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- Q4 2011 Momentive Specialty Chemicals, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Fourth Quarter 2011 Momentive Specialty Chemicals Incorporated Earnings Conference Call. My name is Caressa and I will be your operator for today. At this time, all participants are in a 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 your host for today, Mr. John Kompa, Director of Investor Relations. Please proceed.

John Kompa - *Momentive Specialty Chemicals Inc. - Director, Investor Relations*

Thank you, Caressa. Good morning, and welcome to Momentive Specialty Chemicals fourth quarter and fiscal year 2011 earnings conference call. Leading today's call will be Craig Morrison, Chairman, President, and CEO; Bill Carter, Executive Vice President and Chief Financial Officer; and George Knight, Senior Vice President, 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 momentive.com website under the Investor Relations section of Momentive Specialty Chemicals. A replay of this call will be available for three weeks and the replay dial-in information is contained in Momentive Specialty Chemicals fourth quarter and fiscal year 2011 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 and performance in future periods to be materially different from any future results or performance suggested by these expectations.



We can't guarantee the accuracy of any forecast or estimates and we undertake no obligation to update anyone forward statements during the quarter, except as otherwise required by law. If you'd like more information on the risks involved in forward-looking statements, please see our SEC filings, including our most recent Annual Report on Form 10-K and the detailed Risk Factors section.

In addition, some of our comments may reference non-GAAP financial measures. A reconciliation of the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and on our website. Our earnings release and our recent SEC filings are available on the Internet at momentive.com.

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

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Thanks, John. Turning to page four, our fourth quarter 2011 results were impacted by challenging market conditions, although our long-term growth initiatives remain on track. Fourth quarter revenues declined by \$200 million from the prior year, as the slight decline reflected lower volumes and the contractual pass-through of declining raw material costs.

Segment EBITDA totaled \$106 million, compared to \$143 million in the prior year. Fourth quarter 2011 was impacted by ongoing economic slowdown in Europe and Asia, inventory destocking, and negative product mix due to lower volumes in certain key products. Our portfolio, however, demonstrated ongoing strength in several specialty product lines, including Phenolic Specialty Resins, Formaldehyde Derivatives, and our Oilfield Proppants businesses.

Fourth quarter 2011 operating income totaled \$19 million, compared to operating income of \$161 million in the fourth quarter 2010, with prior-year period including \$80 million of income related to insurance recoveries.

We also continued to make strategic investments in our specialty product lines and the high-growth BRIC regions. In the fourth quarter, we signed an MOU for a phenolic specialty resins joint venture with UPC Technology Corporation, which will further enhance our growth prospects in Asia.

Turning to slide five, we were pleased to report record full year 2011 results. Segment EBITDA in 2011 was \$635 million, compared to \$607 million in 2010. 2011 can be summarized as a tale of two halves, with our first half 2011 segment EBITDA up 36% over previous year and second half 2011 EBITDA decreasing 20% from prior year due to the global economic downturn.

We continue to focus on our cost control actions, as we have realized \$37 million in run-rate savings from the shared services agreement with Momentive Performance Materials as of year-end 2011. As we stated before, the sharing of best practices between MSC and MPM across the respective businesses and the various cost reduction actions continue to create value.

We are proactively reviewing opportunities to further reduce our cost structure, such as the forest products site closures that were announced in the fourth quarter of 2011, while continuing to reallocate our resources globally into our high-growth regions. Plans are in process for further additional restructuring programs to further align our cost structure with current market developments.

Regarding our liquidity position, at year-end, we had \$710 million in cash and available borrowings despite working capital increases from raw material inflation we experienced during the year. Finally, at December 31, 2011, we were in compliance with all financial covenants that govern our senior secured credit facilities and indentures.

Turning to slide six, you can see an overview of our financials. As noted, our fourth quarter 2011 sales decreased slightly as softer volumes and lower raws impacted our top line results.

Fourth quarter segment EBITDA and operating income was negatively impacted by a few key product lines, including specialty epoxy resins which continue to reflect China's aggressive actions to slow down construction in the wind energy industry, a normalizing of base epoxy resin demand, and slowing demand in Europe over Versatic Acid derivatives.

As I mentioned, the diversity of our portfolio was evident as we saw positive results in our North American foundry, oilfield, and North American Formaldehyde businesses in the fourth quarter of 2011. We also saw a strong continued demand in our Specialty Phenolic Resins business.

Turning to slide seven, you can see an overview of our year-end financials. In 2011, we continued to post significant earnings gains on volume increases of less than 1% due to our operating leverage, pricing actions, and our disciplined cost focus.

Our full year results reflect our lower cost basis and a very strong first half of the year. We are pleased with our 2011 sales increase of 13% and segment EBITDA gains of 5%. Pro forma operating income declined 2%, which excludes income related to the recovery of insurance claims in the prior year.

Turning to slide eight and our combined raw material index, you can see that raw materials moderated in the fourth quarter of 2011, although we generally experienced a steady trend of higher input costs throughout the year. For example, on a year-over-year basis, we saw significant increases in phenol, methanol, urea, and propylene ranging from 5% to 41%.

MSC continues to demonstrate the ability to pass on raw material inflation through market pricing actions. However, there are periods of normal lead lag, where our pricing temporarily trails inflation. Looking ahead, we expect continued raw material volatility in 2012 and are seeing signs of that in the first quarter.

Turning to slide nine, you can see our segment sales for the fourth quarter and full year 2011. In our Epoxy, Phenolics and Coating Resins segment, sales declined by \$32 million or 4%. Volume decreases negatively impacted sales by \$60 million, as volumes generally declined with the exception of our Oilfield and Phenolic Specialty Resins businesses.

For the full year, epoxy and phenolic resin sales increased by \$434 million or 15%. Pass-through of higher raw material prices accounted for \$336 million of the increase, while positive foreign currency exchange totaled \$123 million, offsetting slight volume declines of \$25 million.

In our Forest Products Resins segment, fourth quarter 2011 sales rose by \$16 million or 4%. Higher raw material prices passed through to customers and pricing actions led to overall pricing increases of \$34 million. Volume declines, primarily in our European Forest Products business negatively impacted sales by \$15 million.

For the full year, Forest Product Resins sales increased by \$176 million or 11%. Higher raw material prices passed through to customers and pricing actions led to overall pricing increases of \$115 million, while positive foreign currency exchange totaled \$58 million, offsetting slight volume declines of \$32 million.

Turning to slide ten and our segment EBITDA results, fourth quarter 2011 Epoxy, Phenolics and Coating segment EBITDA declined by 38% year-over-year due to softer wind energy demand in China, normalizing base epoxy resin demand, and softer European demand for our Versatic based product lines.

For the full year, EPCD segment EBITDA increased by 3% or \$15 million, with our Oilfield Proppants businesses leading the way. Segment EBITDA was flat in our Formaldehyde and Forest Product Resins business for the quarter.

Our North American Resins business continued to feel the effect of a soft housing market and we experienced volume declines in our European Forest Products business due to continued competitive pressures. These challenges were offset by continued strong performance in our Formaldehyde business.

These trends were similar for the full year as the segment posted 2% or [\$3 million] increase in segment EBITDA, despite weak North American housing market conditions.

Turning to slide 11, taking a long review, we've highlighted how our business has become increasingly global. We continue to invest in the higher-growth regions of the world, with sales in the BRIC countries and rest of world reaching 22% in 2010 compared to just 10% in fiscal year 2007.

Recent investments include the opening of a new Versatics manufacturing line in Korea in the second quarter of this year and our Montenegro, Brazil site last year. Additional joint-venture projects underway in China for phenolic specialty resins and Versatic Acids underscores our long-term commitment to the Asia-Pacific region.

We are pleased to have posted a compound annual growth rate of 18% since 2007 in the BRIC and rest of world regions. Medium term, we are targeting greater than 40% of our sales to come from the BRIC and rest of world.

While investing in our manufacturing network, we've also been steadily building our pipeline of innovative products. Representing a solid return on these investments, new products developed in the last five years totaled 26% of our sales over a five-year period ending 2011. We believe a robust R&D pipeline and strategic expansion projects positions Momentive for long-term growth.

I'll now turn the call over to Bill Carter to further discuss our segment results.

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

Thank you, Craig. Turning to our Epoxy, Phenolic and Coating Resins segment, our fourth quarter 2011 revenue totaled \$736 million, decreasing 4% versus prior year, with price mix improvements of 4%, offset by volume declines of 8%. Quarterly segment EBITDA declined by 38% versus the prior year.

As Craig mentioned, our results reflected strong performances in our Oilfield Resins business where we continue to see higher volumes and favorable pricing. We also saw continued strength in volumes in our Specialty Phenolics business. However, our segment results reflected softer specialty epoxy volumes, especially in Asian wind energy, and a moderating base epoxy business due to a more balanced market in 2011.

As we continue to steadily increase our Asia-Pacific footprint, we are pleased to finalize a Memo of Understanding in December with UPC Technology Corporation for a specialty phenolic resins joint venture that is expected to come online in the first quarter of 2013.

Turning to the next slide, in our Forest Products Resins segment, sales increased 4% to \$417 million, with price mix gains of 8%, partially offset by volume declines of 4%. With -- our North American Formaldehyde business posted strong results with continued gains in some of our specialty markets such as triazine and hexamine, which are used in energy markets. Our North American Resins business continued to reflect the soft housing market, but improved slightly.

Our European business had a challenging quarter with continued weak demand. We believe the past cost actions we've taken leave us well positioned for eventual market recovery. For example, while they were difficult decisions, we recently announced the closure of four forest products sites as we continued to align our capacity with market conditions.

Turning to the next slide and our balance sheet, during 2011, we reduced net debt by approximately \$300 million or 10% and generated cash flow from operations of \$151 million. We continued to strengthen our liquidity position with cash, plus borrowing availability under our credit facilities of \$710 million at the end of 2011.

Our net working capital declined significantly from third quarter 2011 as we worked aggressively to bring our inventories in line with market demand. Net working capital declined to 10.4% of net sales at year-end. Our capital expenditure investments totaled \$139 million in 2011. We anticipate \$145 million to \$155 million in CapEx for 2012 in support of numerous growth projects.

Finally, we recently announced our intention to address portions of our capital structure. The proposed actions include extending the maturity of our 2013 term loans to 2015, extending the maturity of our 2015 term loans to 2017, extending the maturity of our revolver to 2014 from 2013,



and modifying certain other provisions of our credit facilities. We also announced that we plan to launch a new senior secured bond, the proceeds of which will be used to partially pay down our senior secured credit facilities.

Let me return the call to Craig to wrap up.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Thanks, Bill. Turning to page 17, looking at our segment EBITDA, the fourth quarter of 2011 was clearly impacted by the recent economic slowdown in Europe and Asia, inventory destocking, and product mix. However, our 2011 segment EBITDA of \$635 million, which exceeded our previous high, demonstrates the progress of our long-term strategy of optimizing our cost structure, and simultaneously investing in high-growth geographies and new product development.

We continue to focus on maintaining a strong liquidity position and balance sheet with cash and available borrowings exceeding \$700 million. Our cost reduction activities with MPM under the shared service agreements continues to create value. As of year-end 2011, we have realized approximately \$37 million in run-rate savings under the shared services agreement with MPM. In addition, plans are in process for additional restructuring programs to further align our cost structure with current market developments.

We have experienced sequential sales and volume increases in January and February 2012 compared to trends in the fourth quarter of 2011, although we anticipate volatile market conditions in the first half of the year. Looking ahead, we continue to take actions to align our business for an eventual recovery that is expected in 2012.

Thank you for your continued interest in the Company, and I'll now return the call back to John Kompa.

John Kompa - *Momentive Specialty Chemicals Inc. - Director, Investor Relations*

Thanks, Craig. Operator, we'd now like to open the line for questions, if you can please provide those instructions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And your first question comes from the line of Michal Marczak of UBS. Please proceed.

Michal Marczak - *UBS - Analyst*

Good morning, guys.

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

Good morning.



Michal Marczak - UBS - Analyst

It's encouraging to see volumes improve sequentially. I was wondering if you can give us any color on what -- if you're seeing any improvement in China or Europe going to the first quarter.

Craig Morrison - Momentive Specialty Chemicals Inc. - President and CEO

Yes, I just got back last night from Europe and I would say it's a split story there. I was in Germany and The Netherlands. Both of those are holding up rather well. Eastern Europe, i.e., Poland and other eastern regions are doing quite well. But as you would imagine, the southern part of Europe, the UK, continues to struggle significantly. So, it's definitely split there. Overall, I would say it's still rather soft market conditions there, and we are not seeing a lot of growth in the construction area.

China continues to be in a relatively slower rate of growth as we had seen toward the second half of last year. We thought we were starting to see a little bit of relief there, but it really seems to have abated and it's starting now to impact Japan as well, which had been an area of strength coming out of, obviously, the natural events that hit them at the end of the first quarter last year.

But -- so I would say, Asia, when you talk about China, Japan, continues to not be as strong as we'd like to see and we haven't seen a bounce-back to their sort of historical growth rates, specifically China. Southeast Asia still has held up well, Korea continues to do quite well, and India is a bit of a mixed story.

Michal Marczak - UBS - Analyst

Got it. Thank you. And trying to understand the -- your change in mix in the formaldehyde market, can you remind us how much of your formaldehyde you sell into the merchant market?

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

Yes, roughly half our formaldehyde we use internally and half of our formaldehyde we sell into the merchant market.

Michal Marczak - UBS - Analyst

Thank you. And then -- maybe two more. One, could you quantify the cost savings from the fourth quarter restructuring actions?

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

In terms of the plant closures that we referred to?

Michal Marczak - UBS - Analyst

Correct.

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

The savings in the fourth quarter were relatively slight. I mean, in the scope of a few million dollars, because most of those plants were closed very late in the year. They were announced in 2011. In the case of one or two of them, the closings will actually happen in '12.



Michal Marczak - UBS - Analyst

Do you have a sense of how much of the cost savings you will be able to benefit from in 2012?

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

Yes. I think for all of those plants, somewhere in the \$10 million range in terms of an annual number.

Michal Marczak - UBS - Analyst

That's great. And then, finally, do you hedge any of your natural gas costs in North America?

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

We do. We have -- what's that -- an active hedging program. We are about 40% hedged now.

Michal Marczak - UBS - Analyst

Great. Thank you.

Operator

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

Roger Spitz - Bank of America - Analyst

Thanks, and good morning.

Craig Morrison - Momentive Specialty Chemicals Inc. - President and CEO

Hi, Roger.

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

Good morning.

Roger Spitz - Bank of America - Analyst

Can you provide some sense of sales and/or EBITDA or anything you are prepared to provide on your proppants business or -- and provide volume growth in proppants in either Q4 year-over-year or 2011? Trying to put a box around how fast this business has been growing and how important it is in your business.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

I mean, obviously, we have all of that data. But we really don't disclose for competitive reasons details on growth rates. Suffice it to say, oilfield has been an extremely successful business for us that has been growing at rates exceeding 20% EBITDA on a compound annual growth basis the last five years. But we really don't get into details on a quarterly basis for obvious reasons when it comes to competition.

Roger Spitz - *Bank of America - Analyst*

Understood. Regarding the epoxy chain, what insight might you be able to provide in terms of the margin and volume impact on BPA epoxy resins and specialty epoxy, Versatic Acids in Q4? I mean, you've given us, of course, the segment volume declines. I'm just wondering if there's something you could provide that next level down?

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Yes, again, we really don't get into that level of disclosure, again, for competitive reasons. Suffice it to say, as the market dynamics changed in the fourth quarter, base epoxy resins had a significant decline in profitability both on a quarter-over-quarter basis and a year-over-year basis.

Specialty epoxy had already been negatively impacted really by two major factors; one it was absorbing the significant inflationary transfer from the base epoxy business into specialty epoxy, as well as China is a very large market for us with us being by far the largest seller of epoxy resins and compounds in the specialty epoxy market for wind energy.

And that's been rather depressed from government actions in terms of slowing down the growth of wind energy. But, again, we really don't get into a lot of disclosure there for competitive reasons.

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

Roger, my comment around normalization, as you may have recall on prior calls, what we had seen in previous periods was tightness in chlorine in China, as well as spikes in phenol in China, which tend to dictate then global pricing around LER. And so, we had been through a period, plus with the Dow outage last year, we've been through a period of relatively high margins due to product shortage.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

I will say, as we've mentioned on previous calls, we have a lot of confidence in that management team that anywhere in the chain as it tightens, whether you are further up in the BPA or at the LER, they are very good at monitoring that and taking appropriate actions to optimize the overall pricing and profitability of the business unit.

Roger Spitz - *Bank of America - Analyst*

Okay. In terms of BPA, are you still a big merchant seller of BPA? And BPA prices last year clearly went way up in mid-summer and then way down. I'm just wondering sort of how that has played out.

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

Yes, we are a merchant seller of BPA, a relatively large one. So we actively participate in that business. And certainly, from a -- to your point probably, BPA pricing perspective, the trade prices of BPA have affected us as they've affected all players in the BPA market.



Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

You are right. For much of the year, it was very favorable conditions and that certainly reversed itself in the fourth quarter.

Roger Spitz - *Bank of America - Analyst*

Great. Thank you very much, gentlemen.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Thank you.

Operator

And your next question comes from the line of [David Troyer] of Lazard. Please proceed.

David Troyer - *Lazard - Analyst*

Good morning, Craig.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Hey, David. How are you?

David Troyer - *Lazard - Analyst*

I'm fine, thanks. Three quick questions, I think. The first one is maybe for Bill. Bill, do you have a pro forma maturity schedule for debt and pro forma for the transactions that you are attempting?

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

We do have one. We have not disclosed it. Obviously, at this point, our only disclosure is we'll use the proceeds to pay off senior secured debt. But we've not disclosed as yet our intention around specifically what debt would be paid off.

David Troyer - *Lazard - Analyst*

Okay. Is it fair to say, though, that if you are successful in both extending, as well as raising a new bond that the wall of maturities in, say, 2013 and 2014 is reduced significantly?

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

Yes, I'm not really allowed to comment on our specific plans. I would certainly say we are very cognizant of our maturities and we'll act appropriately.

David Troyer - Lazard - Analyst

Okay. I'm going to ask one more related, and I might get the same type of answer.

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

Keep trying.

David Troyer - Lazard - Analyst

The bond deal that you mentioned, is it anticipated to be (inaudible) with the existing banks or with one of the other secured bonds that you have outstanding?

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

Yes, I can't really mention -- I can't really say anymore at this time.

David Troyer - Lazard - Analyst

Okay. The question, maybe for Craig, the -- your sister company performed somewhat similarly, not identically, to MSC here in the fourth quarter and the second half.

When I look at the outlook for both companies, both press releases, the -- your sister company seems to be a little more caveated with some mention that volatility is expected in the first quarter. And, here, it just doesn't bring that up. And I'm wondering if there's some reason why you think that MSC performs here better sooner than the sister company.

Craig Morrison - Momentive Specialty Chemicals Inc. - President and CEO

Yes, I think when you look at specific product lines -- I think both companies are well positioned in their relative markets in the long term. But I think when you look at specific product lines, things like demand/capacity, capacity coming on-stream in one product line in significant additions versus other product lines can impact how fast one product line rebounds or another, as well as many other little sub-segments that play underneath.

As you know, these are both portfolios of numerous different end-use markets. So, one or two markets underneath the MSC or MPM moving significantly could impact one quicker than the other. I'd say in the longer term or medium term, both will be impacted relatively the same. But on any given quarter, raw material inflation trends, demand/capacity analysis and things like that can impact. And I'd say you probably read it right, it's a little bit more upbeat on the MSC side just when we talk the opening quarter. That's not an incorrect reading.

David Troyer - Lazard - Analyst

Okay. Thank you, very much.

Craig Morrison - Momentive Specialty Chemicals Inc. - President and CEO

Thank you.

Operator

And your next question comes from the line of Brian Lalli of Barclays Capital. Please proceed.

Brian Lalli - *Barclays Capital - Analyst*

Yes, good morning, guys, and thanks for the time.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Good morning.

Brian Lalli - *Barclays Capital - Analyst*

Really quickly, just -- I understand that this is difficult to, I guess, figure out with raw material volatility expected, but given your comments around the first half being challenged, but slowly increasing through the remainder of the year, is there some guidance you could give us in terms of 2012 working capital uses as we think about free cash flow?

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

Yes. Well, what I would tell you is we would expect working capital levels to go up in the second half in line with sales increases. As you probably know, historically, our working capital trend has been generally for working capital to grow in the first half, because many of our businesses do have seasonality around the construction industry and then typically, we generate working capital in the fourth quarter.

Our view would be, assuming we do see volume increases in the second half of the year, we would see an overall higher level of working capital.

Brian Lalli - *Barclays Capital - Analyst*

And maybe if I could, on top of that, if we do see the first quarter as still muted from this \$556 million number, is there a way to think about at least the next quarter, again, as we start to build into that second half-loaded working capital use?

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

Yes. I mean, we do expect to be a user of working capital going -- as we get through the first quarter into the second quarter, because we will be building in terms of several of the businesses I mentioned that we would expect sales to grow in the second quarter.

As well, you may recall, we have plant turnarounds that we plan throughout the year. Typically, we do some of those as well really in the second quarter, and so we'll build working capital in anticipation of a turnaround and then bleed it off once the turnaround is complete.

Brian Lalli - *Barclays Capital - Analyst*

Okay.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

We tend to see working capital build for the first half and then we are able to pull it down in the second half. Usually, raws fall into second half, as well as in the fourth quarter certainly volumes due to holidays and stuff, tend to fall off. So, it's been something that we've seen in the last few years.

Brian Lalli - *Barclays Capital - Analyst*

But it does sound like that might be a bit different this year if the sales are backend-loaded from a macroeconomic standpoint. Right?

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

Correct.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Yes.

Brian Lalli - *Barclays Capital - Analyst*

Okay. Okay.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

That's something we would hope for, certainly.

Brian Lalli - *Barclays Capital - Analyst*

That's great. And then one more, if I may. Just for the sake of understanding kind of how liquidity moved this quarter, could you just maybe, Bill, walk us through the -- this Apollo commitment and how that kind of ultimately was figured out by the end of the quarter in terms of the \$200 million and it looks like the repayment of the \$100 million term loan that used to be on your balance sheet? And that's all from me.

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

Sure. Maybe just to very quickly recap, that commitment was made a few years ago that they would put \$200 million into the Company by the end of 2011. What they did prior to the end of 2011 back two years ago, is they loaned the Company \$100 million as a term loan. So, we got access to half of the funds early.

And so what happened in the fourth quarter of 2011 is the Company effectively received the \$200 million. \$100 million of it was used to pay off the term loan that we had already received; the other \$100 million of it -- actually \$80 million of it went into the company in 2011. There was a stub amount that then went into the Company for the full amount in January 2012.

So you should think of the \$200 million was received at the end of '11, \$100 million of it was used to pay off a term loan to Apollo that had been put in place two years before, and \$100 million of it was received as equity.



Brian Lalli - *Barclays Capital - Analyst*

And then it sounds like there will be a small stub piece we'll see in the first quarter as well. Is that \$20 million, or --?

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

Correct. Of that second \$100 million I referred to, \$80 million-some was received in late '11 and the remaining \$19 million or so is received in January of '12.

Brian Lalli - *Barclays Capital - Analyst*

That's great. Thanks for the time, guys.

Operator

And your next question comes from the line of [Brian Tavariva]. Please proceed.

Brian Tavariva - *Analyst*

How are you, gentlemen?

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Fine.

Brian Tavariva - *Analyst*

One other question here on the Proppants business. Hopefully, maybe you can answer this one. But just trying to look at -- as natural gas drilling is kind of going down, are you guys seeing any effects on that or -- in favor of the oil, or are you guys kind of seeing that kind of shift in terms of demand from your customers?

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Yes. Now, we -- you definitely see, as you see natural gas prices fall, there comes a point where wells will start -- stop being drilled. Luckily, in our portfolio, we have a nice mix of wet and dry wells; wet obviously being more oil-focused, dry being the natural gas-focused. And we continue to develop new products to drive growth in this product line across a variety of wells in greater applications.

The other thing is we have very nice opportunities to expand internationally into Eastern Europe and other locations where the geology is favorable to our type of products. So, we think the long-term growth opportunities are there, but there's no doubt that in North America, which we think is a great growth over the medium term, there could be some short-term impact for a quarter or two as natural gas prices are relatively low compared to historical trends.

Brian Tavariva - *Analyst*

All right. Perfect. Thank you, guys.



Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Thank you.

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

Thank you.

Operator

Your next question comes from the line of Frances Ning of Hartford Investments. Please proceed.

Frances Ning - *Hartford Investment - Analyst*

Hi, thank you for taking my call. I just want to clarify regarding the term loan extension. So we are just required to agree to the extent -- to submit to the extension by Monday, and we will not know the amount of the new issue of first lien notes. Is that correct?

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

Yes, I can't give out, unfortunately, anymore details on this call than has been in the press release.

Frances Ning - *Hartford Investment - Analyst*

Okay. And there is no amendment, correct?

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

Again, I can't give out any more details than we've already disclosed.

Frances Ning - *Hartford Investment - Analyst*

All right. Thank you.

Operator

(Operator Instructions)

And your next question comes from the line of Max Lee of Fore Research & Management. Please proceed.

Max Lee - *Fore Research & Management - Analyst*

Hi, thanks for taking my question. Just two questions. One is regarding the visibility you guys have on the business. I mean, it seems you have at least two months' visibility, and if you can elaborate on that.



And then another one is on demand versus restocking. So you guys say that in January and February, orders improved -- sales and volume has improved. But just wondering, how will you attribute it to -- is it just restocking, because of the severe destocking we see in Q4 or it's mainly new -- real demand?

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Yes. I mean, when you look at the fourth quarter -- and we went through a detailed analysis with our businesses -- generally about 15% of the decline in volumes were viewed as destocking. In the first quarter, we are seeing a rebound in the business -- in many of our businesses from a volume standpoint.

And you can probably assume 10% to 15% of that is due to restocking, the rest of it is renewed growth and in some cases, more optimism about the economy. I'd say, overall, we are getting a more optimistic tone out in the marketplace than the fourth quarter. I think there was a higher degree of uncertainty in the fourth quarter and that seems to be changing in the first quarter, but we all know that could swing one way or another.

But we would align with what you are hearing frequently from other companies, which is they expect continued growth in 2012 with an improving economy -- being a modest recovery, not overly ambitious per se.

Max Lee - *Fore Research & Management - Analyst*

Okay. How about the visibility?

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

It really varies by product line, but generally, we don't have long lead times on our ordering. So, we tend not to hold a lot of inventory and we tend to have a fair amount of make-to-order.

So generally, looking out 60 days, we'll have a fairly good visibility of what's going on. Past that -- and I think this is true across the industrial world; the world has become much more adept at managing inventories. And so, things react much faster than they used to five years ago, ten years ago and I think that's a direct byproduct of the -- down -- 2008 fourth quarter downturn, where companies learned a very painful lesson.

So, I would say your timeframe of about 60 days is about accurate. And after that, you're really having a rather subjective look at market dynamics, macroeconomics, et cetera, but it really is rather subjective.

Max Lee - *Fore Research & Management - Analyst*

Okay. Thanks.

Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Thank you.

Operator

And there are no further questions at this time. I'd like to turn the call back over to Craig Morrison for closing remarks.



Craig Morrison - *Momentive Specialty Chemicals Inc. - President and CEO*

Well, thank you, and I'd like to thank everybody for participating in the fourth quarter call. And we will look forward to speaking to you again on the first quarter call. Thank you very much, for participating.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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