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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2015 Hexion Inc. earnings conference call. My name is [Jasmine] and I will be your operator for today.

Operator

(Operator Instructions)

Operator

Now, I would like to turn this conference over to your host for today, Mr John Kompa, Investor Relations for Hexion. Please proceed.

John Kompa - Hexion - Investor Relations

Thank you, [Jasmine]. Good morning, and welcome to the Hexion Inc. third quarter 2015 conference call. Leading today's call will be Craig Morrison; Chairman, President and CEO; Bill Carter, Executive Vice President and Chief Financial Officer; 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. A replay of this call will be available for one week, and the replay dial-in information is contained in [latest earning's peak]

Before we start, I'd like to read information about forward-looking statements in 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 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 the expectations.



For more information on the assumptions and factors to consider in making those forward-looking statements. We can't guarantee the accuracy of any forecast or estimates, and we undertake no obligation of 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. For reconciliation most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and our website. Our earnings release and our recent SEC filings are available on the Internet at Hexion.com. With that, I now turn the call over to Craig Morrison to discuss our quarterly results.

Craig Morrison - Chairman - President and CEO

Thanks, John. Turning to page 4. Before I review our results, I'd like to congratulate Bill Carter on his announced retirement and recognizing for his many years of leadership at Hexion and its predecessor companies.

Bill's retirement has been a well-planned event and transition. We greatly appreciate the notice that Bill gave us which allowed us to develop internal candidates for all key positions. Under Bill's leadership, Hexion has built a world-class global financial organization, and for me personally, I could not ask for a more competent and trusted partner in running this business. Bill is committed to a smooth transition in the coming months. Thanks Bill for the tremendous job that you have done in this position for the last 20 years.

I was pleased to recently announce that George Knight will succeed Bill as CFO, and Mark Bidstrup will succeed George as treasurer. We've included a brief overview of George and Mark's background information. As you know, George has been our treasurer since 2005. He has served in senior finance roles within Borden Duracell. He has also served as an auditor for Deloitte & Touche. I am confident that George capital market experience, familiarity with our operations, and prudent management of our capital structure, will continue to be a benefit to the company. George will formally take over as CFO on the first day of January, but we have asked him to take the lead in presenting today's financials.

In addition, Mark Bidstrup's distinguished background includes serving as vice president of finance for our proxy phenolic encoding resins division, a position he's held since 2009. With more than 25 years of experience working with Hexion, Borden and Price Waterhouse, Mark brings a strong financial and operational leadership perspective to his new role. Congratulations to Bill and best wishes in retirement and to George and Mark on their promotions.

Now, moving onto page 5 in our results. Third quarter 2015 revenues decreased 21% to 1.1 billion, reflecting the negative impact of the US dollar strengthening, softer volumes and oil field [proppants], and lower selling prices driven by the decline in oil prices.

On a constant currency basis, net sales would have decreased by 12% for the quarter. Our segment [EBITDA totaled] 133 million, a 4% increase, or 13% on a constant currency basis. In epoxy phenolic encoding resins segment, EBITDA increased by 10%, reflecting gains in our specialty epoxy products and improved performance in our base epoxy resin business. These gains offset weaker oil field profit results and the impact of currency fluctuations.

Our global forest products EBITDA declined by 4 million, primarily driven, primarily due to 9 million in currency headwinds that offset strength in our North American forest products resins business.

Turning to slide six, we continue to execute our strategic growth plan and successfully brought online the first of our three new formaldehyde sites. In addition, we've completed the acquisition of a joint venture partner state in a phenolic specialty resins manufacturing facility in China, which gives us greater control of this asset and higher EBITDA potential.

We will also continue to execute on our latest cost savings program and have achieved 16 million in savings in the first five months of 2015. We expect to realize additional 14 million in savings over the next nine months.



Turning to slide seven in our combined raw material index. You can see that our total raw material costs decreased slightly on a sequential basis, primarily due to phenol volatility. Our raw materials remain significantly lower in the first nine months of 2015 versus the prior year period, reflecting double-digit declines in our key feedstock costs. Favorable raw material environment is projected through year-end 2015.

For the first nine months of 2015, declines in oil field business continue to be offset by margin expansion in our other businesses, which have benefited from declining raw material costs.

Turning to slide eight, we continue to strategically invest behind our leading technologies. As I previously mentioned in the third quarter, we acquired our partner stake in a joint venture company in China, which came online in the fourth quarter of 2014.

The site produces a full range of phenolic specialty resins used in a diverse set of applications including; refractory, friction, abrasives, insulation foam, and forest products. The acquisition strategically strengthens our global network and serves as a low-cost base for Chinese and export customers. China is one of the largest markets for phenolic resins in the world. We anticipate continued long-term growth.

In our forest products division, we were pleased to successfully bring online our new plant in Curitiba, Brazil. This new site is already delivering [attractive items] to investment-grade customers in the region.

We are projecting on-going growth in our Latin American formaldehyde and forest products resins business, driven by the furniture, construction, industrial and export markets. Strategic investments have been critical to driving year-over-year gains, in our [forest] business, both in absolute EBITDA and their narrow margins. Let me know turn the call over to George Knight to discuss our third quarter result. George?

George Knight - Hexion - Senior Vice President

Thank you, Craig. Turning to our epoxy, phenolic, and coating resin segment. Revenue totaled 669 million, reflecting a 24% decrease from the prior year due to the impact of lower volumes of 11%, currency headwinds of 8% and negative price mix impact of 5%.

EBITDA increased by 8 million compared to the prior year, led by our base and specialty epoxy resin business. Specialty epoxy resins continued to reflect strong demand from wind-energy customers in China.

We also posted strong year-over-year EBITDA gains in our monomers, dispersions and powder-coatings businesses. While our oil field profits business remained soft, our segment EBITDA margin improved year-over-year by 420 basis points.

Turning to the next slide, in our forest products resins segment, sales totaled 396 million, a 16% decline from the prior year, with negative currency translation of 12%, price mix headwinds of 2%, reflecting the pass-through of declining raw material prices and lower volumes of 2%. [Segment] EBITDA declined by 4 million or 6%, although our margins still improved by 150 basis points, reflecting strong cost controls.

Our strong North American results could not fully offset a negative 9 million currency impact on unplanned customer outages.

Regarding our balance sheet, our cash plus borrowing availability under our credit facilities was 562 million at September 30. Pro forma liquidity would have been 590 million as of quarter end when adjusted for the completion of the ABL [amendment.]

During the quarter, we posted 38 million in cash flow from operations. In the first nine months of 2015, we also generated 66 million in cash flow from operations, compared to a use of operating cash of 132 million over the first nine months of 2014.

Year-to-date our capital expenditure investments totaled 122 million. Our net working capital totaled 555 million as of September 30, down 19 million from Q2 2015. Favorable net working capital trends in 2015 have reflected foreign currency translation benefits, driven by strengthening of the US dollar, lower raw material input costs and improvements in working capital efficiency.

You can also see that we successfully manage the quarter-to-quarter swings this year and did not see as large of an increase in working capital during the first half of 2015 compared to prior years. Because of this trend, we'll see less of a decrease in the fourth quarter than past years, but we continue to anticipate a year-over-year decrease in net working capital in 2015 compared to 2014. I will now turn the call back over to Craig to wrap up.

Craig Morrison - *Chairman - President and CEO*

Thanks, George. Turning to slide 14. In summary, we were pleased to post year-over-year gains again as our reported segment EBITDA improved by 4%, to 133 million or 13% on a constant currency basis. We continue to position Hexion for long-term success through our strategic investments in our global network.

Our new forest products site in Brazil, and our phenolic specialty resins acquisition in China will allow us to capitalize on the combination of leading technologies and globalization of our product lines.

While investing in our portfolio, we continue to simultaneously execute our structural cost savings program. We are focused on realizing an additional 14 million in savings over the next nine months. In closing, with liquidity of 562 million, we continue to prudently manage our balance sheet. Let me now turn the call over to our operator for any questions that you might have. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of [Harry Hammate] with JP Morgan, please proceed.

Unidentified Participant

Good morning, George. On the, it looks like you repurchased some bonds during the quarter. Can you talk a little bit about what you repurchased and how you are thinking about [cap] allocation between [fund] purchases, growth CAPEX, and M&A going forward.

George Knight - *Hexion - Senior Vice President*

Yes, and you noted there [Tariq], we did repurchase 115 million of our 8.875% senior notes due in 2018 during the third quarter there.

We spent 99 million of cash for that. On a net basis with expenses, we recognized a gain of 14 million related to that. We entered the quarter with about 700 million of liquidity, so we felt we had more than ample liquidity there and based on the pricing of the senior notes, we felt that it was a good opportunity to buy back a portion of the bonds.

Craig Morrison - *Chairman - President and CEO*

I think, you know, obviously we will be prudent relative to maintaining adequate cash for the balance sheet and for other investments relative to growth opportunities, which we have also identified on this call.



Unidentified Participant

I guess just to clarify, you saw ample room under the RP test and the [first in] bonds to continue to chip away at these correctors, now there is no imminent cap on repurchases.

George Knight - *Hexion - Senior Vice President*

That's correct.

Unidentified Participant

OK. [But let me just] the bigger picture question. We've heard different commentary from different companies but in terms of what you are seeing out of Asia, both on underlying demand trends, as well as sort of any inventory restocking or destocking trends in the last couple months. We've heard sort of different messages from different companies.

Craig Morrison - *Chairman - President and CEO*

Yes, I think you know the reason we hear different messages is Asia obviously is largely driven by China and it really depends on what end-use, market you're in. In a broader sense, whether it is automotive or construction, we definitely see a weakening compared to where they have historically been and I think that is consistent with what you read in the press.

For us specifically, when you look at things like wind energy, it remains very strong as the government continues to promote and drive that industry and therefore we benefit from that. I think what you'll find is depending on what the end-use markets are for particular company and what the investment strategy is by the government for that company and what their local companies are doing downstream, you may feel the slowdown more or less, but I'd say in general, there is definitely been a slowdown in China.

Unidentified Participant

Last one from me, seasonality wise fourth quarter typically has been a little bit slower though you can get the [working capital release]. Given sort of raw material moves and everything else going on this year, any reason to think about be different or should expect kind of normal seasonality as we head into the fourth quarter.

Craig Morrison - *Chairman - President and CEO*

I think directionally you would expect normal seasonality. It is slower for a variety of reasons; from holidays to plant turnarounds, shutdowns, we normally take a couple of those. Customers take some of those as well, so I would expect the normal seasonality to occur.

Unidentified Participant

Got it, that's it for me. Thank you, guys, and congratulations again.

Unidentified Company Representative

Thank you sir.



Operator

Our next question comes from the line of [Rogers Bists] of Bank of America, please proceed.

Unidentified Participant

Thank you, good morning.

Craig Morrison - Chairman - President and CEO

Good morning, [Reggie].

Unidentified Participant

Now, another on the 8 7/8. Can you talk about why your strategy might be to address the rest of those. Would you potentially buy more bonds with your excess liquidity? Would you look to do any refinancings?

Craig Morrison - Chairman - President and CEO

Yes Roger, as you know we have been very proactive in the past, adjust our capital structure. You know we did see an opportunity in the third quarter, on the pricing of the bonds, we took advantage of that because we know did have more than adequate liquidity there.

I think going forward, I would expect that we'll continue to be proactive. We don't have anything else to disclose at this point in time.

Unidentified Participant

Thank you. And on [base apache resins], can you talk about what, I know you don't want to use specific numbers, but EBITDA - what'd it do in Q3 versus Q2. I know that last quarter we talked about some of the benefits. Some of it was Euro related, helping out Europe on the weak euro. Some of it was outages in Asia and China in particular. Can you talk about what happened in Q3, and has that EBITDA moved off a little bit from Q2.

Craig Morrison - Chairman - President and CEO

Yes, we actually saw you know significant strengthening and vary in the third quarter. However, I would say going forward, the weakening in Asia and softer demand in China, excess capacity there, but also Korean capacity is not being absorbed in China.

You are more at risk for imports into the US. Although the currency helps protect Europe somewhat, it also comes under pressure. The third quarter was continuing the trends we saw in the first, second and third, but we are seeing some reversal of that in the fourth quarter.

Unidentified Participant

Was there something in particular that made it strengthen in the third quarter? Or just more of the same?

Craig Morrison - *Chairman - President and CEO*

I would say it was the items you had identified that we talked about on the last call were the correct ones. The FX was certainly favorable, certain outages didn't happen in Asia. Some unique one-offs, et cetera, that as those get reversed it puts more capacity back on-line and we're tending to see some of that pressure. Again, as the Chinese economy slows down, it frees up capacity shifted elsewhere in the world.

Unidentified Participant

Thanks, last one for me on your [poppence business.] Can you talk about what your view you is and how that business might look in Q4? I think you're, the other [poppence] producers who've already reported Q3 have been fairly vocal in their views of how Q4 looks like. Thank you.

Craig Morrison - *Chairman - President and CEO*

Yes, we don't see much upturn at this point. You know, in the long, medium to long term, we consider it to be a very favorable market to be invested in. That industry is always gone through cycles and always come out strong, out of its downturns. We have every reason to believe that will also again eventually occur here. We're not seeing short-term turnaround that would significantly change the outlook of the fourth-quarter from what we saw in the third quarter.

Unidentified Participant

Thank you.

Operator

Our next question comes from the line of Bill Hoffman with RBC Capital Markets. Please proceed.

Bill Hoffman - *RBC Capital Markets - Analyst*

Yes, thanks, good morning.

Craig Morrison - *Chairman - President and CEO*

Hi, Bill.

Bill Hoffman - *RBC Capital Markets - Analyst*

Could you talk a little bit about, further about the margins, and the [poppence and how it's] just given some of the commentaries, you mentioned about more the [quality] side. Would you expect margins to sort of give back some in Q4, maybe headed into the 16?

Craig Morrison - *Chairman - President and CEO*

Yes, I think right now we would see you know those margins reverse a bit. Again, that can always change very quickly, that is a market that can be very volatile in both directions. I would say we had favorable trends first, second, and third quarter. We would anticipate somewhat weakening in the fourth quarter, but also as a quarter, we tend to do turnarounds so that also applies some pressure. But I'd say the trends are reversing a bit and becoming weaker.

Bill Hoffman - *RBC Capital Markets - Analyst*

Thank you. And just also you mentioned that segment, the specialties portion, what percentages do you consider to be more of a specialty at this point.

Craig Morrison - *Chairman - President and CEO*

You know certainly from a EBITDA standpoint, the vast majority is in the specialty segment and that continues to be very robust. We don't give out exact details relative to revenue or volume, but you know specialty has done extremely well this year. The vast majority of our EBITDA from an epoxy standpoint falls into the specialty category.

Bill Hoffman - *RBC Capital Markets - Analyst*

Great, thanks, and just one last question. The formaldehyde down in - plant in Brazil. Could you just talk a little bit about the profitability of that at this point in time? Just given the [ships and occurrences] costs, inflation that they are experiencing down there?

Craig Morrison - *Chairman - President and CEO*

You know when you look at on a year-over-year basis and local currency, it's been an extremely positive year for us. Unfortunately, that [affects] as you know what's going on with the Real has certainly offset virtually all of that. So we're not seeing it when it translates back into US dollars and consolidating it, but on a local currency basis it continues to be a very attractive growth market for us. There is no doubt that it is a very turbulent...

...In terms of how long it takes forestry to grow. So, if you're going to be in Latin America, that's a great market to be in. Obviously, the Montenegro investment three or four years ago, we have absorbed that capacity to where we had to expand with the Curitiba investment.

Our formaldehyde business is doing very well. On a local currency basis, we have grown very, very significantly year-over-year. But it's all been absorbed on a translation basis from FX.

Unidentified Company Representative

To a strong US Dollar.

Bill Hoffman - *RBC Capital Markets - Analyst*

Thank you for that and just one last question. As you look into 16, just speaking into [catal] allocations, any thoughts on capital spending for next year? Are you going to pull it back further, and how to you expect to balance your cash flows next year?

Craig Morrison - *Chairman - President and CEO*

Yes, Bill, I think we'll be finishing up on the final two plants fourth quarter this year, beginning of next year. So you should expect to see cap expenditures next year to come back to more historical averages.

Bill Hoffman - *RBC Capital Markets - Analyst*

Great, thank you.

Operator

And our next question comes from the line of [Brian Lally] with Barclays. Please proceed.

Brian Lalli - Barclays - Analyst

Maybe if I could just go, you know level [Fed] expectations of you going into next year. Could you maybe just walk us through some of [the push and tapes.] You know, it sounds like there might be some weakness in the [EPCR seg] when leaving, you know, 15, obviously in improvement in forest products, plus some of the 30 to 35 benefits of new formaldehyde plants. Is there something high-level you could sort of walk us through around, you know what the numbers in 15 that might continue to move into 16.

Craig Morrison - Chairman - President and CEO

Yes, we don't get very, we don't give forward-looking forecasting information. Obviously, you know, I think you've highlighted some of the positives.

Clearly are you know, we have three plants coming on. The North American economy remains quite good and we would anticipate that the big challenges going to be Latin America, the brick countries in general are not doing well. You could also, you know, I mean even include Southeast Asia in there. I think the weakness will be China you know and Latin America, Southern Europe. But you know there's still a lot of volatility out there.

What exactly goes on with raw materials, because oil price start to come back, et cetera. There is a fair amount of vary - variation and volatility that can occur, but you know quite frankly, as we're going product line by the product line, and we're still going through our own budgeting process. We're trying to get a clear view on it.

I'd say overall, outside of North America, the global economy is on the weaker side and not the stronger side. We really don't give very specific information as to what we think will continue on for 15 or strengthen or weaken.

Brian Lalli - Barclays - Analyst

If you, from here, if we were to see oil prices move slowly higher, take out the volatility, would you broadly say that that's a good thing for your business? As you could push hopefully pricing into the, you know, epoxy chain or would that be a headwind into next year as you look at your raw basket?

Craig Morrison - Chairman - President and CEO

Well, I mean, you know, there's the potential obviously of the oil field business picking up and that is a very good business for us, so that would be the positive. Where you might feel it in the short-term is where you do have contracts that are lead led based, you would lose some of that potentially. You can roughly think of that as about 50% of our business, because that'd be contractually a lag effect for you. Hopefully on those that are not [contractured], you have the ability to pass through. You see a mixed bag and hopefully net-net initially you could offset. But it really will depend on how fast and what raws, and where it occurs, et cetera.

Brian Lalli - Barclays - Analyst

And then just two last ones for me. Moving on to the balance sheet [thought] and follow back up on the 8 7/8 in the bond repurchases. I guess you, I think used the word adequate liquidity that you had excess and you've always want to make sure you have adequate liquidity. How much would you sort of say that that is and is there any amount still here that you consider excess amount liquidity you have?

Craig Morrison - Chairman - President and CEO

Yes, Brian. You know we operated at different levels of liquidity over the years. That close to 600 million, that's adequate for any type of volatility that we see in the markets going forward. That should be more than adequate then you know what we would need. Again, you know as we look at bond repurchases, it'll be based on pricing, our potential returns versus other potential investments that we have going forward to.

Brian Lalli - Barclays - Analyst

And then my last one. You touched on it before around restricted payment capacity. You made this [reference] in other forms, would it be possible to get you know, your updated restricted payment capacity as it relates to you know, where we are pro forma for 115 that you bought back, just for everyone on the call, that'd be helpful. Thanks for your time.

Unidentified Participant

OK, thanks.

Operator

And our next question comes from the line of [Derrick Chain] with Goldman Sachs, please proceed.

Derek Chan - Goldman Sachs - Analyst

Hi guys, thanks for taking my question. I just want to clarify a comment you made on the bond buy back. Are you saying that you have not bought back more bond subsequent to quarter-end?

Craig Morrison - Chairman - President and CEO

Yes, no, that's correct. Normally we enter into a quiet period as earnings season comes on.

Derek Chan - Goldman Sachs - Analyst

Got it. And for the 115 million of the 8 7/8 that you did buy back during the quarter, were those bonds actually retired?

Craig Morrison - Chairman - President and CEO

Yes.

Derek Chan - Goldman Sachs - Analyst

All right. I'm just turning to the amendment in the ABL facility. Can you talk about the expansion in the borrowing base, I guess specifically what allowed you to access the additional availability? And then related to that, were there any other major changes to the credit agreement?

Craig Morrison - *Chairman - President and CEO*

No, as you recall with the amendment related to increasing the borrowing base, related to certain properties and equipment that we had in Germany, Netherlands and on the UK, the amendment was actually signed in July. We had some cleanup items that allowed us to get the final Netherlands equipment in the borrowing base, which were completed on the beginning of November. So now everything is complete and we have that additional [PPE] available to us as part of the borrowing base going forward.

Derek Chan - *Goldman Sachs - Analyst*

Got it, and this last one from me. Could you talk about your forest products business in Brazil and Lat Am, and just the performance there with the pressures that the economy is facing, and if we were to break down to 2% volume decline between North America and Lat Am, what would that look like?

Craig Morrison - *Chairman - President and CEO*

Well, you know you look at Latin America again, other than the fact that you know we had FX headwinds, they continue to grow on EBITDA basis and actually very significant growth on a year-over-year basis. But the translation certainly negatively impacted us.

When you look at from a volume standpoint, Latin versus North America just generally directionally speaking, North America was quite robust on a year-over-year, and Latin America weakened from a volume basis. North America was the stronger of the two. Latin America was off - able to offset that through cost initiatives, raw material, et cetera. So [their EBITDRI] actually increased significantly. It was volume [how we can] margin [and how to standard.]

Derek Chan - *Goldman Sachs - Analyst*

Thanks, guys.

Operator

Our next question comes from the line of [Richard Press with Jefferies], please proceed.

Unidentified Participant

Hi guys, good morning. Just two very quick ones for me. So I know you've had that 11% decline in volume and [hypocrisies] business, I know a lot of that is probably due to problems. Can you tell us what the volume declines were if you exclude that piece of business? Or increases as [anaga]?

Craig Morrison - *Chairman - President and CEO*

The rest of the business was generally flat.

Unidentified Participant

OK. On and then...



Craig Morrison - Chairman - President and CEO

Obviously, that varied dramatically business by business, but generally.

Unidentified Participant

Sure, OK. Then, the second piece of that question is essentially, if you look at that business certainly you had raw material costs fall there. Do you guys think that the margin gains that you have made are sustainable here, or do you think that you're continue to get pricing to adjust lower on a lag, as you typically do.

Craig Morrison - Chairman - President and CEO

It really varies business by business, your pricing power and the ability to maintain it. I think there is a natural tendency that markets will start to readjust, such as the trend is you'll feel a little bit more pressure, but we put an awful lot of emphasis on both obtaining raw material productivity but also doing monthly calls by business unit on pricing strategies in the marketplace. It's a key focus for us, I'd say over time it tends to come under more pressure as customers obviously are looking for their own productivity.

Unidentified Participant

I think, understood. Great, thanks for taking my questions.

Craig Morrison - Chairman - President and CEO

Thank you.

Operator

Our next question comes from the line of [Lauren Gallagher with Credit Suisse please proceed.

Lauren Gallagher - Credit Suisse - Analyst

Hi guys, I'm going to follow up just on your working capital. As I said, [networking accomplish to] this year, but when you look at the magnitude of the things [pallodin in your hire], are you generally expecting [or perhaps] a source of cash for fiscal 15?

Craig Morrison - Chairman - President and CEO

Yes, as we've said, we haven't seen as big of swings first-half, second-half this year, but we do expect to see working capital as a source of cash in Q4.

Lauren Gallagher - Credit Suisse - Analyst

Enough to call it the [a source] I'm assuming for the whole [nine year as well]?

Craig Morrison - Chairman - President and CEO

Yes.



Lauren Gallagher - *Credit Suisse - Analyst*

OK. Great, thank you very much.

Craig Morrison - *Chairman - President and CEO*

Thank you.

Operator

And our next question comes from the line of [James Bennice with Citi], please proceed.

James Benes - *Citi - Analyst*

Hi, good morning.

Craig Morrison - *Chairman - President and CEO*

Good morning.

James Benes - *Citi - Analyst*

Most of the questions have been answered, but I'll just do a follow-up on the epoxy business. With the guidance for margin compression in the fourth quarter in 2016, I know you're not going to give specific guidance, but recently the segments have been running in low double-digit margins on EBITDA basis. Should we anticipate double-digit margins in 2016 or more something more like we saw in 2014? Second question, just want to follow-up on Brian's question on [RPD/basketop], I'm not sure if you answered that one, thank you.

Craig Morrison - *Chairman - President and CEO*

Just to make sure I understand, James, you were speaking specifically about the epoxy business and the margins, correct?

James Benes - *Citi - Analyst*

Yes.

Craig Morrison - *Chairman - President and CEO*

Yes, well you know they're really two very different set of margins, you know relative [toberry] versus especially a epoxy, which is well into the double digits. We would expect that to continue moving into next year in various more single digit type of margins. We'd consider it, continue to be positive when under pressure, no doubt.

James Benes - *Citi - Analyst*

OK.

Craig Morrison - *Chairman - President and CEO*

[Virgil], I'll let you answer the second part.

George Knight - *Hexion - Senior Vice President*

Yes, on the basket question. You know, the general where, the builder that we had there, we have approximately 300 million available to us entering the quarter.

James Benes - *Citi - Analyst*

OK,. Thank you very much.

Operator

Our next question comes from the line of [Owen Douglas with Robert W Baird], please proceed.

Owen Douglas Hi guys. I wanted to go and ask a few questions about the working capital. I think you mentioned earlier that Q4 we should expect there to be a bit more of a muted relief of working capital that we have seen in years prior, but following that pattern. And fast-forwarding to 16, should we then, how should we think about the working capital build. This year was relatively muted. Do you expect that [patent] to hold? Or was last year with the decline in raw material prices a bit of an anomaly?

Craig Morrison - *Chairman - President and CEO*

No, I think a lot will depend though on raw material prices. We did benefit from the falling raw material price this year. That being said, as a percentage of sales I think overall we have I think one of the best working capital levels as you look at other chemical companies. I think we continue to spend a lot of time in managing that. From an efficiency standpoint, I would expect us to see some improvements going forward, but the, you know, the impact of things like currency and raw material prices will impact also working capital.

Owen Douglas OK, I see. And with regards to the phone - the phenolic resins JV which you acquired, can you get a sense for when in the quarter that was acquired and/or how much of the impact it had to your Q3 results.

Craig Morrison - *Chairman - President and CEO*

Yes, it was acquired toward the end of the quarter there, so really no impact in Q3.

Owen Douglas OK. Is it fair to assume that business right now would have been a negative contributor to that segment?

Craig Morrison - *Chairman - President and CEO*

Yes, it's in startup phase still and it's not going to be a significant contributor during that time period or in the next quarter.

Owen Douglas OK. I see. As far as the plant in Brazil, was that a, able to be a positive contributor for that quarter or should we expect to build on the go-forward basis?

Craig Morrison - Chairman - President and CEO

I think it would build on a go-forward basis, it wouldn't be a significant contributor last quarter or next quarter. It's you know take a little time to come up to speed, as well as just that economy is a little bit slow right now as we all know.

Owen Douglas OK, great, thank you very much.

Operator

Our next question comes from the line of Seth Levine with Guardian Life Insurance, please proceed.

Seth Levine - Guardian Life Insurance - Analyst

Hi, thanks, just a couple quick and basic ones. First, could you just maybe give us some [color reference] on how much visibility you have for the Chinese wind market. How much of that is being supported by government programs, and what's - what are [sogobikes] on that?

Craig Morrison - Chairman - President and CEO

Yes, I was just in China about eight weeks ago and spent quite a bit of time with customers and upstream suppliers. Clearly, they themselves have varying views. The one thing I think they all agree on is over the longer-term, medium to longer-term, they consider it to be a very positive market environment. That the government is talking about significant growth over the next five year and that has a big impact on the fact they support it.

As you know, China's under an awful lot of pressure relative to pollution and there has been numerous articles in variety of publications about really focusing on cleaner energy like nuclear, wind energy, solar, et cetera. We think the environment will continue. Having said that, there can be periods of volatility where if the government feels that they're building blades faster than they can hook them up, they will slow down the production process. But that would probably be per quarter or two or three at most. Over the next five years, everybody felt there'd be a positive environment for the [bankrupt] standpoint.

Seth Levine - Guardian Life Insurance - Analyst

OK. I guess what is the main sort of government program that sort of dictates the build and the backlog, in that sense, is it financing, is it an out-right sort of stimulus purchase?

Craig Morrison - Chairman - President and CEO

Yes, I'd say it takes two forms. One is obviously they either loosen liquidity available or tighten it, which could impact. But even if they tighten liquidity in a broader standpoint for the economy, they could still have sectors that they're funding. That's one mechanism.

Then they have the other is, the last time they slowed down significantly, it was an out-right dictate that if you didn't have x percent of your mills - windmills actually hooked up to the power grid, because you can install them, but if they weren't hooked up to the power grid then you weren't allowed to build any more wind farms.

So they have different mechanisms that they can deploy, but unlike most countries, they can be very quick and effective in shutting or turning things on, shutting it off, or turning on, and they've various ways of doing that. From an out-right dictate on a percent of hooked up to the grid or tightening or loosening liquidity, which may not be quite as quick.



Seth Levine - *Guardian Life Insurance - Analyst*

OK. Then just some real simple housekeeping questions that I should know the answer to already. Could you just remind us I guess about serve - for the three formaldehyde plants what the total CAPEX spend is. What it's expected to be, you know, as you're coming to completion of those plants. Have those changed over time and sort of what is expected sort of contribution is from a EBITDA perspective for 16 and maybe some of the cadence that you would expect to see?

Craig Morrison - *Chairman - President and CEO*

Yes, from a CAPEX standpoint, the three plants in total about 120 million. From a contribution standpoint, we've talked about 30 to 35 million of EBITDA coming from those plants. That would start to contribute in 16.

Seth Levine - *Guardian Life Insurance - Analyst*

OK. Sort of, I mean how quick - how quickly can these plants ramp up to a sort of a full contribution? Is there an initial phasing in time or...

Craig Morrison - *Chairman - President and CEO*

Yes, there is a phasing in time but you can think about a two-year period for you know getting up to our run-rate. From an operational standpoint, you can bring them up very quick. It's not because of complexity of bringing the plant up. It's just having the demand growing to the capacity that's been built.

Seth Levine - *Guardian Life Insurance - Analyst*

OK. That 30 to 35 million, is that sort of full - sorry - a next year contribution or was that sort of a full capacity or expected run rate?

Craig Morrison - *Chairman - President and CEO*

You would think of that as a full capacity, full out running, that'd be achieved you know partially in '16 and then will be projected to be completely up and running in '17.

Seth Levine - *Guardian Life Insurance - Analyst*

OK. Great, thanks, that's all my questions.

Unidentified Company Representative

Thank you.

Operator

Our next question comes from the line of [Dustin Shephard with Oak Hill], please proceed.

Unidentified Participant

Hi. [Audio break]... On wind energy. Giving a comment on China and giving a comment that sometimes there are periods of volatility in wind energy, should we expect EBITDA in 2015 for that segment to be lower? Can you give any thoughts ASPs or margins specifically to that segment?

Craig Morrison - Chairman - President and CEO

Yes, we don't give forward-looking information on margins. Clearly this was a very robust year. It may come under some pressure next year, but we don't get into very specific forecasting by segment like that.

Unidentified Participant

Got it. I was more interested if your general comments on China applied to wind energy.

Craig Morrison - Chairman - President and CEO

Well, I think you know again when you look at overall for the next few years, the governments been very explicit about backing wind energy and growth over the next five years and installed capacity. We consider the overall environment to be very positive. It is difficult to see, we haven't seen the slowing down at all in 2015. We might have expected that in the second half for when we first entered this 2015. It hasn't occurred.

Our visibility on exactly what the government will do is limited, but you might think it would be some additional pressure from a margin standpoint or slight slowing down. Candidly, it is limited visibility, and right now it's still a very healthy environment.

Unidentified Participant

Got it, great. Is it far to say 15 to 20% of total EBITDA comes from wind energy in China?

Craig Morrison - Chairman - President and CEO

Yes, we don't disclose specifics like that.

Unidentified Participant

Got it. OK. Given the movement in the Real, [which beats] at the lower end of that 30 to 35 million a range or [the hunter did that] and the current movement in that currency impact that, [and so.]

Craig Morrison - Chairman - President and CEO

I'm sorry, I wasn't really clear on the question.

Unidentified Participant

Regarding your three new formaldehyde plants...

Craig Morrison - Chairman - President and CEO

Oh.

Unidentified Participant

...in Brazil. With the current currency move impact your guidance at all? On EBITDA?

Craig Morrison - Chairman - President and CEO

I'd say it's probably closer to the low 30s; 30, 31, 32, than that it is to 35 due to that. Some of it had already been factored in, but I don't think anybody saw the Real falling as far as it did. So we did project some of the impact, but not all of it. So I'd say the lower range of the 30 to 35.

Unidentified Participant

Great, well thank you very much.

Craig Morrison - Chairman - President and CEO

Thank you.

Operator

Our next question comes from the line of [Brian Trevier with B2S], please proceed.

Unidentified Participant

My questions' been answered, thank you.

Craig Morrison - Chairman - President and CEO

Thanks.

Operator

(Operator Instructions)

Operator

If there are no further questions at this time, I would like to turn the call back over for closing remarks.

Craig Morrison - Chairman - President and CEO

I'd like to thank everybody for your participation today. It is much appreciated and we'll look forward to speaking with you again on the next quarterly call.

Operator

(Operator Instructions)

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