. Good morning. Thank you. On proppants, you're talking about maybe a 50% decline, I guess, in volumes for the industry you would expect to be similar. Should we think about, then, that your proppants EBITDA may decline around 50% in 2015?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Well, I think you're at more risk than that in the sense that you also have margin pressures that will affect the business, which, I think, is fairly normal when you see volume declines that people become more competitive. So in the short term, I think you'll feel those pressures until you start to see a recovery. And it's similar to what we saw in 2009 with the economic downturn.



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

OK. So we should think about it 50% in volumes downs plus competitive pricing pressure plus, presumably, the impact of unabsorbed fixed costs from lower volumes. Is that the right way to think about that?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. I would say that characterizes it fairly accurately. It's not an extremely high fixed cost business.

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**William Carter** - Hexion Inc - EVP, CFO

I would say the plants we run are relatively small in comparison to what you think of in Barry or other segments we have.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Your first two points are probably the more dominant points relative to short term issues.

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

Thank you. And maybe I missed a beat. But the first measure is the \$25 million to \$35 million that you called out. Was that the cumulative EBITDA impact for the first nine months of 2015? And does that include both the Pernis force majeure and the Akzo force majeure, although maybe the axo is done or nearly done?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Akzo was resolved in the fourth quarter of 2014, so it's not relevant to 2015 EBITDA. It was relative to 2014 fourth quarter results. But the numbers you are quoting are looking forward in 2015. And those would be specific to the [Mordyke] set of issues and the shale outage there which is impacting our Versatic business.

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

And I don't think you called out the impact of those force majeure in Q4, unless you called it out on this call. Was it the numbers you were expecting and talking about in the last call?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

It was slightly lower than that. And they were offset by the one-time events.

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

OK.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

So net-net, it turned out to be virtually no impact at all, only because you have offsetting one-time events, the IP.



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

OK. And in North America you called out how that business was strong. Can you give us some color in terms of whether that - was it the merchant formaldehyde business that was stronger or was it forest products, I'd presume, with OSB pricing, et cetera, one would suspect it's merchant formaldehyde that led the strength in that. But I ask you that.

Craig Morrison. Yes. When you look at the fourth quarter, it was actually the North American resins were the stronger piece. When you look at a full-year basis, then you would find that both businesses showed a nice growth on a year-over-year basis, with formaldehyde being the stronger double digit.

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

Got it. And the last one from me, the three formaldehyde plants you talk about the contractual volumes. Aggregating all three plants, if that's helpful in camouflaging a little bit, what percent of the formaldehyde volumes are under contract? Are the prices linked to indices? And are you making a fixed amount? Or are you taking a lot of market risk on that?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

No. You're probably around 80% that's contracted. We are indexed. And the margins are locked in via the contracts that are written. And it's really what's allowed us to always be very successful in this business and see a very strong CAGR EBITDA growth. So we feel very good about how those plants are positioned going forward, as we have any capacity expansions in that business.

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

Thank you very much.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Thank you.

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**Operator**

Adam Goodwin, Goldman Sachs.

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**Adam Goodwin** - Goldman Sachs - Analyst

Hi. Thank you for taking my questions. My first question, thinking about the proppants segment, in the past, I think you've always framed that business as being more so driven by the nat gas rig count versus the oil rig count. And you framed the gas to oil split as something like 75% to 25%. But is there any reason to believe that in the current environment that that relationship between the performance of proppants and the nat gas rig count breaks down, for whatever reason?



**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Well, we've been very successful in making a push into the oil side of the business as well. So that's continued to evolve where it's much more balanced now between the two. Natural gas has far fewer rigs in the field than does oil. But natural gas is dramatically less impacted. It's much more stable, even though we have natural gas down around \$2.70.

So the big driver of impact to us will be the oil side of the business. But that's grown dramatically due to introductions of new products that we've developed specifically for those wells.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

But when you're thinking about sales of proppants into the oil and gas space, is it a 50/50 split in terms of half of the proppants that you're selling are proppants used for nat gas fracking? And then the other half would be ...

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

That would be a fair assumption about that ratio.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

OK. And I know that proppants is showing a lot of volume growth since 2011. But did EBITDA in 2014 exceed that prior 2011 peak?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

No. There was a readjustment in the industry. Still very good margins. But it was an adjustment down from the absolute peak levels back at that time period.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

OK. And then I just wanted to clarify one point on proppants cost structure. Do you feel like declining phenol and frack sand costs are potential mitigants to the pricing and the volume issues that you'll probably be facing in 2015?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

I think, if you're talking about specifically the oil field profitability, those will benefit us.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Sure.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

But not in the order of magnitude of reduction of volume and margin.

I think when you look across the overall portfolio, as we stated, we believe the deflationary trend in raw materials will offset the overall negative impact in the decline of oil. But that's across the broader portfolio, and not just in the oil field BU.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Sure. And that actually leads me to my next question. If you look at phenol, propylene, methanol, they've all fallen pretty significantly. How sticky do you expect your non-contractual prices to be as costs come down? And could you maybe talk about in which businesses specifically than you think you might be able to retain more of that benefit in 2015?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. Generally, we're seeing a pretty good ability to maintain pricing at this point. I'd say that the parts that are not contractual in forest products we're doing well. I think bari right now has a positive environment, which we've referenced previously that is stabilizing to improving. So that's helping.

Specialty epoxy, I think, is very favorable. Versatics is, as well. I'd say the more problematic area for us right now is around monomers and dispersions where you have significant over-capacity in Europe where we're fairly large. And you have new capacity at [KMON] stream in monomers in the Middle East, which is clearly affecting that market. So it's probably the more problematic.

But it's something we have worked on very aggressively. And will continue to work on to maintain that advantage.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Got it. And then my last question, in the forest product segment, specifically on the last call, you mentioned that you're running your plants pretty hard. But when we think about 2015, based on the forecast that you've seen for new home starts, do you feel like you'll be able to accommodate another year of demand growth in that segment? Or do you feel more capacity constrained at this point?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

No. We have more than adequate capacity on the forest product resins. And the area may get tight that you have to ship in from another. But we have a very extensive network. And capacity will not be an issue in 2015 or for the foreseeable future.

The bigger capacity constraints we referred to are the formaldehyde that are running fuller. And that's why the three new plants will be a big advantage for us.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

OK. Great. Thanks a lot, Craig.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thank you. Appreciate it.

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**Operator**

James Finnerty with Citigroup.

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**James Finnerty** - Citigroup - Analyst

Good morning. Just a quick question on liquidity. What was the buying base for the liquidity calculation for \$47 million? Did it go down sequentially?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. It went down in the fourth quarter with a drop in working capital.

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**James Finnerty** - Citigroup - Analyst

As I remember, in the third quarter it was \$400 million, I think.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. In the fourth quarter it was approximately \$365 million.

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**James Finnerty** - Citigroup - Analyst

OK. In seasonality, should we expect that borrowing base to pick up in the first half of 2015 relative to the fourth quarter?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. And that's consistent with what we've seen in prior years. We normally have a drop in the fourth quarter. And then it picks up as you get into the first three quarters of the next year.

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**James Finnerty** - Citigroup - Analyst

OK. And then going back to the energy exposure you said 12% is oil and nat gas. Does that include the triazine?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes.

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**William Carter** - Hexion Inc - EVP, CFO

Yes.

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**James Finnerty** - Citigroup - Analyst

And can you give us an idea, is it 10% is proppants and 2% is triazine? Is that a good way to think about it?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. It's a relatively small percentage of the total.

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**James Finnerty** - Citigroup - Analyst

And then with the 18% overall energy exposure is still holding for full year 2014?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes when we talk about adding in wind energy. Yes.

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**James Finnerty** - Citigroup - Analyst

Yes. Exactly. OK. And let's see what else. And in terms of liquidity, going back, you mentioned a legal settlement and a sale of some technology. Did you quantify that? I don't know if I missed that.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. We haven't specifically quantified it. But to Craig's earlier point, it basically offset the force majeure impact we had in the fourth quarter, which we'd previously disclosed was in a \$10 million to \$12 million range.

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**James Finnerty** - Citigroup - Analyst

And I guess the last question would be on the formaldehyde. Margins are up year-over-year and up over many past years. Just looking at it, are we near top of cycle margins for that business? Or have changes in terms of the raw material base adding MDI capacity in North America, and you adding supply to match that? Should we expect higher margins in 2015 and 2016 than 2014? Or do you think we should think about it in terms of more in line with what we saw in 2014?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. We don't consider formaldehyde to be driven by a cycle as far as margins go. Its structural productivity initiatives, cost initiatives, growth initiatives are leveraging a very unique network that we think we've fundamentally built in the margins that applied in 2014.

Generally, 2014 margins will be indicative of the next few years going forward with modest improvements as we continue to drive productivity initiatives. So this is not something that we consider to be cyclically driven.

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**James Finnerty** - Citigroup - Analyst

OK. And the last question. Just in terms of your overall commentary for 2015, it seems to be implying that if all your assumptions hold true that 2015's EBITDA should be similar to 2014? Should we think of it in those terms?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. We don't give forward-looking guidance specifically. We've talked about some of the negative that exist in the sense of the force majeure with shale. We've talked about some of the positives to offset it in the sense of cost reduction initiatives, et cetera.

Then there's always other factors, like pension, FX, other productivity initiatives. But we don't give specific guidance.

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**James Finnerty** - Citigroup - Analyst

OK. Thank you.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Thank you.

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**Operator**

Richard Gus, Jefferies.

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**Richard Gus** - Jefferies - Analyst

Hi, Guys. You touched on it in that last response that you gave. Can you frame how you think about FX and the potential impact that you may see as a result of that as you look out to 2015?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. I don't want to give specific guidance. But as you think about FX for us, we'll certainly see the translational impact. And you know from prior presentations that about half of our business is international versus domestic.

From a transactional perspective, we are pretty well hedged around the world. We tend to operate, both from a cost and a revenue perspective, in local currency. So we expect that impact to be very small. And from an overall perspective, you'll see a translational impact.

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**Richard Gus** - Jefferies - Analyst

OK. Understood. Thank you. And then, you had mentioned the base epoxies business and the improvement that you are seeing there. What's really driving this? Is this your expectation for better price in that business? Or really better demand? Or really more just lower input costs?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

You really have a number of factors that are affecting that business right now. One is, clearly, the lower input cost.

A second factor is the FX. Exchange rate in Europe is actually an advantage because it builds a little bit of a barrier from imports into Asia.

A third factor is BPA right now is very tight in Asia. And you should think of barrier as a chain that once one point in the chain goes tight, it tends to affect the whole chain. You last saw that with ECH a few years ago when there were some changes in the regulatory environment around environmental in China.

There's a number of different factors that I think have created a confluence of events that are creating a more favorable environment. And we're trying to take advantage of that.

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**Richard Gus** - *Jefferies - Analyst*

OK. It's not exactly that you're seeing better demand or expect to be able to push price in that business, right?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

We are, through all those events I just talked about, it's fully giving us more leverage to hold price as well as fall. And we're possible to try and push price.

We carefully monitor every single lever we can, including cost, including how do you leverage exchange rate. There's pricing opportunities, et cetera, et cetera. So there's a number of different things coming together that are helping us to expand margins right now.

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**Richard Gus** - *Jefferies - Analyst*

OK. And then, lastly, for me, on the cost saves, I think you had mentioned \$23 million of savings here in 2015. This, to be clear, is an additive to programs you had previously announced. Correct?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. That is correct.

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**Richard Gus** - *Jefferies - Analyst*

OK. Thank you, guys.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thank you.

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**Operator**

Lauren Gallagher, Credit Suisse.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

Hi, guys. Following up a little bit on the base epoxies business. With the stabilization and improving trends. Could you or do you foresee this business potentially becoming EBITDA positive in 2015?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Directionally, we think that's the direction it's going. Yes.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

All right. It could be move positive at some point throughout the year?



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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

OK. Secondly, in terms of CapEx guidance, guided 2015 is expected to be lower than 2014. Should we use that \$183 million number as 2014? Or should we factor in the ...

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**William Carter** - *Hexion Inc - EVP, CFO*

No. You should use our actual for 2014 as the guidance for 2015 being lower.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

OK. And that's inclusive on spending on the formaldehyde project?

William Carter. Yes. Yes. Both numbers would include the formaldehyde growth projects in terms of ...

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**Lauren Gallagher** - *Credit Suisse - Analyst*

OK. And any additional color on the magnitude of decline? Or it just sits a little bit lower?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

I would say it is a small decline. We're not back yet to our run rate when you think of our CapEx and the 140, 150 range. But we are heading back there and will be back there as we get into 2016, once the plants are complete.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

On liquidity throughout the year, do you have any general view on liquidity as of 2015 year-end, whether it will be similar, slight up or slightly down?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I don't want to give specific guidance on liquidity other than, certainly, to say that, as you think about 2015, certainly, with capital spending being lower, with the benefit we believe we'll get on working capital in terms of lower raw materials, with the price with the drop in a low, and that flowing through accounts receivable, account inventory, that those benefits certainly help drive, certainly, liquidity levels that we believe are appropriate to run the business.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

And then a final question. In terms of first-lien capacity, do you have a public view on what your current capacity is? And any view on if you'd use it at any point?



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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I don't want to comment on that right now. I think, in terms of intentions, we don't want to speculate on the call.

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**Lauren Gallagher** - *Credit Suisse - Analyst*

OK. Appreciate the answers. Thank you.

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**Operator**

Bill Hoffman, RBC Capital Markets.

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**Bill Hoffman** - *RBC Capital Markets - Analyst*

Yes. Hi. Our questions have been answered. Thank you.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thanks, Bill.

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**Operator**

Brian Lalli, Barclays.

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**Brian Lalli** - *Barclays - Analyst*

Good morning. Most of my questions have been asked as well. But just a couple quick follow-ups.

Just so I'm clear, what's the cost to achieve those \$30 million savings in 2015? And again, maybe this goes back to those \$23 that have already been achieved. I just want to make sure I understand what the impact will be.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I think the cash impact is going to be in a \$12 million to \$13 million range. As you know, these are mostly around headcount reductions, which attach a severance number to it.

---

**Brian Lalli** - *Barclays - Analyst*

Sure. The net impact is some positive \$10 million or something to EBITDA in 2015 actual. I understand that you'll be at that that \$30 million run rate by the end of the year. Is that fair?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I would maybe a little less than that. But in that range.



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**Brian Lalli** - *Barclays - Analyst*

I understand. You mentioned around this force majeure a potential for insurance settlements. I understand I'm sure you don't want to give specifics. But is there a range that we should think about? Is this something where you could potentially recoup all of the EBITDA that you've lost? I just want to make sure that we're thinking about it framed up the right way.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I don't think at this point we really want to comment on recoveries. I'd say we're having constructive discussions.

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**Brian Lalli** - *Barclays - Analyst*

OK. And then, I guess, lastly, just focusing back on the balance sheet, I'm sure you guys know where your bonds are trading. Two things. One, has the Company, maybe in the subsequent period, done any bond repurchases? Or is that something that you would look at?

And then, secondly, what are just your general thoughts around reducing interest expense, knowing that you do have an 8-7/8 bond that's currently callable? Just how do you think about capital markets and the plan here as the EBITDA grows in 2015 and 2016? Thanks.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I don't want to comment on any specific thoughts we have around that. We obviously already have public disclosure and have had it. From time to time, we will consider bond repurchases. But nothing specific to talk about on this call.

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**Brian Lalli** - *Barclays - Analyst*

OK. Great. Thanks, guys.

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**Operator**

[Marianna Kirshner], Nomura Asset Management.

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**Marianna Kirshner** - *Nomura Asset Management - Analyst*

Hi. I have a few questions. First of all, to follow up on the proppant discussion. If we assume oil prices and natural gas prices to stay here at around \$50, WTI at \$2.74 and we have -- and the recount declines to the level that's needed by producers, how would the impact look like, let's say, in 2016? Again, I'm going back to this idea that, eventually, perhaps, the raw materials will have to be passed through while the activity just stays depressed.

Would eventually the impact be negative?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. Our target would be to continue to offset in 2016 as well. First of all, we believe there will be an initial downdraft on the oil rig count. But as those rigs go down, there will be a natural resetting. And we believe you'll have somewhat of a bounce back on both the rig count as well as the output requiring our product.

The second thing is 40% to 50%, we're not under contract. So we have flexibility to try and hold that umbrella.

The third thing is when you look at things like tier twos, which are oil-based, you have about \$0.5 billion that are not index there. So that's something that you'd be able to retain, whether it's contractual or not, potentially.

And you have freight, which is another significant potential benefit at about \$350 million in freight logistics.

And the final thing is you always what we talked about earlier around pricing strategies. Our goal would be to continue to offset that moving into 2016. And so far, we think that would be feasible.

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**Marianna Kirshner** - *Nomura Asset Management - Analyst*

OK. OK. Thanks for that. And then another question on energy. We've been reading the articles about a very significant inventory of drilled but not completed wells. I think someone estimated as high as 3,000 wells. If that is correct, would that slow down the impact of decline in proppant use?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I think that number's probably high when you look at the numbers that we've seen. It's clearly part of the equation as to a slowing decline and profit use, et cetera. But it's all part of the general trend of a reduction of about 50% drill rate. So I'd say it's factored into that larger number as you think about it.

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**Marianna Kirshner** - *Nomura Asset Management - Analyst*

OK. And then on the growth plans, the incremental EBITDA that you guided us to, that's for the formaldehyde plants. Right? The three formaldehyde plants. But what I wanted to clarify for the China plant, phenolic plant that came on line in the end of 2014, what's the expected contribution of that in 2015?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

It's an important strategic investment for us in terms of getting us the footprint in an important product line. And I think a lot of bigger replications going forward. But it's a relatively modest size plant. And I don't think it'll be a significant factor in 2015. Maybe a couple of million dollars. But it's not going to be a major driver.

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**Marianna Kirshner** - *Nomura Asset Management - Analyst*

And then, you mentioned that certain monomers in Europe remain in an over-capacity situation. Which monomers are you referring to?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

These are our acrylic monomers Yes. And, really, the big change is the imported material from the Middle East with new capacity coming on line there.

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**Marianna Kirshner** - *Nomura Asset Management - Analyst*

OK. OK. Thank you.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thank you.

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**Operator**

(Operator Instructions). [Tim Ray], Alcentra.

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**Tim Ray** - *Alcentra - Analyst*

Hi. It's Tim Ray with Alcentra. I have a question just around CapEx. I think maintenance level is \$140 million to \$150 million. That leaves, I think what you're saying, \$25 million to \$30 million to complete the new plant.

Can you remind us what the total cost was for those plants that was spent?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. Maybe just to start out, I think what we've previously talked about is total capital levels. If you look at our historical numbers are in the \$140 million to \$150 million. So, historically, the maintenance and EH&S has been about half of that. And then smaller growth projects has made up the difference.

So we talk about, for instance this year being \$183 million, that includes what I would call normal capital plus incremental capital for these plants. As we get into next year, again, we believe our CapEx will lower in 2015 than 2014. That would still include the capital required for these three plants, as well as other maintenance, EH&S and smaller growth programs.

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**Tim Ray** - *Alcentra - Analyst*

OK. OK. I know it's early to talk about it. It sounds like you just said it. But you have nothing right now on the docket or even on the drawing board for incremental projects that you might undertake for 2016?

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**William Carter** - *Hexion Inc - EVP, CFO*

No. I think, to Craig's early comments, our focus is certainly on bringing on the formaldehyde capacity in terms of needed capacity for growth there. I think our view is, in terms of significant projects, we generally have enough capacity in those businesses. And we'll simply have a number of smaller growth programs.

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**Tim Ray** - *Alcentra - Analyst*

OK. Great. And just one final follow-up. On the volumes of those new plants, you mentioned that roughly 80% of those are contracted and their indexed. So they should price similar to the way things have priced in that segment for you otherwise.

Was I right in hearing that it all hinges on customers increasing their volumes? And that's what this capacity is on to [feed]? In other words, it's not a take or pay. People are going to use this as they grow because there's a natural short in that market?

And then the last part is - and you're piped into those customers, if I understood that correctly. Is that right?



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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

We are piped in. We feel extremely good about those expansions. If anything, there's more expansions being talked about. And it directly relates to the cost of natural gas. So the likelihood is customers would shut down higher cost facilities elsewhere in the world and ship out their MDI, BDO and other products that they produce and that we feed into.

We also have capabilities if, for instance, a turnaround is going on in a customer's plant to ship truckloads, which is the way we transport our rail cars - a large amount of our formaldehyde anyway.

We feel very, very well-positioned. And that sort of strategy is what allowed us the success we've had over, really, the last few decades.

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**Tim Ray** - *Alcentra - Analyst*

OK. Thanks.

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**Operator**

David Troyer, Seaport.

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**David Troyer** - *Seaport Capital - Analyst*

Hi. Good morning. Thank you.

I suppose you don't want to change the whole dynamic of Q&A here and forever and just disclose your proppant EBITDA contribution for 2014, do you?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

No. I appreciate the question. But we'll probably pass on that one.

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**David Troyer** - *Seaport Capital - Analyst*

OK. Following up on Tim, just maybe asked a different way. For the formaldehyde plants, do you think as they come on stream are you capturing market share? And I know you're confident that you'll get those volumes because of the pipes and contracts. But are you displacing somebody else who has to run around and find a new home? Or are you - I think like Tim alluded to - you'll bring this into growing demand?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

No. I mean, when you look at it, this is really significant growing demand in the U.S., again, as the shale gas play. And here, you're largely talking natural gas-based products - is making it so economic to produce in the U.S. again. So a lot of chemical companies are coming back and installing capacity.

And, as I know you're aware of, David, that the vast number of projects on the Gulf Coast.



So that's the driver for the two plants in North America. In Latin America, it's the fastest growing forest product region in the world in terms of tree growth. So we have a regular increase of demand down there. Resins needing formaldehyde. As well as also companies requiring usage for formaldehyde as intermediates, just like in North America. Again, that also has been a very consistent growth vehicle for us.

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**William Carter** - *Hexion Inc - EVP, CFO*

And these are customers in each case that we already have a business relationship with.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

These are very large blue chip customers that we've been doing business with for decades.

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**David Troyer** - *Seaport Capital - Analyst*

Second question on working capital. So many moving parts here with low raw materials, with proppant slowdown. I suppose there's probably some working capital build that needs to occur to start up the formaldehyde plants.

Seasonality aside, can you help guide us towards what the net-net-net affect of working capital in all of 2015 might be?

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**William Carter** - *Hexion Inc - EVP, CFO*

Yes. I will tell you we believe working capital in 2015 will end up lower than working capital 2014 that will be a cash generator from a working capital perspective. More than just a couple percent.

As you think specifically of the formaldehyde plants, we have very, very, very low to no formaldehyde inventory because, generally, on the pipeline plants, it is literally being made and going down the pipe.

And even to Craig's point, when we're shipping by truck, we don't have a lot of tankage. It's generally made, put in a truck and sent to the customer.

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**David Troyer** - *Seaport Capital - Analyst*

And one final question is on the cost reduction. You've already discussed it at length. But to the extent that there are any incremental costs arising from the separation with Momentive - and I don't know how large that may or may not be - but are these numbers inclusive of any incremental Momentive-related costs? Or might there be offset by any costs?

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**William Carter** - *Hexion Inc - EVP, CFO*

I think you could consider them to be inclusive. There aren't significant costs around that. But these would be a net number inclusive of any programs we have.

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**David Troyer** - *Seaport Capital - Analyst*

That's all I have. Thank you very much.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thank you.

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**Operator**

Adam Goodwin, Goldman Sachs.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Thanks. I just have two quick follow-ups. You briefly alluded to this. But for proppants, could you just talk about the nature of your customer contracts in that part of the business? Some competitors in the industry have take or pay agreements. But I'm just wondering if that's also the case with you guys?

And just wanted to confirm that this is not a contractual cost pass-through business. Is that correct?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. No. We do not have those particular contracts of take or pay. And it is not largely a structured pass-through on index or anything else. It's a -- (multiple speakers).

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**Adam Goodwin** - *Goldman Sachs - Analyst*

OK. Got it. And then in terms of your insurance litigation related to the shale outage, are you guys seeking to recoup only what was lost in the first quarter? Or do you think that you're insured against losses that you expect to incur throughout the course of 2015?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

We would target recouping losses throughout the entire time period. But, obviously, those things have to be negotiated and ruled on. So it's not something we'll speculate on.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

And then, lastly, the \$20 million of proceeds from asset sales during the quarter, what was that related to? And is there any EBITDA that's going to be lost related to those sales?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

No. It was the sale of an idle property we had in the western United States that had been closed down a number of years ago. So there's no EBITDA loss.

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**Adam Goodwin** - *Goldman Sachs - Analyst*

Got it. Thanks a lot, guys.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thank you.

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**Operator**

Robin Russell, Onex.

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**Robin Russell** - *Ornex - Analyst*

Hi. Good morning. I know you guys don't like to answer questions with regards to your indentures. So I had actually just a factual question. And was wondering if you could tell us if you've ever reclassified debt under any of the three indentures that exist today, excluding the Bordant indentures.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Can you clarify that, Robin?

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**Robin Russell** - *Ornex - Analyst*

I know there's a reclassifications section under your indentures when you issue debt. For instance, the 8-7/8 were issued under the credit agreement. But there's the ability to reclassify that. And I'm wondering if that's ever occurred?

It helps us try to figure out what your debt capacity is. That's why I'm asking the question.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. No. I don't believe there's ever been any reclassification.

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**Robin Russell** - *Ornex - Analyst*

Thank you.

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Thank you.

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**Operator**

Bill Hoffman, RBC Capital Markets.

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**Bill Hoffman** - *RBC Capital Markets - Analyst*

Yes. Thanks. And I hate to beat a dead horse here in the proppants business. But just a question from me. If you think about proppants in 2015, given the fact that volumes are a bit in transition, a little bit of price pressure. And then assuming that you have weaker cost absorption, is it fair to



say that that business that goes to somewhat close to break-even since this would probably be a transition in a year and probably a trough kind of condition?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I mean, we'd like to think it'd be better than that. But there's no doubt it'll have a significant impact relative to 2015 versus 2014.

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**Bill Hoffman** - *RBC Capital Markets - Analyst*

OK. And then just shifting to the epoxy resins business, you do indicate there are some signs of stabilization in that business. But, as we look more broadly across the globe and demand trends, it feels like it may stabilize and it may stay at the lower level for a number of years. Anything strategic you guys are thinking about with that business to either take cost out or to consolidate, rationalize at a point in time until markets recover?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

Yes. I mean, we have, in the past, rationalized some capacity. We always look to optimize. But, again, we don't announce anything until we have firm plans in place negotiated with appropriate parties, et cetera.

That is something we're always looking at. How do you optimize the profitability of the business.

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**Bill Hoffman** - *RBC Capital Markets - Analyst*

But just from a strategic standpoint, Craig - and maybe this more of an outlook question. Do you guys expect to see those markets start to improve over the next year or so? Or does it take a number of years before the markets start to balance better?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

We're seeing an improvement right now as we talk about stabilize. And I think we also said we're actually seeing improvement right now.

I think the truth of the matter is those markets can move very fast. And not always easily predicted, to be candid.

I'd say right now we're on an improving trajectory. I think that is something we anticipated occurring over the short to medium term.

But it's very, very difficult to predict because we have seen it come back. It can come back in an unexpected way and quite quickly. But I'd say right now, we're on a favorable trend.

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**Bill Hoffman** - *RBC Capital Markets - Analyst*

Right. And I guess because of the flexibility of that manufacturing asset, the costs absorbed from differential between where you are today and if you needed to rapidly ramp up again, that it's not that difficult?

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**Craig Morrison** - *Hexion Inc - Chairman, President, CEO*

No.

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**Bill Hoffman** - RBC Capital Markets - Analyst

Is that a fair way to think about it?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes.

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**Bill Hoffman** - RBC Capital Markets - Analyst

OK. Thank you.

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**Operator**

[Steve Ching, Rardi].

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**Steve Ching** - - Analyst

Sorry. Thanks for the question. Just a quick one on the proppants. It sounds like your exposure is more balanced oil versus gas. But can you just talk at a high level about the basing of that exposure? Are there certain areas that are more important to you guys? Any color on that would be much appreciated. Thanks.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

When you say - are you talking about regional exposure within North America?

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**Steve Ching** - - Analyst

Yes. Most is, the product, or a lot of it going to the Hainesville versus Bakken. Just to try and understand where most of the volumes are going.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. We have a disproportional position in Texas and west Texas, which is obviously advantageous. But we have quite a strong presence across all the various regions, which gives us exposure to the volatility out there.

We're everywhere from the Rockies to west Texas to some of the Ohio, et cetera, type place. So it really is a broad based exposure.

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**Steve Ching** - - Analyst

Got it. Thanks for the question.

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**Operator**

James Finnerty, Citi Group.

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**James Finnerty** - Citigroup - Analyst

Just two quick follow-ups on epoxies. One is your large competitor in the base epoxies business is looking to potentially sell their business this year. Or at least announced the sale of it. Could that have a positive impact on supply?

And the second question would just be regarding Chinese capacity. My understanding is a lot of the Chinese capacity is from smaller, inefficient operators. In the next couple of years, is there any potential for that to go away, if the government were to decide that those processors or those producers were actually high polluters and should not actually be operating?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Yes. When you talk about the sale of a competitor, obviously, it's always very difficult to really estimate what the impact might be industry-wide because it depends on who buys it, what strategy they take, how they're vertically integrated, why they're trying to run it, et cetera. So it really is difficult for us to project how that might impact us because we just have no idea who will be the ultimate owner of those assets.

When you look at China, you are right. It tends to be very diversified in terms of companies. Many are not particularly efficient. And the Chinese government is always very difficult to predict or project what they might do.

They have announced - and when we were over there a couple months ago, that they are definitely having more of a focus on quality growth versus quantity growth. And they are a country that has the leverage in hand to make quick decisions and change things that could impact the industry. And we saw that in the spike when they made decisions around ECH and waste water.

But, again, it also falls into the category of difficult to project. You are right. I think there is inefficient capacity there.

We would hope it would eventually go offline, which could help the industry significantly. But we certainly can't depend on that. And it's very difficult to project.

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**James Finnerty** - Citigroup - Analyst

OK. And just one follow-up on the insurance recovery. Is that something that you have a timeframe for when it could occur? 2015 versus 2016?

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

No. Obviously, we always want to wrap those things up as quick as we can. But because multiple parties will be involved, it's difficult to project as well. So we really can't forecast a specific timeframe.

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**James Finnerty** - Citigroup - Analyst

OK. Thank you.

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**Craig Morrison** - Hexion Inc - Chairman, President, CEO

Thank you.

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**Operator**

We have no further questions. I will now turn the call back over to Mr. Craig Morrison, President and CEO, for any closing remarks. Please proceed, sir.

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**Craig Morrison - Hexion Inc - Chairman, President, CEO**

Yes. I'd just like to thank everybody for your participation today. Greatly appreciate the interest and the questions. And we'll look forward to updating you at the next call. Thank you very much.

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**Operator**

This concludes today's conference. You may now disconnect. Have a great day, everyone.

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