Hexion Inc(Q4 2017 Earnings)

March 2, 2018

Corporate Speakers:

- John Kompa; Hexion Inc.; VP of IR & Public Affairs
- Craig Rogerson; Hexion Inc.; Chairman, President & CEO
- George Knight; Hexion Inc.; EVP, CFO & Director
- Joseph Bevilaqua; Hexion Inc.; COO

Participants:

- Nathan Schubert; JPMorgan Chase & Co.; Analyst
- Roger Spitz; Bank of America Merrill Lynch; Analyst
- James Finnerty; Citigroup Inc; Analyst
- Richard Kus; Jefferies LLC; Analyst
- Karl Blunden; Goldman Sachs Group Inc.; Analyst
- Brian Lalli; Barclays Bank PLC; Analyst
- Jason Weingberg; Columbia Threadneedle Investments; Analyst
- Tim Raeke; Alcentra; Analyst
- Unidentified Participant

PRESENTATION

Operator: Welcome to the Hexion Fourth Quarter 2017 Earnings conference call.

(Operator Instructions)

As a reminder, this conference call may be recorded.

I would now like to do the conference over to John Kompa, Investor Relations for Hexion. You may begin.

John Kompa: Welcome to the Hexion Inc. Fourth Quarter and Fiscal Year 2017 Conference Call. Leading today's call will be Craig Rogerson, Chairman, President and CEO; George Knight, Executive Vice President and Chief Financial Officer; Joseph Bevilaqua, Chief Operating Officer; and Mark Bidstrup, Senior Vice President 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 under the Investors Relations section of hexion.com. A replay of this call will be available for one week and replay dial-in information is contained in our latest earnings release.

Before we start, I would like to review the information about forward-looking statements and 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 risk, uncertainties and other factors that may cause the Company's actual results and 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 making those forward-looking statements. We can't guarantee the accuracy of any forecasts 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. A reconciliation of the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and in our website. Our earnings release and our recent SEC filings are available on the Internet at hexion.com.

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

Craig Rogerson: Thanks, John. Good morning, everyone, and thank you for joining our call today. I'm pleased to report a solid quarter highlighted by year-over-year gains in [segment] EBITDA, aggressive cost control actions and portfolio optimization.

In the fourth quarter of 2017, our diversified portfolio performed well with revenue and volume gains of 18% and 10% respectively compared to the prior year. Fourth quarter 2017 segment EBITDA increased at $74 million or 7% increase in total. Our fourth quarter segment EBITDA reflected continued strong demand in year-over-year gains in our base epoxy resins, North American forest products resins and global formaldehyde businesses.

We also benefited from $4 million of insurance proceeds in the prior year period related to our Versatic Acids and Derivatives that did not reoccur in the fourth quarter of 2017. Excluding this impact of the insurance proceeds, in 2016, segment EBITDA increased 14% in the fourth quarter of 2017 versus the prior year.

As we announced in our last earnings call, we continue to reduce costs throughout the organization and recently identified $40 million in new structural savings. At year-end 2017, we had a total of $50 million process savings. We've taken the majority of actions to realize this benefit, and the impact will essentially all be realized over the next 12 months.

We continued to strategically invest in our specialty product lines such as our next-generation waterborne coating system. This technology offers a coating performance that is comparable to solvent-borne systems eliminating the concern around the DOCs.

We continue to see strong [advantage] in China driven by regulations requiring the use our waterborne coatings in shipping containers. We also recently introduced our new Voyager mobile resin coating service in our oilfield proppants business. This mobile manufacturing solution enables the efficient manufacturing of resin coated proppants on any substrate at any location, while reducing freight cost for our customers.

Finally, our two newest North American formaldehyde on the Gulf coast continue to meet our forecast expectations and contributed $3 million of segment EBITDA in the fourth quarter of 2017.

Turning to Slide 5. Many of the trends in the quarter are also evident our full-year results. In 2017, we posted revenue and volume gains of 10% and 8% compared to the prior year. Our 2017 segment EBITDA decreased 9% year-over-year, reflecting softer specialty epoxy resins results partially offset by growth in our global forest product resins, formaldehyde and base epoxy resins businesses.

Our specialty epoxy business posted lower results in 2017, we saw improved volumes in sales in our specialty epoxy resins business in the fourth quarter of 2017. Expect this business to improve in 2018.

Excluding $15 million in prior year insurance proceeds in our Versatic product line that did not recur in the full year 2017, segment EBITDA decreased 6% year-over-year versus 9% noted on the slide.

We continue to position the Company for profitable growth by strategically managing our portfolio. In January of this year, we sold our ATG business to MUNZING CHEMIE. We received approximately $50 million in proceeds from the transaction or approximately 12 times segment EBITDA over the last 12 months.

Looking ahead towards 2018, productivity savings, along with new product introductions and continued growth across most product lines are expected to drive significantly improved segment EBITDA in the coming year compared to 2017.

Now turning to Slide 6 and our combined raw material index. Our total raw material cost increased 8% on a sequential basis in the fourth quarter. When considering our three major raw materials on a year-over-year basis, the average price for phenol, methanol and urea increased in 2017 compared to 2016 by 15%, 46% and 4%, respectively. We'll continue to closely monitor raw material trends in 2018 considering their historical volatility and implement any strategic pricing actions as needed throughout the year.

Turning to Slide 7. While remaining focused on growth, we are also successfully driving our structural cost-reduction initiatives and recent identified $40 million in savings in addition to those initiatives already underway, with about 90% related to headcount reductions.

In the fourth quarter of '17, we completed our grid optimization for our phenolic specialty resins business in Germany. These actions will better align our European phenolic specialty resins manufacturing capacity and further leverage our Asia Pacific capacity. At year-end, we had completed the majority of the actions and the full-year run rate will essentially all be realized in 2018. We remain focused on achieving the $50 million in process structural cost savings while continue to deliver on our value proposition to our customers.

Now turn to Slide 8. You can see the solid growth we posted in our forest products resins segment. Looking at the growth drivers, we expect that long-term housing starts will support additional gains in this business. While North American housing starts have steadily increased, they are still below the 40-year average of approximately $1.5 million annual starts.

Continued growth in housing starts will provide an additional tailwind for us from the operating leverage created by agreement of volumes and our ongoing productivity actions. Also considering the many applications for our forest products resins in a typical house, we remain uniquely positioned to deliver sustainable solutions for our customers.

In addition, fourth quarter 2017 formaldehyde volumes increased compared to 12% compared to prior year, which also supported our segment EBITDA performance. Our recently completed North American formaldehyde plants continue to perform well and contributed $70 million in 2017.

In our total segment results, you can see segment EBITDA reached $257 million this year, or a 5% compounded growth rate over the last three years.

Turning to Slide 9, I have highlighted the trends in a few of our key businesses within our Epoxy, Phenolic and Coating Resins segment that have been consistently positive throughout 2017. In our base epoxy resins, we saw strong gains in profitability driven by cost controls, gradually improving demand, pricing actions and volume increases of approximately 29% year-over-year. Industry fundamentals remained positive in the fourth quarter, and as we enter 2018.

We continue to see strong growth in our waterborne coatings business throughout the year. We expect this to become an increasingly more significant contributor to our overall specialty epoxy growth in 2018 and again in '19. We also successfully brought online additional capacity in January of '18 and expect to add more capacity later this year.

We announced in our press release today, we have initiated a process for the sale of a portion of our epoxy phenolic and coatings resins segment. These businesses have attractive growth profiles and are independent of the Company’s remaining businesses. An attractive monetization opportunity would allow the Company to simplify its portfolio and materially reduce its debt.

Let me now turn the call over to George Knight to further discuss our financial results.

George Knight: Thank you, Craig. In our forest products resins segment, fourth quarter 2017 revenue totaled $380 million, a 16% increase from the prior year, reflecting higher volumes of 5%, positive price mix of 9% and favorable currency translation of 2%.

Segment EBITDA increased by 11% due to higher segment volumes, cost efficiencies from the new formaldehyde facilities and continued strength in our North American resins business.

Turning to the next slide in our Epoxy, Phenolic and Coatings Resins segment, fourth quarter 2017 revenue totaled $515 million or 20% increase from the prior year, reflecting volume gains of 9%, positive price mix of 7% and favorable currency translation of 4%. Segment EBITDA results increased by 11% compared to the prior year, reflecting significant increases in our base epoxy resins business as well as steady year-over-year improvement in phenolic specialty resins. In addition, we continue to see strong volumes from our waterborne coatings business in our specialty epoxy business.

Regarding our balance sheet, our cash plus borrowing availability under our credit facilities was $346 million as of year-end 2017. Pro forma, reflecting proceeds from the January of 2018 ATG transaction, liquidity totaled approximately $395 million.

We invested $117 million in capital expenditures in 2017 and expect to invest between $80 million to $90 million in 2018. We continue to focus on appropriately managing our working capital going forward. We reduced working capital in the fourth quarter versus the third quarter of 2017 by $112 million. While networking capital was up year-on-year, resulting from the increase in sales in 2017, it was flat as a percentage of sales as compared to 2016, at 10%.

I'll now turn the call back to Craig.

Craig Rogerson: Thanks, George. Looking ahead, our outlook is positive for the majority of the key end markets we serve. We also expect to further realize structural cost savings from our recently announced restructuring initiatives, which will support 2018 segment EBITDA growth. These savings along with the continued growth across most product lines are expected to drive significantly improve segment EBITDA in 2018 versus the prior year.

Operator, that concludes the prepared remarks; we'd like to open the line for questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instruction) Nathan Schubert, JP Morgan.

Nathan Schubert: Can you talk about what you're seeing on base epoxies? How much are you able to effectuate price increases? Are you seeing the same volume improvements in 2018 that you saw at the end of last year?

Craig Rogerson: We did announce affected pricing actions, price increases, throughout '17, and we announced another one very early in January. And those pricing moves look like they’re holding volume. You're right, it was up in the second half of the year – we expect the continued strong volume in 2018. [Polycarbonate] sales are strong and BPA prices are high, so I think that our [LER] business looks very positive as we go into 2018.

It's a number of factors that are all pointing in the right direction as we go into the new year. And again that should be a strong part of our growth story, '18 versus '17.

Nathan Schubert: How do you think about debt paydowns in the context of an asset sale, in terms of purchasing lower priced subordinated [notes] versus higher price [versa lien] debt? At what point does the discount at the bottom of the structure become meaningful?

George Knight: We will take a look at where we've got the best returns and be as efficient as possible with the proceeds that we get to balance liquidity, debt reduction and flexibility, moving forward.

Operator: Roger Spitz, Bank of America Merrill Lynch.

Roger Spitz: Would you consider commenting where you think we are right now in base epoxies in the peak trough? A third of the way up, halfway up? Is that something you might talk about?

Craig Rogerson: I don't have a good feel. We saw a significant improvement in 2017 versus '16. I think '16 is the number that was out there for the base epoxy business.

The peak was 2011 for us, when it was significantly higher than we were last year. We are kind of in between there, I guess. So are we passed the half a point in the recovery? I'd like to hope not – I'd like to hope that there is more room in that. But again as we see a strong first quarter and get into the second half of the year, I'll have a better feel for that. But clearly, 2017, we weren't at the peak.

Roger Spitz: The Chinese, I understand, have been pressuring some base epoxy producers. Is that from an environmental standpoint, shutting down some capacity? Is that what you're hearing? And if so, what is it about base epoxies that might be environmentally challenged, or is it more related to the raw materials?

Craig Rogerson: That is what we're hearing, and have firsthand knowledge. [Jody] is on the phone – I'll let him comment. He was in China not long ago. But clearly, that is part of the effect on the supply-demand dynamic that there is pressure on the Chinese facilities that are driving, at least the Chinese market prices go up. And that tends to just [domino] effect throughout the globe.

Jody, do you want to comment on anything specific while you were out there that may answer Roger's question?

Joseph Bevilaqua: Yes, we do see this time around a number of closures, and those closures look to be permanent, at least, that's what we're hearing or anticipating. In the past we've seen closures and then reopenings. And so if that happens, it will be a little more difficult. But what we sense was more closures, and it's really in some of the intermediates and backup stream, back all the way to phenol. So, a number of issues across the supply chain.

Roger Spitz: And for ATG, can you provide 2017 sales EBITDA? It sounds like EBITDA might have been around $4 million. I don't know if you can confirm that and give a sales number, so we can get our pro forma margins correct?

Craig Rogerson: Yes, your math is correct. On the EBITDA, it's around $4 million revenue. $40 million.

Roger Spitz: About $40 million revenue? Okay. And what was the impact of Hurricane Harvey in Q4?

George Knight: It is minimal in Q4. In Q3, we had about a $6 million impact. Q4, may be $1 million at the most.

Operator: James Finnerty, Citi.

James Finnerty: Wanted to look at the pieces of Epoxy segment, where you have given annual data out before, specifically [proppants]. For 2016, you highlighted that it lost $26 million of EBITDA, or negative EBITDA of $26 million. What is gain in '17 relative to that?

Craig Rogerson: We don't give the absolute values, but it was significantly better than that. But I will say, it was still not breakeven, which was our target for last year. So it has significantly improved volume, still a lot of pressure on the margins, primarily because of increasing raw sand costs. And we’re going to have to deal with that.

And one of the ways we're dealing with a couple of things we've done, we've had some further curtailment of our production capacity in the US to try to manage the cost side of that, which is going to be important – we can't really control the pricing side.

And also then that new technology that I mentioned, the [board jet] technology, this mobile coating system, where basically we take the price of sand out of the equation. We can coat any substrates – so, anybody’s sand, basically at locations with these mobile units, locations closer to the well. And so reduce the overall cost for our customers from a transport and logistical perspective.

So both of those things, and we got some technology process of product and continue to focus on reducing costs to further improve the performance that business in 2018. '17 was well better than '16, but still nowhere near good enough, and we will take another step in 2018 towards an improvement. Still have a view that with our technology and our capabilities that can be a profitable business down the road, but we’ve got work to do.

James Finnerty: And on the base epoxy and intermediates, you have stated about $7 million of EBITDA on '16. I assume that's better in '17? Would it be just incremental? Or significantly better in '17?

Craig Rogerson: Significantly better.

James Finnerty: Versatics has been a good business for you. If you think about the business, should we think about it as stable year-over-year '16 to '17 or growth in terms of sales growing…

Craig Rogerson: I think it's more of an incremental growth story there, but to your point very good margin business and some very strong product lines, where we have market leadership. So that business is stable, GDP-type growth with good margins.

James Finnerty: Have you commented on the wind energy and market in China? Any stabilization?

Craig Rogerson: We didn't comment on it, but thanks for the question. Stabilization is a good way to put it. We talked about [bottoming out] in the second half of the year last year – I think that's the case. There's issues just around lower demand in China due to the curtailment and some of the backlog in the inventory and restocking issues that we talked about. But beyond that, because it's a smaller pie that people are fighting for, there's competitive pressure on pricing. So there is always a challenge of volume versus price. And, our job as the market leader there is to optimize that, and we are doing that.

So we've seen a leveling out. We don't expect that wind will be a big portion of our recovery or return to increased profitability levels in 2018, but we do see EPS as a significant part of that growth story, more driven by waterborne, certainly.

The recovery of wind, which we think will happen, we just don't know when to forecast it. And since we don't control that, it's not a big part of our '18 story. We expect it to happen though at some point. It will an upside. If it happens in '18, that would be great. But the growth that we see in EPS in 2018 is driven by waterborne, and I mentioned, we added capacity in January. We will add more as the year goes on and basically we can sell all we can make of that product in China for these container coating systems that are meeting the regulatory requirement of waterborne, so no VOCs. So it's a very positive story for us.

James Finnerty: So in '18, stable volumes but potential for pricing pressure is sort of the way to think about it?

Craig Rogerson: Yes. Pricing pressure has been -- we've been [felled], so I would say from an EBITDA perspective, we can just continue to manage optimizing or maximizing the bottom line profitability, trading off volume versus price. But, yes, we don't expect that 2018 from wind, will be dramatically better than 2017.

James Finnerty: The base epoxy intermediates had done back in '11, $107 million of EBITDA, and [did seven] million in '16. If we think about that range, where should we think about that over the next couple of years? Is the $107 million something that's attainable again, or should we be thinking much more conservative than that?

Craig Rogerson: It's attainable again. I wouldn't expect it to be attainable in 2018 necessarily, but we are more towards that side than we are to seven, so we're past the midway point [the year].

Operator: Richard Kus, Jefferies.

Richard Kus: Could you talk a little bit about where you are in the process on some of these asset sales? You have data sites open, are you entertaining first round bids? Where are we in this process?

Craig Rogerson: Yes. I don't want to get into where we are, specifically. We have initiated the process, so it is an active process that began recently, formally. And we've got a time line and won't be much to say until we have something to announce, but it's underway.

Richard Kus: Can you talk a little bit more about the input cost inflation side of things? I know you had mentioned the fact that you've put in price increases there to help protect your margins, but what have you seen so far for the first quarter of 2018? And what are your expectations included in your growth forecast for 2018 as a full year?

Craig Rogerson: I think generally, and it's different, obviously across specific raw materials, but generally we expect on average this year to be higher than 2017 marginally. But the shape of the slope is it's up early in the year and then it starts to decline a little bit in the second quarter and then stays flat through the remainder of the year. That's kind of shape of the curve. Again, it depends upon which product, but generally that's the case. But if you look at the average price year-over-year, it's slightly higher this year than last year.

That trend [that shaped] the curve matters relative to basically when you get it, because of the lead/lag effect. And so that's a positive shape of the curve for us as the year goes on, because we don't have that thing, that effect [carrying] on. There is a always a one-, two- or three-month lag, depending on the raw material.

So that's the general expectation. A lot of it depends on what happens with oil down the road. But if you look at where we sit right now, that's the expectation. It is kind of at its high point and it will go down a little bit in the second quarter, generally, and then flattened out through the remainder of the year.

Operator: Karl Blunden, Goldman Sachs.

Karl Blunden: You've spoken a lot about the epoxy side and pricing, but with regard to [epichlorohydrin] sourcing in the US now, when you are purchasing it, how are you doing that? Is that at market price? [Or the baseline up?], a cost-plus formula, or some combination?

Joseph Bevilaqua: Yes. It's some combination, and I'll just leave it there.

Karl Blunden: Is any one doing one more than the other? Or is there anything you can share on that?

Joseph Bevilaqua: No. It's an active dialogue, and we're quite satisfied with that mechanism, and it provides us an advantage of running the Norco facility. And that advantage will be permanent.

Karl Blunden: On the corporate cost increase $4 million up year-over-year, it's a little higher than what you've traditionally been running at. What are the drivers there?

George Knight: Yes. I think [piece of that] was timing. If you look overall, the corporate costs were up slightly year-over-year really due to inflation, offset by our cost synergies there. But for the fourth quarter, we had some timing related to some bonus programs. Also FX year-on-year was a gain in the fourth quarter last year versus the slight loss this year. So that, from a comparison purpose also hurt us by $1 million in the fourth quarter.

Karl Blunden: You mentioned working capital is still and initiative for you. Is there any way to size the opportunity there in 2018? Or is there just too much variability in the overall (inaudible), in oil prices, for an example, to give us a sense of what…

George Knight: Yes. There is a lot of volatility and variability there. But from a focus standpoint, we are always looking at ways to improve our terms, look at different levers to accelerate receivables. We do a lot of work around inventory planning to make sure that we are as efficient as possible there.

So while it's difficult to say that there is any large opportunities, what we try to do is offset any increases related to volume increases as we go forward.

Operator: [Lucian Dria], HBS Partners.

Unidentified Participant: All my questions were answered.

Operator: Roger Spitz, Bank of America.

Roger Spitz: Are Versatic Acids and especially epoxy margins, are they being pressured from higher raw material costs? And how much flexibility do you have to pass those costs through, to recover margins if pressured?

Craig Rogerson: The Versatics business has been effective traditionally in passing it through. It's more of a specialty business and that's how we've been able to maintain those margin levels.

In the specialty epoxy business, clearly there is pressure due to the rate rising prices of LER, and we supply our own, so it's some of a left hand, right hand thing. So net-net, we are positive. We have been able to pass a portion of that through. And so when we benefit in the [berry] business significantly from these rising prices, some of that's to the detriment of our specialty epoxy business, but they have been getting some, so net-net, it's a significant upside for us.

And it depends on the market. Clearly, in wind, there is a lot of pressure. And again, we are trying to optimize that formula price versus volume there, and we have the ability to do that because a lot of position in China especially. Some of the other areas, we have a little bit more room to be able to move it. So where we can take advantage of that, we are. And no question though, there is a pressure on LER prices on specialty epoxy margins.

Roger Spitz: I don't know whether the ordering in your press release and the presentation, means which is more point than the other, but it was different. Formaldehyde and phenolic resins, I was wondering, which one was doing better for you, or where the volumes are up more? Phenolic Resins [OSB] prices are very strong right now and formaldehyde MDI prices are very high right now. Can you talk about where you're seeing particular strength in the volumes or EBITDA?

Craig Rogerson: I don't think you should read anything necessarily into the order we put in there. That would have been tricky, but I don't think we thought about that.

The formaldehyde business is strong. Clearly, in North America, other than Brazil, it's strong and clearly we are very happy we have those new plants in the Gulf Coast. They are running probably above what we had projected, forecast probably above forecast. So very strong business.

The forest products business, to your point, is doing well, always be very strong, but as the other areas that we sell into. So we're very positive about the forest products business globally.

I alluded to Brazil, the economy in Brazil is still a challenge, and I will be down there in a couple of weeks, we'll have a better after that. But clearly, there is upside whether it's in '18 or '19 with the facilities we have down in Brazil, and that will be part of our growth story going forward. And we have a lot of optimism around there and specific customers that are giving us that reason us for optimism. But that's still is an area we don't expect to significantly impact the improvement we see in '18 versus '17 this year.

So, yes, it will be upside if something like that happens, but the rest of the business from formaldehyde assets are running hard and running well. And again, as you mentioned the forest products business across the board with housing starts it's a good signal in January and again there’s some optimism that we're going to see some further growth, further gains as the year goes on. So that's upside for us as well.

Roger Spitz: Have you seen any of the OSB producers switch back a little bit from MDI to Phenolic Resins on the spec in MDI pricing? Or it takes more than just a little bit time for them to switch or decide they want to switch?

Joseph Bevilaqua: Sure. You’re right on it. It does take a little bit longer for them to switch them back and forth. And I’d say, over the course of the last four or five quarters, things are about even, shares are about even, give or take a little bit.

Operator: Brian Lalli, Barclays.

Brian Lalli: On the CapEx guidance that you provided, $80 million to $90 million – obviously that's down from the $117 million you spent this year. Any key items year-over-year that have gone away? And could you also remind us of what you view as a maintenance level of CapEx spending?

Craig Rogerson: Some of the projects have rolled off, and we don't have new big projects in 2018 that we are funding. The objective as we are looking at our overall capital spend is we're trying to manage cash flow and liquidity. And so we'll reap the benefits of the significant investments that have been made over the past few years, whether that's in the [Fenox] plant in China, or the formaldehyde plants here, or the capacity in waterborne investments we made to de-bottleneck some of the assets that we’ve had around the globe in the forest products side.

So there’s been significant investment, and in 2018 is a year that we're going to really realize the benefit of those investments, or start to realize significantly the benefit of those investments. We're very careful to make sure that we have adequate capital to be able to manage the plants safely and keep them up and running and be able to, from a stability and production perspective, service our customers.

Jody, maybe you can answer the question relative to what we view as maintenance capital.

Joseph Bevilaqua: We continue to aggressively fund our environmental [red risk] items also regulatory that continue to be an ongoing requirement to catch up with new regulations. So those are all 100% funded. We have taken the growth bar up a little bit in terms of payback looking a little bit more discreetly to support what Craig just said in terms of working capital. But we basically feel very comfortable with this capital number this year. It is allowing some strategic growth opportunities in green technologies primarily. But we feel very comfortable that we can maintain this level and operate safely and effectively the plants.

Operator: James Finnerty, Citi.

James Finnerty: In terms of the capital structure in the slides that the capital issues increased quarter-over-quarter by $18 million. Going forward, should we anticipate further increases on that line item?

George Knight: Again, we'll look at opportunities, where it makes sense from either a liquidity and a cost standpoint to enhance liquidity if possible through a small sale leaseback, but no concrete plans to increase it significantly.

James Finnerty: Would that be similar to last quarter where it was North American assets that would be driving that?

George Knight: That's correct.

James Finnerty: On the forest products business, it's $17 million of EBITDA delivered in '17, and that was always relative to $30 million to $35 million of EBITDA. Would the difference be the Brazilian plant?

George Knight: That's correct.

James Finnerty: And what's the outlook for the facility?

Craig Rogerson: It's expected to be better utilization. Again, we are looking at optimizing assets, so it's hard to exactly compare. We are running some of the new assets, but at the expense of some of the others. And so I look at it across the grid.

We'll be better in '18 than '17. But again, I'll get a better feel when I'm there in a couple of weeks, but I would expect that it will be much more significant in '19 versus '18, the improvement. And a lot of it's dependent on start ups, some of our customers, and that's dependent on an improvement in the economy in Brazil.

So once the election's done and we see what happens relative to political stability situation, I think the economy will tend to reflect that and our customers, and we will reflect that as well. So again, '18 marginally better than '17, but expect – hope or expect things to improve more in 2019.

Operator: [Pierre Oskowitz], Iron Shield Capital.

Unidentified Participant: Can you give us an update on the cost-savings program? What are your different initiatives? And can you give us a bit more color on what initiatives are you currently undertaking?

Craig Rogerson: Yes. We're basically done. We announced an initiative to take an additional $40 million out in the fourth quarter. The organizations globally did a great job of getting those costs out quickly and the significant, vast majority of that is headcount. So we looked at the way we're doing business, the way that the business processes we were using, looking at what work wasn’t value-added and taking that work out the best we could. So that's basically done.

We'll realize the vast majority of that $40 million. There is about $10 million, a carryover from some of the other initiatives involving plant shutdowns and things like that, that were occurring, so essentially the full $50 million should be affecting the bottom line in 2018.

Operator: Jason Weinberg, Columbia Threadneedle Investments.

Jason Weinberg: Have you already taken all the cost for the $50 million of savings? Or is there any offset that we’ll see in '18 because of $50 million benefit, but are there costs associated with that?

George Knight: There is some cash outlay, yes. As we said, it will be accretive, overall. I think the one-time cost related to the cost savings in 2018 is approximately $28 million.

Craig Rogerson: …in the fourth quarter, right?

George Knight: Yes.

Operator: Tim Raeke, Alcentra.

Tim Raeke: I missed the last part of what you just said. $28 million in cash costs, did you say that some of that was in the fourth quarter?

George Knight: Yes. A few million of that was in the fourth quarter. As Craig said, we've taken all the actions, I think from a headcount standpoint, we’re talking about 260 people. All those people have been notified, and either have left or are in the process of leaving.

Operator: (Inaudible), Sargas Capital.

Unidentified Participant: On the Epoxy segment, volumes were up 9%, base epoxies were up and sounds like specialties were up year-over-year. If EBITDA being up 11%, I would have expected some more operating leverage. Did you have a price versus a [raws] lag in Q4? Or was it the impact of the insurance benefit in Q4 of last year? Or some other factor that would have essentially contributed to EBITDA being up in line with revenues and not more?

George Knight: Yes, it's a combination with the insurance proceeds last year impacted it, and not having those in 2017, as well as some of the margin pressure that we talked about in our specialty epoxy there in Q4.

Unidentified Participant: And as far as the proppants business is concerned, recently Unimin announced that they’re merging with [Fairmount]. I guess, you guys work with

Unimin a lot, Fairmount has their own supplier. Do you expect that merger to be neutral or positive or negative for you?

Craig Rogerson: Jody, do want to answer that one?

Joseph Bevilaqua: Yes, neutral. We do engage commercially with Unimin, but there are sand suppliers as well. And in fact, they have a minor supply position with us.

Operator: Our next question comes from the line of Brian Lalli of Barclays.

Brian Lalli: Any benefit or comments you'd make on the US tax reform? Anything that that does for you guys, particularly, around cash repatriation? And any other cash items that we should be factoring in? Pension, environmental liabilities – just other things to make sure we have our '18 cash flow modeling that would be helpful?

George Knight: Sure. Yes, from a tax standpoint, the transition tax and the repatriation of earnings, that's going to have about $67 million impact on us from an expense standpoint, because we have NOLs.

There's going to be no cash impact in 2018 related to the new tax law. The provisions limiting interest deductibility and NOL usage in future years will impact us, but because of the NOL position that we have in going into '18, there will be no cash impact related to that.

Other cash items, the restructuring we talked about $28 million, that's really it. From an environmental standpoint, from a pension standpoint, we don't have any large items in 2018 versus '17. Those items in total probably on average are $10 million to $15 million a year, and we expect that going forward.

Operator: Richard Kus of Jefferies.

Richard Kus: On the waterborne business, you put some color around that when you did your deal last January, so that's out there. Are there any changes related to what you had said at that point in time? Or do you still expect that to be the trajectory of that business, along with the incremental EBITDA that you provided?

George Knight: We expect to continue to see growth. We've been very happy with the progress on the waterborne side. It's met, we slightly exceeded our expectations there.

Richard Kus: So pretty much in line from a financial impact standpoint is what you were saying before?

George Knight: That's correct.

Richard Kus: How do the margins in that business compare to some of the specialty business that you guys do today?

George Knight: They're comparable, slightly better.

Operator: Tim Raeke, Alcentra.

Tim Raeke: A follow up on forest products on Slide 8, it sounds like the business is obviously running well, and we saw a [piece] of volume growth in '17. I'm just wondering when we project out and you think it's going to be strong, or I think we do in '18, does improvement come from volume? Meaning is there room to de-bottleneck some of these plants? Or are they running full out? Or do we think more about price recaptures from raw materials improving margins going forward? What is the lever that gives this potential upside?

Craig Rogerson: It's more volume than price in the assumptions. We're assuming we can basically hold margins and pass through raw material moves. We've got some new products that are introduced, but they will have a marginal effect positively on the bottom line in 2018, more in '19 and going forward.

But volume is the primary driver of the improvement year-over-year, and it's driven by housing starts. And the view is there will be a marginal or incremental improvement year-over-year, continue that upward trend, it's been gradual, but upward in housing starts and we benefit from that. We've got significant market share and so it correlates very well.

Operator: Thank you. That is all the time we have for questions. I'd like to hand the call back over to Craig Rogerson, CEO of Hexion for any closing remarks.

Craig Rogerson: Thank you very much. I appreciate everybody's time, we look forward to talking to about what we expect to be a successful Q1 in May. And again, feel free to call John Kompa with questions as follow-up. Thank you very much.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone have a great day.